



MANAGEMENT BOARD REPORT ON ACTIVITIES OF THE CIECH GROUP AND CIECH S.A. IN 2019



We are providing a courtesy English translation of our Management Board Report on activities of the CIECH Group and CIECH S.A. which was originally written in Polish. We take no responsibility for the accuracy of our translation. For an accurate reading of our Management Board Report on activities of the CIECH Group and CIECH S.A., please refer to the Polish language version of our Management Board Report on activities of the CIECH Group and CIECH S.A.

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD OF CIECH S.A.



Dawid Jakubowicz
President of the
Management Board of
CIECH S.A.

Dear Sirs and Madams,

On behalf of the Management Board of CIECH S.A. and all Employees of the CIECH Group, we are pleased to present to you the Annual Report, which contains the financial results for and key events of 2019.

The last year brought the Group a number of events and factors which resulted in achievement of solid financial performance: the CIECH Group generated PLN 3,549 million of consolidated revenues and PLN 663 million of adjusted EBITDA (A). Despite the demanding environment, the margins achieved by the Group were higher than in 2018: the EBITDA (A) margin stood at 18.7% and net margin at 3.3%. In 2019, we launched an ambitious process of transformation of the CIECH Group. We made a number of changes in the corporate structure, effectively supporting the development of the organisational culture with emphasis on the key area of human resources management. Moreover, we successfully conducted many ambitious investment projects, such as the construction of the salt plant in Stassfurt — the largest investment in CIECH's history. The Group also focused on improving efficiency, productivity and innovation in production. In 2019, we also took measures to secure and improve the Group's financial liquidity. For this purpose, we obtained additional renewable credit lines, providing the Group with access to funds in the amount of PLN 500 million. In addition, have launched a series of initiatives related to optimisation of working capital. Thanks to it, we are executing initiatives that focus on the Strategy for 2019–2021 easier and faster. We believe that the work carried out will effectively secure the foundations of the CIECH Group in subsequent years and will be a sound basis for further business success.

In the soda segment in 2019, we recorded favourable market conditions which allowed for an increase in sales. In Europe, the CIECH Group fulfilled orders at higher prices both for soda and dry salt, especially in salt products for water treatment, food-grade salt and salt for pickling. Thanks to this, we managed the margins effectively, countering the increases in production costs — above all, the prices of thermal energy and CO₂ certificates. In the last year, there were further investments in the soda segment, developing the scale and quality of the product portfolio. On one hand, we successfully carried out measures to stabilise and increase the efficiency of production in soda plants. On the other hand, we continued the ambitious project involving construction of new saltworks in Germany. Following the expected start-up of the facility at the end of 2020, the total potential production tonnage of the CIECH Group will nearly double, reaching 1 million tonnes of evaporated salt per year, which will strengthen the Group's market position in the attractive sector of salt products, such as pharmaceutical salt or salt tablets for water treatment. This step is in line with our Strategy, which assumes an increase in the share of advanced products in the CIECH Group's portfolio. In the past year, we also completed the construction of a production line for manufacturing sodium bicarbonate in Germany. As a result, we will significantly expand the product range by adding a soda variety with an attractive margin, which is used in the pharmaceutical industry. We have also recorded less positive developments in the soda business. In September 2019, we decided to temporarily suspend production in our Romanian factory in connection with a significant increase in the price of process steam by the sole supplier in the local market. This event resulted in impairment losses on tangible fixed assets in the amount of PLN 73.5 million. We are currently conducting analyzes aimed at developing a solution that, in the first place, ensures the profitability of operations in Romania in the long term. However, all scenarios for this factory known to our Stakeholders are still up-to-date. Importantly, to the best of the CIECH S.A. Management Board's knowledge, the suspension of production should not jeopardise execution of the CIECH Group's Strategy for 2019–2021. In the analyses during its creation, we assumed that the operations of the Romanian plants would generate less than 1% of EBITDA (A) in 2021, with 9% in 2018.

Developments in the organic segment were dominated by works on organisational changes in the crop protection products and resins business. They resulted in adoption of the assumptions of division of CIECH Sarzyna S.A. and separation, at the beginning of 2020, of the Resins business unit into Żywiec Sp. z o.o., operating under the CIECH Resins brand. CIECH Sarzyna became company within the crop protection products business area, while CIECH Resins, as a new company, took over all rights and obligations in the Group related to the resins business. This division improves transparency and efficiency of business activities, increasing flexibility of the CIECH Group in global markets. An important aspect of changes in the crop protection products business was the completion of business integration with our Spanish company, Proplan, which enabled us to commence another stage of cooperation. Availability of new products, acquisition of rights to new active substances, sale of MCPA (which is produced in Poland) in the Spanish market, the potential for entry into American markets and new countries in Europe are the main effects of Proplan's acquisition. This cooperation is aimed at stimulating geographical and product expansion of the crop protection products business as a whole. It should be emphasised that in this business, exports increased more than threefold in 2015–2019, and products are already sold to 50 countries worldwide. Conditions in the market

for crop protection products were not easy, although we observed its increases and higher demand from trading partners, in particular in the fungicides and insecticides categories. In the markets of other businesses from the organic segment, we observed demanding conditions for business activity. In the resins area, the CIECH Group recorded price pressure and erosion of margins resulting from oversupply of Korean resins and aggressive pricing policy of the competition. The polyurethane foams business recorded better results due to our intense commercial activities, including acquisition of new customers, aimed at efficient margin management.

In the silicates and glass segment, we increased the sales of silicates in connection with stable demand for precipitated silica. This resulted in organic growth of prices of our products and development of new sales directions. It was supported by the 20% increase in the sodium silicate production capacity thanks to the investment in CIECH Vitrosilicon, which was completed in 2018. In the sub-field of glass packaging, we effectively managed the customer structure and successfully executed subsequent contracts for lanterns for retail chains.

An important aspect of the CIECH Group's activity in 2019 were the multifaceted initiatives aimed at implementing the Strategy for 2019–2021, focused on the values that guide us in our day-to-day activity. Their aim is, above all, to support further development of value in favour of our Shareholders. The initiatives address the challenges faced by industrial companies operating in a competitive, global market. The first challenge is the question of impact of business activities on the environment and responsible management of natural resources. We are launching a series of initiatives — from large-scale changes in the field of energy and departure from coal, through a series of modernisations of our energy assets and cooperation with companies which use renewable energy sources, to our own, proprietary solutions for recovery of CO₂ from the soda production process. Another important element is the issue of digitisation as an initiative that supports the broadly understood efficiency of the Group, both in the production and corporate fields. Industry 4.0, the use of neural networks, artificial intelligence and digitisation in the area of administration are our priorities for the coming years. We are not forgetting about the R&D area, which is to be a source of innovation for the existing businesses, as well as monitoring the market for niche future businesses in which the Group could become involved. In the light of the diversity of CIECH's businesses, an extremely important issue is formal and legal organisation and mutual relations. We have also made changes here, presenting a reorganisation plan that we will be implementing over the next few years. The intended result is to create structures in which each business will function as a subsidiary of CIECH S.A. while simultaneously putting the Group in order and striving to create a modern holding which is able to compete in the global market. The final key area is development of an appropriate working environment. In 2019, we launched a number of measures to bring us closer to the objective — becoming the employer of choice in the industry, a modern company that guarantees development of its employees.

We are anticipating the following quarters in the CIECH Group's business with optimism; we can see a number of market opportunities, such as successful contracting of soda prices for 2020 or securing the prices of key raw materials such as gas, coal and furnace fuel. We want to continue the growth of the CIECH Group's market position, both in the Polish and foreign markets, in particular in Europe. Our intention is to continue to develop both in terms of quantity (inter alia through further investments in production capacity, commercial (product and market) expansion) and quality (e.g. through customer satisfaction growth, implementation of CSR policy assumptions, including those concerning environmental protection, inclusion of new solutions of the R&D department into the product range). However, we keep in mind the challenges awaiting us in 2020, which could have impact on the economy, such as the situation caused by the global spread of the coronavirus. Nevertheless, I would like to stress that we have identified different scenarios and, if necessary, will adapt business activities to the changing situation in order to ensure the Group's business continuity.

On behalf of myself and the Management Board, I would like to thank everyone who contributed to the development of the CIECH Group in 2019. I would like to add that February 2020 marked the 15th anniversary of shares of CIECH S.A. being listed on the Warsaw Stock Exchange. This is yet another reason to thank the Shareholders for their trust, the members of the Supervisory Board for their invaluable support, the Employees for their daily involvement and the Business Partners for their fruitful cooperation — both in the past year and over the last several years. We believe that your expectations and hopes will be fulfilled by good future financial results and growing value of the CIECH Group, which is what I wish to myself and all of the Group's Stakeholders.

Yours faithfully,



Dawid Jakubowicz
President of the Management Board of CIECH S.A.

LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD OF CIECH S.A.



Sebastian Kulczyk
Chairman of the Supervisory

Dear Sirs and Madams,

in 2019 CIECH commenced the key stage of the process of transformation into a modern chemical holding company. Implementation of the plans and objectives of the Group's Strategy for 2019-2021 will help us strengthen the foundations to ensure the long-term growth of the Company.

As the Supervisory Board, we realize that we operate in a dynamically changing market environment and are aware of the challenges to be faced by the European industry during the upcoming decade. It is not only the need for high efficiency, innovativeness and excellent cooperation with customers, but also the issue of sustainable development, responsibility for the environment and natural resources as well as good relations with local communities.

In each of these areas, the Company undertakes numerous initiatives. It consistently deploys technological solutions in the area of Industry 4.0, actively liaises with a number of academic and scientific centers and, which I consider of particular importance, invests in start-ups. I believe the selected projects will not only speed up the process of internal transformation of our Group, but they will also delineate quite new areas for fast development.

The Group is equally committed to perform the energy transition intended to abandon coal, optimize the use of raw materials, minimize CO₂ emissions and care for natural resources.

All these steps, the leading elements of which also include expansion to new markets and extension of the product portfolio, enable us to look forward to the ambitious financial targets of the Group.

CIECH S.A. is the key asset of Kulczyk Investments, and therefore the Supervisory Board of the Company will actively support the Management Board in the implementation of all strategic objectives. We want CIECH to grow in line with its potential, to the benefit of the world, the Company's surroundings and the people who create it. We want it to be the model to follow for other enterprises, both in Poland and abroad, to increase its importance for the Polish economy, while being one of its hallmarks on the global markets.

On behalf of the Supervisory Board, I would like to invite you to familiarize with the Annual Report for 2019 and to thank the Employees and the Management Board for their commitment and everyday efforts.

Yours faithfully,



Sebastian Kulczyk

Chairman of the Supervisory Board of CIECH S.A.

CIECH GROUP IN 2019



3,549

SALES REVENUES



578

EBITDA



663

EBITDA (A)



116

net profit



3,705

**Numer
of employees**



412

CAPEX



100

**Number of markets
that our products go to**

SODA SEGMENT

2,416

sales revenues

574

EBITDA (A)



SILICATES & GLASS SEGMENT

245

sales revenues

42

EBITDA (A)



TRANSPORT SEGMENT

137

sales revenues

20

EBITDA (A)



ORGANIC SEGMENT

851

sales revenues

72

EBITDA (A)

KEY EVENTS IN THE CIECH GROUP IN 2019

- Adoption of the Group Reorganisation Plan providing for the division into 7 business lines with a new role of CIECH S.A. in the Group structure.
- Review of options in the Group's asset structure.
- Temporary suspension of production at the Romanian plant and taking steps to resume production by ensuring the supply of necessary raw materials at a reasonable cost.
- Continuation of investment in the evaporated salt plant in Germany.
- Taking a number of measures to increase production efficiency.
- Launch of initiatives to reduce CO₂ emissions.

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OPERATING ACTIVITIES

of the CIECH Group



1 CIECH GROUP'S OPERATING ACTIVITIES

1.1 MAJOR EVENTS AND ACHIEVEMENTS IN 2019

Appointment of a Supervisory Board Member

On 28 January 2019, the Extraordinary Shareholders' Meeting of CIECH S.A. appointed Mr Marek Kośnik to the Supervisory Board.

Review of the Group's structure

On 19 March 2019, the Management Board of CIECH S.A. adopted a resolution to initiate a detailed review of the following options:

- changes to the corporate and organisational structure of the CIECH Group, with particular emphasis on the target model in the form of a holding company with a division of competences between individual business areas and the headquarters;
- changes to the asset structure of the CIECH Group.

This review is aimed at achieving the key objective under the Strategy, i.e. creating an effective and fully diversified chemical holding company that generates positive value for shareholders in the long term. This goal is also to be achieved by building value through changes in the asset portfolio and focusing on areas of key importance for the CIECH Group's operations. As part of the review, CIECH S.A. carries out a detailed analysis of the corporate and organisational model of the CIECH Group, and possible measures aimed at its optimisation in order to adjust the CIECH Group's structure to the challenges arising from the Strategy. Measures considered may include, among others, transfer of individual assets within the Company's group, as well as acquisition and divestment of selected assets. The analyses conducted by CIECH S.A. will be combined with the research of the mergers and acquisitions market in various areas. Pursuant to the decision of the Management Board of CIECH S.A., the review of the options of changes in the asset structure will primarily concern the following companies: CIECH Pianki sp. z o.o. and CIECH Trading S.A.

The Management Board of CIECH S.A. stipulates that no decision has been made in relation to the selection of any particular option of specific changes to the corporate and organisational structure of the CIECH Group, or the structure of its assets. Thus, it is not certain whether or not, and if so – when, such decisions will be taken in the future. Detailed information on the review is provided in current report No 8/2019.

Collective redundancy procedure

On 20 March 2019, CIECH Soda Romania S.A. made a decision to initiate the procedure of collective redundancies. The reason for the planned collective redundancies is the need to restructure fixed costs by reducing the level and the costs of

employment in the company. For details, see current report No 9/2019.

New financing

On 18 April 2019, the CIECH S.A. as the borrower and its subsidiaries – CIECH Soda Polska S.A., CIECH Sarzyna S.A., CIECH Soda Romania S.A., Ciech Energy Deutschland GmbH and CIECH Soda Deutschland GmbH & Co. KG as the guarantors ("Guarantors") entered into three revolving credit facilities agreements. The Credit Facilities Agreements were concluded by and between the Company and the Guarantors, and the following banks: (i) Bank Polska Kasa Opieki S.A. – up to the amount of PLN 300,000 thousand, (ii) BNP Paribas Bank Polska S.A. – up to the amount of PLN 92,788 thousand, and (iii) Banco de Sabadell S.A., London Branch – up to the amount of EUR 25,000 thousand. For details, see current report No 13/2019.

Termination of agreement for the supply of process steam

On 18 June 2019, a subsidiary of CIECH S.A. – CIECH Soda Romania S.A. – received a notice of termination of the agreement of 1 April 2019 for the supply of process steam by the main supplier of process steam, S.C. CET Govora S.A. in composition bankruptcy based in Romania ("CET"). The notice period of the Agreement is three months and the Agreement was terminated on 18 September 2019. The reason for termination of the agreement is the inability of CET to deliver process steam on the terms specified in the Agreement, which in the opinion of CIECH Soda Romania S.A. is related to an accident which occurred in the CET coal mine. Detailed information concerning the termination is provided in current reports No 11/2019, 23/2019, 32/2019, 37/2019, 40/2019, 46/2019.

Decision to launch the preparatory phase of significant investment projects in the energy sector

On 28 May 2019, the Management Board of the CIECH S.A. decided to launch the preparatory phase of significant investment projects in the energy sector. The investment projects planned will be implemented by a subsidiary of CIECH S.A. – CIECH Soda Polska S.A., in its two locations: Janikowo and Inowrocław. As part of the Project, the construction of new production sources powered by gaseous fuel is being considered.

The purpose of the planned investment in CIECH Soda Polska S.A. is to increase the efficiency and availability of the energy area which will translate, among others, into an increase in the volume of soda production by limiting production losses and generating production reserves of steam. At the same



time, the implementation of the energy mix will contribute to reducing CO₂ emissions.

The preparatory phase of the investment projects involves, among others, tender proceedings related to the selection of the designer, preparation of project documentation, verification of the market conditions for the planned Project, and obtaining relevant administrative decisions.

The value of the aforementioned investment projects is estimated at approx. PLN 250–300 million. The approximate time of implementation of these projects is about 3 years. The effects of the implemented project will have a positive impact on the consolidated financial performance of the CIECH Group. The final decision on the implementation of the investment project will be made within the next few quarters and will depend on, among other factors, market conditions and obtaining relevant administrative decisions.

Reorganisation concept of the CIECH group

On 25 November 2019, the Management Board of the CIECH S.A. adopted a resolution on the adoption of the reorganisation concept of the CIECH Group. The Concept provides for the division of competences within the CIECH Group among individual business areas (business units) and the Company. The adoption of the Reorganisation Concept is to serve the achievement of the key goal under the Strategy, i.e. the creation of an effective and diversified chemical holding generating long-term positive value for shareholders, as well as improvement of business and decision-making processes and improving the transparency of the operation of the CIECH Group. As part of the implementation of the Reorganisation Concept, activities have been envisaged which are aimed at separating independent entities within the CIECH Group that will constitute Business Units (BUs) or will be part of the individual CIECH Group BUs:

1. BU Soda;
2. BU Salt;
3. BU Agro;
4. BU Resins;
5. BU Silicates;
6. BU Packaging;
7. BU Foams.

BUs will be responsible for the implementation of their strategy and their financial performance. In accordance with the

assumptions of the Reorganisation Concept, there will be integration, consolidation and placing of the operational activity of the BU within such a BU. This will result, among others, in revenues and expenses from the BU's activities generated in such a BU. Given the complexity of this process, at this stage, the planned date of the completion of the process of implementing the Reorganisation Concept is the end of 2022. Detailed information on the concept is provided in current report No 47/2019.

Signing of letter of intent

On 5 December 2019, a letter of intent was signed between CIECH S.A. and Operator Gazociągów Przesyłowych GAZ-SYSTEM Spółka Akcyjna ("GAZ -SYSTEM") on establishing cooperation in the implementation of an investment project, consisting in the construction by GAZ -SYSTEM of a salt mine ("SM") and an underground gas storage facility ("UGS") at the Damasławek salt dump, together with a line infrastructure (jointly the "Project"), and cooperation in the supply of salt brine to CIECH Soda Polska S.A. ("CSP") production plants.

The parties are to conduct negotiations, the purpose of which will be to develop solutions taking into account the interests of the parties, and to sign the Term Sheet document regulating, among others, conditions for the implementation of the Project, including the estimated cost and schedule of the Project, the principles of its financing by each party and key cooperation assumptions after the completion of the Project, which then will be detailed under investment agreements and a long-term commercial contract for the supply of brine.

Resignation of a Supervisory Board Member

On 16 December 2019, Mr Mariusz Nowak resigned as Member of the Supervisory Board of CIECH S.A. with effect as of 22 January 2020.

1.2 CHARACTERISTICS OF THE CIECH GROUP

The CIECH Group is an international, professionally managed 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 CIECH Group is a global concern focused on prospective markets.

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.



FIGURE 1: KEY OPERATING SEGMENTS AND MAJOR CATEGORIES OF THE CIECH GROUP'S PRODUCTS

	 SODA SEGMENT	 ORGANIC SEGMENT	 SILICATES AND GLASS SEGMENT	 TRANSPORT SEGMENT
COMPANIES	CIECH CIECH Soda Polska CIECH Soda Deutschland CIECH Soda Romania	CIECH CIECH Sarzyna CIECH Pianki Proplan	CIECH CIECH Vitrosilicon CIECH Soda Romania	CIECH CIECH Cargo
PRODUCTS SERVICES	soda ash evaporated salt baking soda energy	epoxy resins polyester resins saturated and unsaturated agro products polyurethane foams	lanterns and jars sodium and potassium silicates	transport services forwarding services transshipments siding operations railcar rental
CUSTOMERS	glass industry food detergent industry pharmaceutical households	agriculture furniture industry households	chemical food detergent industry paint industry households	major companies of the CIECH Group
MARKETS	global	global	global	domestic

Products of the CIECH Group are manufactured in 8 production plants. Four largest production plants (2 in Poland, 1 in Germany and 1 in Romania) operate in the soda segment and manufacture sodium carbonate and soda derivatives; the plant in Romania produces glassy sodium silicate and sodium water glass. The other 4 plants are dedicated to the organic segment, and to silicates and glass segment, and are located in Poland. Currently, soda production at the plant in Romania has been suspended (for more information, see Section 1.1 of this report). In addition, Proplan outsources product formulation and packaging services to two plants.

Strategic distribution of the Group's plants enables optimisation of logistics efforts and expansion of the distribution network which is of particular importance in the area of the soda segment's products. Plants in Poland and Germany guarantee access to key markets and stability of supplies in Europe. Owing to production in the Romanian plant, the CIECH Group has strengthened its presence in fast-growing overseas markets.

FIGURE 2: KEY COMPANIES OF THE CIECH GROUP*



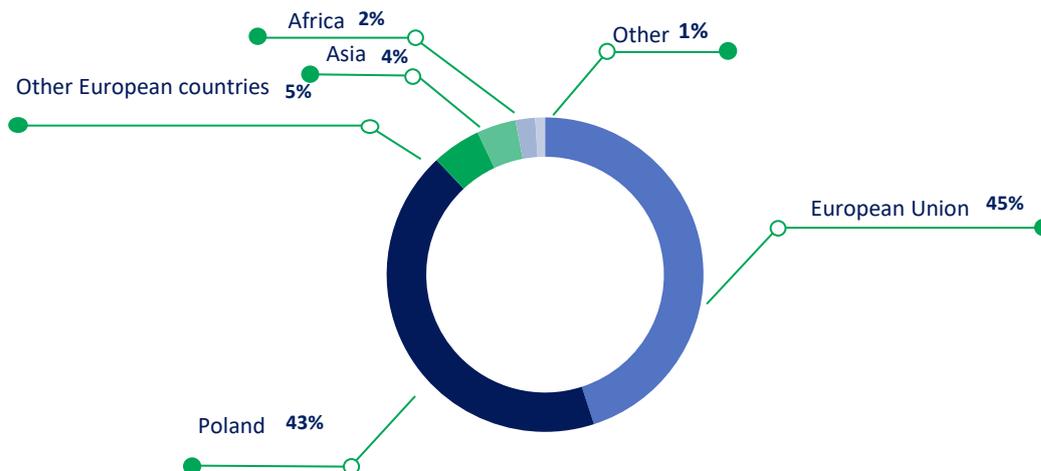
* On 2 January 2020, the demerger of CIECH Sarzyna S.A., by separating the Resins area into CIECH Żywiec Sp. z o.o., was registered.

The CIECH Group is the exclusive Polish exporter of:

- Sodium carbonate,
- Sodium bicarbonate,
- Calcium chloride,
- Epoxy resins.

The CIECH Group is the largest producer of sodium carbonate in the CEE region and the second largest in Europe.

FIGURE 3: GEOGRAPHICAL STRUCTURE OF THE CIECH GROUP'S REVENUES IN 2019



Source: Own compilation

1.3 OPERATING SEGMENTS

Activities of the CIECH Group are focused on four key segments which ensure a diversification of its business.



<p>SODA SEGMENT</p> <p>Sodium carbonate Sodium bicarbonate Salt</p>	<p>68% of the CIECH Group's revenues in 2019</p>
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Soda is one of the basic semi-finished products (raw materials) of modern chemistry that finds wide application in the industry.

The Soda segment is an area with the largest share in the Group's financial performance. In 2019, it accounted for nearly 87% of adjusted EBITDA (adjusted by one-off events). The CIECH Group is focused on expanding its business potential and creating competitive advantages which result from, among other aspects, the Group's strong position on key markets and relations with customers, increase in production capacity, wide range of soda products, extension of the sodium bicarbonate portfolio and optimal distribution of production plants.

There are two basic soda production methods: synthetic method – the Solvay method (sodium carbonate) and natural – mining method (trona). The Solvay method underwent several modifications, of which the most popular is the Hou method, used by certain production companies in China. The CIECH Group produces soda using the Solvay method.

Sodium carbonate

Sodium carbonate is one of the basic raw materials for the glass manufacturing industry — about one half sodium carbonate produced worldwide is used for the production of glass. It is also used for the production of washing and cleaning products, in metallurgy and chemical industry, among others, to produce certain types of mineral fertilizers as well as dyes and pigments. There are two basic types of sodium carbonate:



Dense soda – used primarily in the production of glass.



Light soda – used primarily in the production of granular detergents.

The main difference between light and dense soda is the bulk density (1 tonne of light soda is of higher volume than 1 tonne of dense soda), and the basic chemical characteristics are identical. The type of product purchased by customers depends primarily on the technology they use and on their individual preferences.

The CIECH Group sells sodium carbonate both in bulk, as well as packed in big and smaller bags. The products sold in bulk are transported to the customer in specialist tankers or railway wagons, and the packed products – by road or railway transport. To overseas markets, sodium carbonate is transported by ships.

Sodium carbonate is used primarily in production of:

- flat glass,
- glass packaging and glassware,
- detergents,
- technical application, other chemical applications, treatment plants, mineral extraction.

The CIECH Group produces both types of soda, adapting the production structure to the customers' expectations.

Sodium bicarbonate

Sodium bicarbonate is used mainly in production of animal feed (as an acidity regulator), food (among others as an ingredient of baking powder and sparkling drinks), pharmaceuticals (e.g. for dialysis, effervescent tablets and pharmaceuticals), detergents and cosmetics, and for purifying exhaust fumes.



Food grade soda – a product that finds many uses in the food industry and in households.



Feed soda – an animal feed ingredient intended for feed manufacturers and private farmers.



Pharmaceutical-grade soda – its acid neutralisation action, potential binding with other chemicals and cleaning properties help pharmaceutical grade soda find widespread use in the pharmaceutical sector.



Pharmaceutical-grade dialysis soda – a specially purified soda grade with specific granulometric parameters and complying with requirements set out in special regulations.



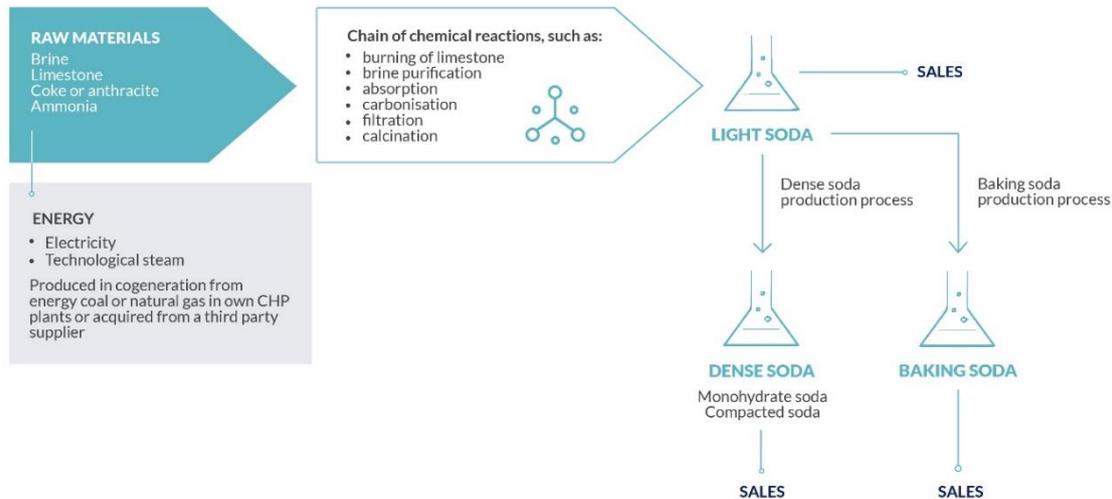
Industrial-grade soda – a product widely used in many branches of industry, including: in the production of detergents, in paper industry, flue gas desulphurization industry and chemical industry.

Production processes in the soda segment

The production of soda in the CIECH Group is the responsibility of the following three companies: CIECH Soda Polska S.A. (plants in Janikowo and Inowrocław), CIECH Soda Deutschland GmbH & Co. KG (Stassfurt) and CIECH Soda Romania S.A. (Ramnicu Valcea – production suspended in September 2019). Sodium carbonate is produced in all plants and sodium bicarbonate – in Inowrocław and Stassfurt.

Presented below is a simplified schematic diagram of the sodium carbonate and sodium bicarbonate production process.

FIGURE 4: SODA PRODUCTION PROCESS



Main raw materials used in the production process in soda segment include limestone, salt brine, ammonia, furnace fuel (coke or anthracite) and heat.

The sodium carbonate production plants are located in close proximity to limestone and brine suppliers (due to the high transportation costs of these raw materials in comparison with their price). The production plant located in Germany uses also own deposits of brine and limestone.

Coke is the so-called furnace fuel, used to burn limestone and produce CO₂. Coke is usually supplied based on short- or long-term contracts. In the soda production process, coke can be replaced with anthracite which is slightly less efficient, but also cheaper than coke. The Group's soda plants can use a mixture of both fuel types, i.e. coke and anthracite. Prices and availability on the market are the main factors determining which raw material is used.

The largest component of manufacturing costs in the production process is heat energy in the form of technological steam – production plants in Poland and Germany have their own CHP plants, and the Romanian company buys it from a third party supplier. Key energy-producing raw materials used by the Group's CHP plants include: hard coal (plants in Inowrocław and Janikowo) and natural gas (plant in Stassfurt). Hard coal is supplied under both short-term and long-term contracts with fixed price or price indexed to various indices, and the price formula for gas supplied in Germany is based on market prices for this raw material.

The soda segment is intensely developed by the Group. In 2015 and 2016, a key project, Soda +200, was completed. It consisted in increasing the production capacity of the soda plant in Inowrocław by 200 thousand tonnes per year (ended in the first quarter of 2016). The Group is currently implementing a project to increase its sodium bicarbonate production capacity at its German plant.

Further development of activities in the soda segment will take place mainly through continuation of optimisation activities with regard to production capacity, as well as the growth of product quality and concentration on more processed products. At the same time, the Group will improve the quality of service of its current clients and conduct intensive activities to attract new customers.



FIGURE 5: CIECH GROUP'S SODA PLANTS AND KEY MARKETS

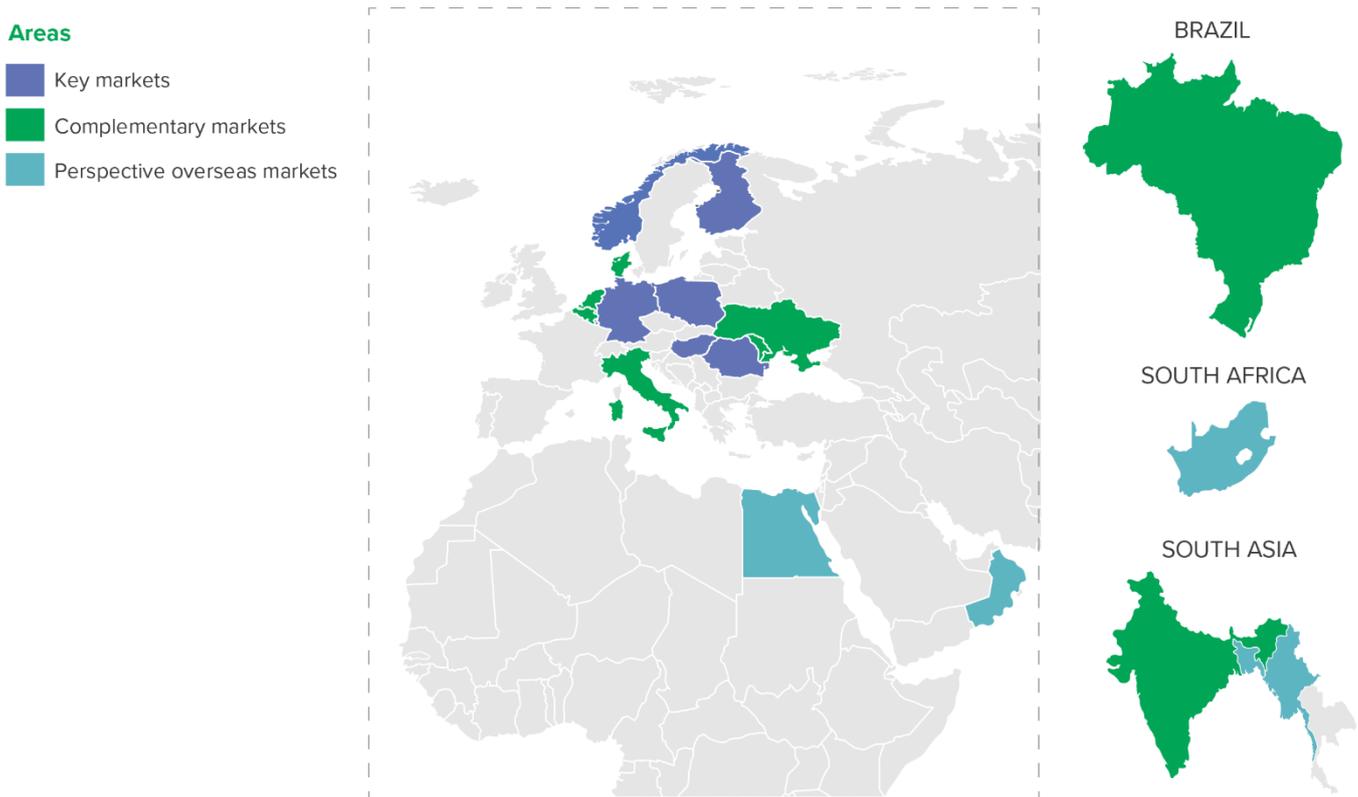


FIGURE 6: PRODUCTION CAPACITY OF THE CIECH GROUP'S SODA PLANTS
SODIUM CARBONATE



SODIUM BICARBONATE*



*The plant is currently in hibernation.

*Sodium bicarbonate is produced from sodium carbonate, therefore the calculation of total production capacity of the CIECH Group should take into account the sodium carbonate production capacity only – these two items should not be added up.

Salt

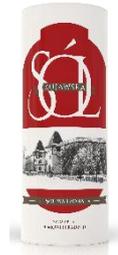
Among various types of salt, the most popular are evaporated salt which is produced by, among other companies, the CIECH Group, sea salt and rock salt. Evaporated salt is widely used in chemical industry (electrolysis, detergent and dye production), food industry, as well as water treatment and softening.

In 2019, the CIECH Group continued the investment in the evaporated salt plant in Germany whose production capacity is planned at around 450 thousand tonnes of salt per year.

Salt products of the CIECH Group

Dry salt:

- **Table salt and iodised table salt** – produced from the saline solutions generated by the wet mining of natural rock salt beds. Table salt contains a minimum of 99.9% of sodium chloride and finds widespread use in the food industry. The CIECH Group sells salt primarily in 1 kg bags, under the brand name of Sól Kujawska and under private label brands of discounts and retail chains, as well as in larger, 25 kg packaging for production facilities
- **Salt without anti-caking agent** – used in food production (mainly products manufactured on the BIO market - this product does not contain an anti-caking agent).
- **Salt tablets** – used in water purification systems, e.g. to regenerate ion exchangers and multi-functional filter softeners that filter out water hardness contributors (i.e. calcium and magnesium). The key recipients of salt tablets produced by the CIECH Group include: households (private water purification systems), housing associations (water purification for new residential estates), industry (water purification for factories), as well as by such entities as swimming pools or hospitals. The CIECH Group sells salt tablets both in Poland (where it holds a majority share of the market) and abroad, systematically increasing its market share.
- **Feed salt and salt licks** – used in agriculture and for production of animal feeds which, owing to the salt content, perfectly supplement the diet of livestock, especially ruminants, with minerals. The salt content perfectly supplements the diet of livestock, especially ruminants, with minerals. CIECH's salt products also used in emergency feeding of forest animals since they improve assimilation of potassium, magnesium and calcium. Fodder-grade salt is sold in the GMP+ chain.
- **Pickling salt** – nitrite salt (for pickling) is an essential additive used in the production of raw and cured meats. Pickling is one of the oldest forms of food preservation – preservation using salt.
- **Granulated salt** – used by households (dishwashers). Granulated salt extends dishwasher life.
- **Industrial salt** – one of the components used in the manufacture of detergents, washing powders and dyes. The product finds widespread use in electrolysis and the production of soda.



At present, the CIECH Group is focused on expanding the range of specialised products in the dry salt portfolio, focusing on increasing production capacity, developing new products and new sales directions.

Salt products are supplied to most European countries. The key export markets are: Germany, Belgium, France, Sweden, Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Ukraine.

Salt production process

Evaporated salt is produced from the saline solutions generated by the wet mining of natural rock salt beds.

FIGURE 7: SALT PRODUCTION PROCESS

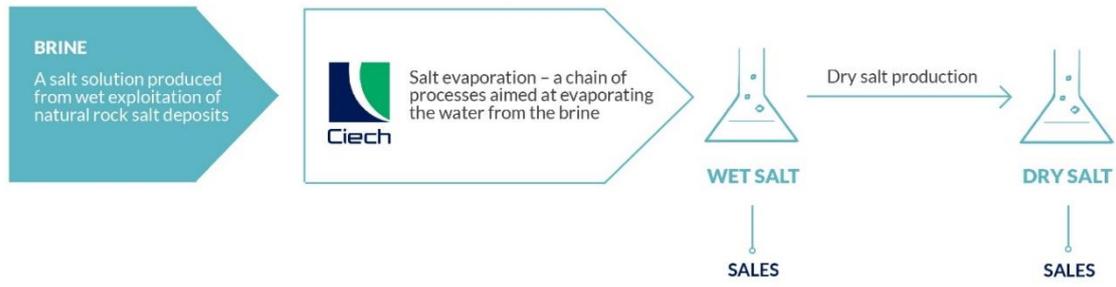


FIGURE 8: SALT PRODUCTION IN THE CIECH GROUP AND KEY MARKETS

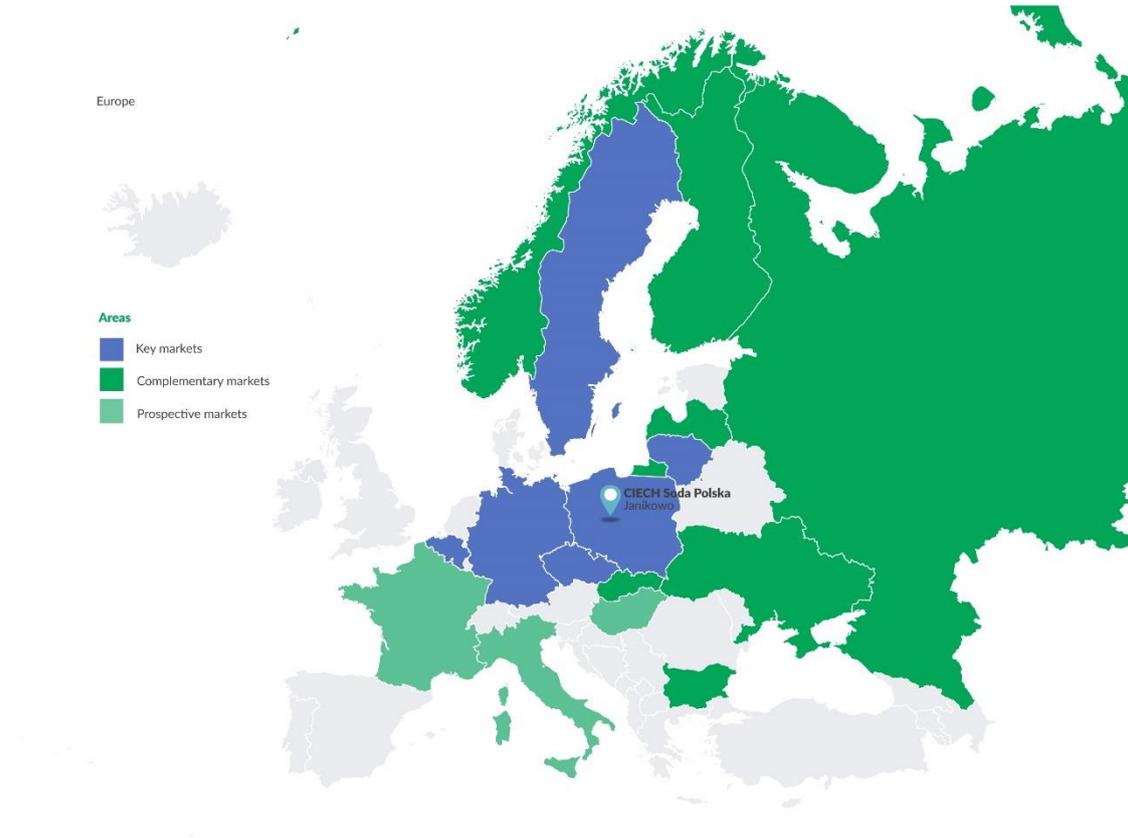
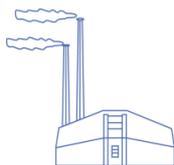


FIGURE 9: PRODUCTION CAPACITY OF THE CIECH GROUP'S PLANTS – SALT

**600 tt**

CIECH Soda Polska

- Janikowo



Sorbeco

Sorbeco is a product obtained chemically from sodium carbonate or sodium chloride and carbon dioxide. It is used by CHP plants of medium size and by CHP plants that use biomass. Its high quality ensures very good efficiency of dry desulphurisation of flue gas — lowers SO₂ emissions by 90%. In Poland, the market of products for desulphurisation of flue gases has been growing fast over the recent years, and this trend will be sustained due to tightening of SO₂ emissions standards by the European Union.

Calcium chloride

Calcium chloride finds common use in road maintenance, building construction, the chemical sector, as well as coal, oil and gas extraction. At present, the CIECH Group is focused primarily on increasing the production volume of high quality calcium chloride.



ORGANIC SEGMENT

Crop protection products | Resins | Polyurethane foams

24% | of the CIECH Group's revenues in 2019

The organic segment is the second largest pillar of the business activity of the CIECH Group. In 2019, it generated 11% of adjusted EBITDA (adjusted for one-off events). Products falling within this segment are manufactured by the following two companies: CIECH Sarzyna S.A. (crop protection products and resins) and CIECH Pianki Sp. z o.o. (polyurethane foams). Additionally, the agro business includes the Proplan Plant Protection Company, a supplier of crop protection products. The CIECH Group is the largest domestic producer of crop protection chemicals and the leader in the market of herbicides. It is also the main domestic manufacturer of resins which are present in European markets, and one of the largest suppliers of polyurethane (PUR) foams to the domestic market.

Petroleum derivatives are the main raw materials used in production processes of the organic segment – they constitute the largest component of production costs.

Crop protection products

The company that specialises in the production and distribution of crop protection chemicals (herbicides, fungicides, insecticides, seed treatment) is CIECH Sarzyna S.A., a Polish company. Full range of products of the CIECH Group's AGRO area includes over 150 items of different chemical, application and packaging forms appropriate for their target market and use. The most famous trademarks from the AGRO area include: CHWASTOX, Agrosar, Tarcza Łan Extra, Labrador Extra, Ekonom. In addition to the European markets, the CIECH Group's products are sold also markets in Asia, Australia, Latin America, North Africa and Canada.

2019 marked a rapid consolidation of CIECH Sarzyna S.A.'s and Proplan's activities, leading to the optimisation of processes and obtaining synergies in the areas of intellectual property and access to key markets.



Resins

In 2019, CIECH Sarzyna S.A. was the leading manufacturer of resins and curing agents in Poland, as well as one of the few manufacturers of solid epoxy resins in the EU. For many years, the company offered a rich product portfolio of EPIDIAN epoxy resins, POLIMAL unsaturated polyester resins, gel coats and top coats, curing agents for water glass and phenol-formaldehyde resins. As of 2 January 2020, the activity has been carried out within CIECH Żywiec Sp. z o.o.

Development of the CIECH Group in the organic segment

In the resins production area, in 2019 the CIECH Group continued to optimise the current product portfolio and develop innovative specialist products used in the transport and construction segment as well as in distribution of consumer goods. They include, among others, chemically resistant coatings or non-flammable resins for the railway and automotive sectors – POLIMAL® brand, as well as a wide range of EPIDIAN® FLOOR epoxy floors and a unique resin for applications in interior design or modern art – EPIDIAN® DECO.



Polyester resins

- Unsaturated – used, among others, in the production of polyester and glass laminates, glass fibre-reinforced products used in the production of, e.g. sports and tourist floating equipment, bathtubs, garden decorations.
- Saturated – used mainly in the production of powder paints.

Epoxy resins

- They are used, among others, in the manufacture of various composite elements, flooring systems, protective coatings, interior elements and other decorative applications.

FIGURE 10: RESIN PRODUCTION CAPACITY OF THE CIECH GROUP (CIECH SARZYNA)

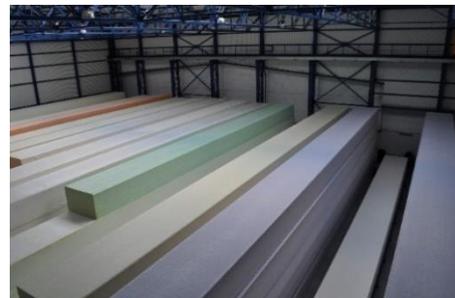


Polyurethane foams

Flexible polyurethane foams are used mainly in production of upholstered furniture and sleeping mattresses.

To a lesser extent, they are used in the automotive industry, construction industry and textile industry.

CIECH Pianki Sp. z o.o. has many years of experience in the production and sale of flexible PUR foams. It is one of the largest elastic foam producers in Poland. Recipients of the company's products include the largest furniture and mattress manufacturers in Poland and Europe. Because of physical and mechanical properties (low specific gravity) PUR foams are sold primarily on local markets. In Poland, the consumption of flexible polyurethane foams is associated largely with the national furniture industry and its high position in the international markets which is consistently strengthening and the value of export of Polish furniture keeps growing.



**SILICATES AND GLASS (S&G) SEGMENT**

Glass products | Silicates | Water glass

7%of the CIECH Group's
revenues in 2019

In 2019, it generated more than 6% of adjusted EBITDA (adjusted for one-off events). The operation of this segment is based on CIECH Vitrosilicon S.A., a company which has two production plants: in Iłowa and Żary, and on CIECH Soda Romania S.A. – a plant in Ramnicu Valcea. The Iłowa plant manufactures glass packaging products, water glass (sodium and potassium water glass) and glassy sodium silicate, while the Żary plant concentrates on glassy sodium and potassium silicates. The plant in Ramnicu Valcea has capacity to produce glassy sodium silicates and sodium water glass.

Soda and sand are the main raw materials used in the silicates and glass segment. Like in the soda segment, production is very energy intensive. Energy is generated from gas.

**Glass products**

CIECH Vitrosilicon S.A. specialises in the manufacturing of lanterns for vigil lights and is recognised as the leader of the Polish market. The full range covers approx. 150 designs,

including lanterns for jar candles and custom designs, dedicated to individual customers. The Company offers a wide and diversified range of lanterns for vigil lights, including lanterns in the smallest and largest sizes and with a very diverse design.

The company is also the only Polish producer of COMFORT-type jars with glass cover and fastening clamps. On a small scale, the Company also produces standard Twist-off jars for the food processing industry.

Silicates

The CIECH Group manufactures sodium and potassium silicates. Both types of silicates are produced in two forms – solid, offered under the brand name of VITROSIL (glassy sodium and potassium silicate) and liquid, offered under the brand name of VITROLIQ (sodium water glass and potassium water glass).



Sodium silicates are used for production of precipitated silica (about 37% of consumption in Europe, used mainly in the tire and beauty product industries), detergents (about 17%), paper, zeolites and in other industries.

After expanding the production capacity of sodium silicate in the Żary and Iłowa plants, CIECH Vitrosilicon S.A. is currently the third largest manufacturer of sodium silicate in Europe and the leader in the sales of this raw

material.

Potassium silicates are used in the production of welding electrodes, construction chemicals, including paints and silicate plaster. For the purpose of continued development of this segment, the CIECH Group concentrates on the use of new applications of silicates and development of high-margin products.

**TRANSPORT SEGMENT**

Transport services | Railway transport | Transshipment

4%of the CIECH Group's
revenues in 2019

The operation of the transport segment is concentrated in CIECH Cargo Sp. z o.o., a company rendering rail transport services in Poland, within the scope of: rail cargo transport, rental of rail carriages and maintenance services of rail sidings. The main customers of the services of the CIECH Cargo company are currently the companies of the CIECH Group, but – as part of its continuous development – the Company has been increasing the share of transport services provided to companies from outside the Group.



OTHER ACTIVITIES SEGMENT

Services | Distribution | Sale and management of real property

Other Activities Segment covers mainly services rendered outside the CIECH Group and goods sold mainly by CIECH S.A. and CIECH Trading S.A., as well as foreign companies outside the scope of key segments of the Group.

CIECH Trading S.A. is a distributor of raw materials, chemical products and reagents. It supplies raw materials to many branches of the industry. A large section are products for household, cosmetic and pharmaceutical use; for milk and sugar industries, as well as the feed industry and selected branches of the heavy industry, including galvanising plants, smelters, coke plants and foundries. It also supplies water treatment and sewage treatment plants, as well as manufacturers of tires, paints and varnishes.

In addition to trading activities, this segments also includes companies that support the Group's operations in terms of, among others, R&D work and trademarks (CIECH R&D Sp. z o.o.), sale and management of real property (CIECH Nieruchomości S.A.) and financing activities.

Operating segments of CIECH S.A.

CIECH S.A., as the Parent Company of the CIECH Group, holds shares in subsidiaries assigned to individual segments described above. In addition to support services provided to these companies, CIECH S.A. also carries out operating activities in the following segments:

Soda segment – CIECH S.A. sells the majority of soda segment products manufactured by the CIECH Group companies. Key products of this segment include: light and dense soda ash, sodium bicarbonate, evaporated salt and calcium chloride.

Organic segment – in 2019 CIECH S.A. was the main supplier of raw materials to Polish companies operating within the organic segment.

Silicates and Glass segment – CIECH S.A. sells the Silicates and Glass segment products manufactured by CIECH Soda Romania S.A. Key products in this group include glassy sodium silicate and sodium water glass.

Transport segment – it includes forwarding activities carried out by CIECH S.A. for its subsidiaries, i.e. CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Soda Polska S.A. and CIECH Trading S.A.

Seasonality and cyclicity of activity of the CIECH Group

Seasonality associated with periodic demand and supply fluctuations has little impact on the CIECH Group general sales trends. Products clearly influenced by seasonality are crop protection chemicals. Most crop protection chemicals are used in the first half of the year, during the period of intensive plant growth. However, sales of these products take place mainly in the 4th quarter of the preceding year. For other products, the Group's revenues and financial results are not influenced by any significant seasonal fluctuations over the year.

1.4 SIGNIFICANT AGREEMENTS AND TRANSACTIONS

Letter of intent concerning the construction of a salt mine and underground gas storage facility

On 5 December 2019, a letter of intent was signed between CIECH S.A. and Operator Gazociągów Przesyłowych GAZ-SYSTEM Spółka Akcyjna ("GAZ -SYSTEM") on establishing cooperation in the implementation of an investment project, consisting in the construction by GAZ -SYSTEM of a salt mine ("SM") and an underground gas storage facility ("UGS") at the Damasławek salt dump, together with a line infrastructure (jointly the "Project"), and cooperation in the supply of salt brine to CIECH Soda Polska S.A. ("CSP") production plants. The parties are to conduct negotiations, the purpose of which will be to develop solutions taking into account the interests of the parties, and to sign the Term Sheet document regulating, among others, conditions for the implementation of the Project, including the estimated cost and schedule of the Project, the principles of its financing by each party and key cooperation assumptions after the completion of the Project, which then will be detailed under investment agreements and a long-term commercial contract for the supply of brine.



Transactions with related parties other than on an arm's length basis

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.

For a description of transactions concluded between related parties, see note 9.3. to the Consolidated Financial Statements of the CIECH Group for 2019 and note 9.3 to the Financial Statements of CIECH S.A. for 2019.



EXTERNAL ENVIRONMENT



2 EXTERNAL ENVIRONMENT

2.1 FACTORS WITH MAY IMPACT ON THE CIECH GROUP'S ACTIVITIES

The CIECH Group business is largely based on the production and sales of chemical products used as raw materials and semi-finished goods in a wide range of industries, including the glass, detergent, furniture, automotive, construction, food, agricultural, pharmaceutical, chemical and consumer goods industries. The demand for the CIECH Group customers' products depends on a number of factors, including general economic conditions.

Costs of labour and energy, interest rates and other macroeconomic factors also have a significant impact on the Group's operations. Due to the fact that a significant portion of the Group's revenue and expenses is generated in foreign currencies, changes in exchange rates also affect its financial performance.

The volume and profitability of the CIECH Group companies' sales depend, among other factors, on these variables as well as on the overall economic situation in Poland, Europe, and worldwide.

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

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

According to the data of the Central Statistical Office, the sold industrial output at constant prices during 12 months of 2019 increased by 4.0% year on year (in 2018 — an increase by 5.8%). After 12 months of 2019, the relevant dynamics of production in the industries of significant importance to the Group's activities (as receiving or target markets) were: chemicals and chemical products (increase by 4.3%); rubber and plastic products (increase by 6.6%); manufacture of motor vehicles (increase by 3.1%); manufacture of furniture (increase by 3.9%, including furniture for sleeping – decrease by approx. 10% in terms of volume); manufacture of food (increase by 3.2%); construction and assembly production (increase by 2.6%).

The past year was characterized by a weaker economic situation in the Polish economy compared to the previous two years (estimated GDP growth by about 4% against 5.1% in 2018). In general, Poland's GDP dynamics were and should continue to be significantly higher than the average for the European Union. In view of the COVID-19 pandemic, various economic scenarios for Poland are assumed for 2020 - from a marked downturn to recession. Many analytical centers indicate that our country's GDP may maintain positive dynamics at 1%. A similar tendency should be expected in the chemical industry, which usually develops similarly to the entire economy.

Economic situation in Europe and in the world

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

As estimated in January by the International Monetary Fund, the dynamics of global economic development has weakened significantly in 2019 year on year (GDP growth by 2.9% vs. 3.6% in 2018 as a result of, among other factors, increased trade barriers between the USA and China and weak situation in the automotive industry). The largest Asian economies continued to grow relatively quickly (China, India, and ASEAN countries, for which the GDP growth indicators in 2019 were estimated at, respectively: 6.1%, 4.8%, 4.7%). Among large economies, the relatively weaker conditions were observed in the past year in Japan, Russia and Brazil (GDP growth rates of 1.0%, 1.1% and 1.2% respectively).

In the face of the COVID-19 pandemic, which intensified in February and March this year, there are no reliable forecasts for the development of the global economy for 2020. Initial IMF indications from the second half of March this year. suggest that the current year will have at least a global recession observed in 2008-2009. However, a clear return to the growth path can be expected as early as 2021.



In European Union, the previous relatively good economic situation deteriorated significantly in the past year (GDP growth in EU 28 by 1.4% in 2019 vs. 2.0% in 2018, according to the European Commission's estimates).

For 2020 (according to estimates from mid-March this year), the European Commission forecasts a recession in the entire Union and a decrease in its GDP by approx. 1%. A slow recovery in the EU economy is expected in 2021.

According to the European Chemical Industry Council (CEFIC), in 2019 the chemical industry output of the European Union decreased by about 1% (decline for the second year in a row compared to a negative growth rate of -0.7% in 2018). The main reasons for last year's figures include: general slowdown in global economic growth, uncertainty about the UK's exit from the EU, commercial conflicts between major economies, downturn in the automotive industry. In view of forecasts indicating a recession in the EU in 2020 (as a result of the COVID-19 pandemic) one should take into account that also in the current year the EU chemical production will be characterized by declines. However, taking into account the fact that actions to extinguish a pandemic require continuity or increase in production, among others some chemicals, not all chemical industries need to be affected by significant declines.

As for the European construction sector, 2019 was marked by a significantly slower growth rate compared to the last two years. According to Euroconstruct, construction output in Western Europe and Central Europe increased by 2.3% in 2019, compared to 3.2% in 2018. In December 2019, Euroconstruct forecast for the next 2-3 years relatively low, but positive, growth dynamics of the sector at the level of 1% on average annually (including above average by several percent for Poland and other Central European countries). In 2020, due to the COVID-19 pandemic, however, dynamics clearly lower than predicted should be taken into account.

TABLE 1: OTHER FACTORS AFFECTING THE CIECH GROUP'S ACTIVITIES

Factors	Description
Economic situation on raw material market	<p>Due to the fact that costs of raw materials account for a large share of total costs of the Group, the situation on key raw material markets (availability and price) significantly affect the CIECH Group's activities and financial performance. Price and availability of raw materials depends largely on economic and political developments across the globe.</p> <p>Hard coal – situation on the market depends on a number of macroeconomic factors. The largest producer of hard coal in the European Union is Poland, but EU's import of coal (primarily from Russia, Columbia, USA, RSA and Australia) is nearly two times higher than production. Most of the coal imported to the EU is power coal, i.e. coal used by the CIECH Group in the production of process steam and electricity in soda plants in Poland. Despite the fact that the Group buys it usually from Polish mines, the price of thermal coal for the CIECH Group in a long term depends on the European and global situation in the area of demand and supply.</p> <p>Gas – the main energy resource used by the combined heat and power plant at the Stassfurt plant. The situation on the gas market depends on many factors, such as the price of oil, demand for gas due to the current weather conditions and the current share of gas in the energy mix. CIECH Energy Deutschland GmbH (CED) burns two types of natural gas, from local sources and imported. Gas imports to Germany are from Russia (around 40%), Norway (around 21%) and the Netherlands (around 29%). In the gas combustion process, steam and electricity are generated, which is also sold outside the Group. Gas supplies are realized on the basis of bilateral delivery contracts, long-term contracts or short-term purchases (spot).</p> <p>Process steam – this form of heat energy was used by CIECH Soda Romania S.A. in the production process of sodium carbonate and liquid silicates, the company bought it from an external supplier. On 18 June 2019, this agreement was terminated. See Section 1.1 hereof for details.</p> <p>Furnace fuel (coke/anthracite) – coke prices depend primarily on prices of coking coal, from which it is produced. The largest global producer of coke is China which, at the same time, is one of the largest consumers of this raw material. In Europe, coke is produced mainly in Poland, Germany and the Czech Republic. In its business activity, the Group uses anthracite as a substitute for coke. The main source of anthracite for Europe is Russia. Due to relatively high prices of coke, in 2019 the Group used anthracite to a large extent in the furnace mixture.</p>



Factors	Description
	<p>Oil-derivative raw materials – used primarily in the organic segment, are linked to oil prices. Oil prices depend primarily on macroeconomic and political factors which translate into global demand and supply situation.</p>
Exchange rates of Polish zloty (PLN) and Romanian leu (RON) to euro (EUR) and US dollar (USD)	<p>The CIECH Group's main source of exposure to foreign currency risk is related to EUR and USD in which export sales are denominated. Weakening of PLN and RON (in which significant costs are incurred) in relation to EUR and USD (in which a material portion of sales is made) has a positive impact on the CIECH Group's financial performance. The Group applies natural hedging and hedging instruments.</p>
Volume of chemical production capacity on markets where the CIECH Group operates	<p>In the sectors of mass chemical products, in which the CIECH Group operates, the capital expenditures are an important barrier to entry, and in the case of the soda segment – an access to natural resources. For this reason, in the scope of the most important segment of the CIECH Group, the soda segment, green field investments are rare and generally done outside Europe.</p> <p>The CIECH Group's business was significantly affected by the extension of large sodium carbonate and sodium bicarbonate production capacity carried out in recent years in Turkey. This affected the supply and demand situation and prices, mainly in Europe. On the other hand, it should be noted that the commissioning of new capacity in Turkey has been spread over several years and coincided with strong demand in markets served by the CIECH Group and environmental constraints in the world's largest market, China. This situation provided a framework for greater globalisation of trading in sodium carbonate and alleviated the possible oversupply in Europe (as a result of Turkish investment projects).</p> <p>Over the next 2-4 years, significant increases in the sodium carbonate capacity are planned mainly in the USA, China, India and Turkey. The US projects concern the expansion of 3 existing factories using natural resources and belonging to 3 different entities that have not implemented such projects in recent years. In the case of China, it is important to bear in mind the simultaneous efforts of the authorities to protect the environment and the related possible further shutdowns of some old or inefficient factories. Therefore, there is still a considerable uncertainty about the balance of capacity changes in this country. In general, the Group believes that within the next five years, the planned increase in global sodium carbonate capacity (annual average of 1 million tonnes) will not exceed the expected increase in demand.</p> <p>Significantly greater capacity expansions (additional 5 million tonnes/year on the basis of natural deposits) were announced for 2024-2025 in the USA. Taking into account the scale of these projects and experience from the implementation of similar projects in the previous years, one should take into account the possible prolongation of their implementation.</p>
Environmental requirements	<p>REACH system implementation</p> <p>In accordance with the REACH regulation, the Group's companies selling substances in quantities exceeding 1 tonne p.a. have completed or plan to complete full registration of these substances by defined deadlines, which will enable them to continue their operations in the current scope.</p> <p>Emission trading system</p> <p>Production companies of the CIECH Group are included in the emission trading system. External analyses performed by the CIECH Group companies indicate that the amount of free CO₂ emission allowances in the 3rd settlement period (2013–2020) will be insufficient to cover the actual demand for this type of settlement units. In addition to the direct costs connected with the purchase of CO₂ emission allowances, the CIECH Group companies will bear higher costs of electricity due to their assumption of the costs of purchase of emission allowances from the producers.</p>

2.2 CHARACTERISTICS OF THE MARKET AND POSITION OF THE CIECH GROUP

2.2.1 SODA SEGMENT

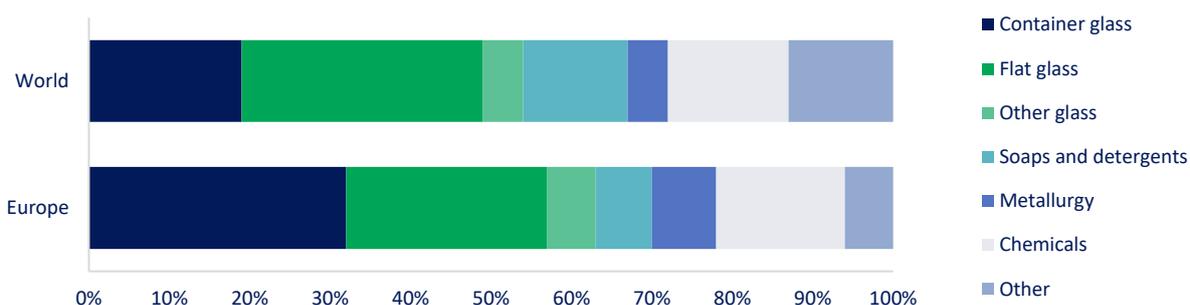


The CIECH Group ranks **second in Europe** and first in the CEE region in terms of **sodium carbonate production potential**.

Sodium carbonate

Sodium carbonate is one of the basic raw materials for the glass manufacturing industry. It is also used for the production of washing and cleaning products, in metallurgy and chemical industry, among others, to produce silicates, sodium bicarbonate, lithium carbonate (used for battery production), as well as in the paper industry. On a global scale more than one half of the currently produced sodium carbonate is used for the production of glass. Further recipients of soda ash include the chemical industry as well as soap and detergent producers. 1/5 of available soda volumes is used by other branches of industry.

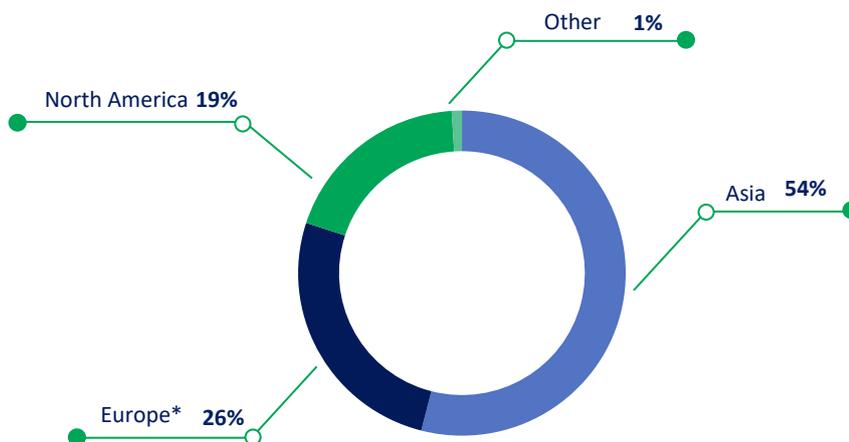
FIGURE 11: SODIUM CARBONATE CONSUMPTION STRUCTURE



Source: Own compilation based on data from IHS Markit

In Europe, the share of glass manufacturers and metallurgy sector in sodium carbonate purchases is much larger than on the global market. On the other hand, in Europe relatively lower volumes of soda are used in the production of soap and detergents.

FIGURE 12: PRODUCTION CAPACITIES OF SODIUM CARBONATE IN THE WORLD BY REGION



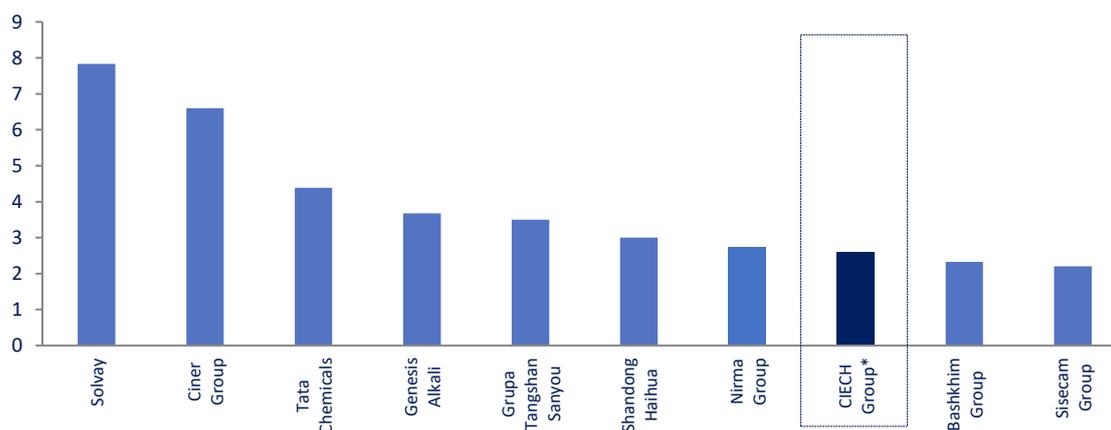
*Europe including all of Russia and Turkey

Source: Own compilation based on data from IHS Markit

As at the end of the past year, the global production capacities of sodium carbonate stood at approx. 72 million tonnes per year, of which over half is produced in Asia. More than a quarter of the capacity is concentrated in the European region (including Turkey and all of Russia), while the third key production region is North America, representing about 20% of the capacity. The largest sodium carbonate producers in the world, with capacity of 4 million tonnes/year or more, are the following four concerns: Solvay, Ciner Group, Tata Chemicals and Genesis Alkali. As at the end of 2019, these companies represented about 30% of global production capacity.

FIGURE 13: LARGEST GLOBAL PRODUCERS OF SODA ASH BY PRODUCTION CAPACITIES IN 2019

million tonnes/year



Source: Own compilation based on IHS Markit and others; *including capacity of CIECH Soda Romania where production was suspended on 18 September 2019.

Last year, the production capacity of soda ash was increased mainly in China and Indian subcontinent. Over the next 3 years or so, significant increases in production capacity are planned mainly: in the United States (about 2.5 million tonnes/year) as well as in India and Turkey (in the latter 2 countries, a total of almost 1.5 million tonnes/year). In general, for the coming years the average annual growth rate of global capacity is expected to be similar to the growth rate of global demand for soda; i.e. at approx. 2%/year.

Significantly larger production capacity expansions (additional 5 million tonnes/year on the basis of natural deposits) were announced for 2024-2025 in the USA. Taking into account the scale of these projects and experience from the implementation of similar projects in the previous years, one should take into account the possible prolongation of their implementation.

The main sodium carbonate market for CIECH Group is Europe, especially Poland. The biggest producer in this region is Solvay, which owned factories in 6 locations around Europe in 2019, with total production capacities estimated at approximately 5 million tonnes/year. The second position in Europe in terms of production capacity last year was held by the CIECH Group with a total capacity of 2.6 million tonnes/year (4 plants: in Poland in Inowrocław and Janikowo, in Germany in Stassfurt and in Romania in Ramnica Valcea). There are no other manufacturers of sodium carbonate in Poland and Romania. On 18 September 2019, the production of soda was suspended at the Romanian plant as a result of the discontinuation of supply of process steam by the sole local supplier. Analyses on the possibility of resuming production in Romania are underway.

In 2019, the Group's share of the sodium carbonate market in Poland stood at approx. 95%, around 15% in Europe (including Russia and excluding Turkey) and more than 3% globally (*Source: own estimates based on market data compiled by IHS Markit*).

Demand for sodium carbonate in Europe (including CIS) is estimated at nearly 12 million tonnes per year. European (including Polish) market is a mature market with no rapid changes, with yearly growth rates ranging from 1.5-2.0%. Growth dynamics in Central Europe is usually higher by 1-2 percentage points than in Western Europe.

The structure of sodium carbonate consumption also hasn't changed much for many years. The demand for sodium carbonate depends mostly on the demand for flat and packaging glass. In Central Europe, the share of the detergent segment is relatively significant, and in Eastern Europe – the share of metallurgical sector.

We believe that the European soda market is now fairly well balanced. In the next few years, significant drivers for its further growth will include, among other factors, the growing interest in glass packaging (as more environmentally friendly compared to plastic substitutes) as well as growing requirements for energy efficiency of buildings and the associated trend of using 3-pane windows (instead of 2-pane ones). On the other hand, there are factors that may impede this growth: measures to increase waste recycling (including glass) and the downturn in the automotive industry responsible for a portion of demand for flat glass.

Sodium bicarbonate



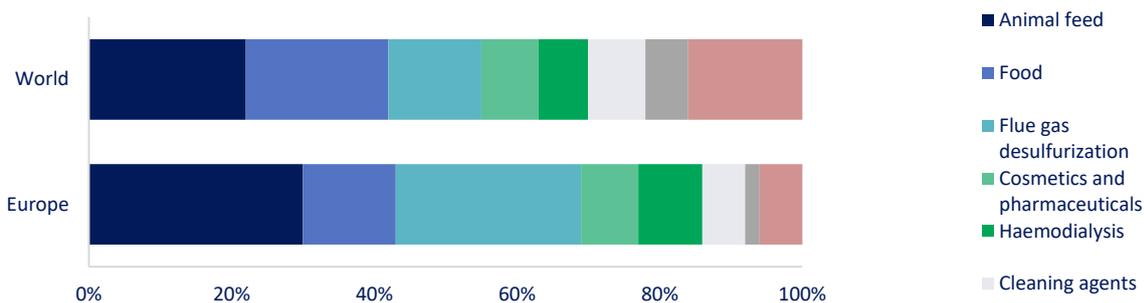
The CIECH Group is the second largest sodium bicarbonate producer in Europe.

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

In Europe, sodium bicarbonate is used mostly in production of feed and exhaust gas purification (respectively, approx. 1/3 and 1/4). Other important segments are food production and hemodialysis.



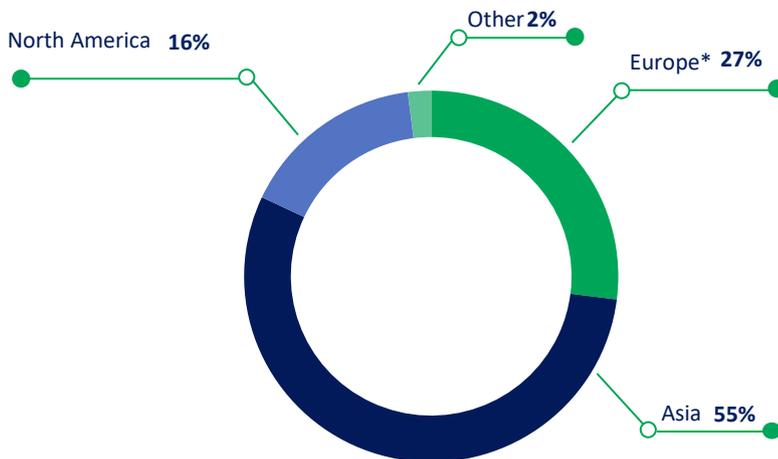
FIGURE 14: SODIUM BICARBONATE CONSUMPTION STRUCTURE



Source: Own compilation based on data from IHS Markit.

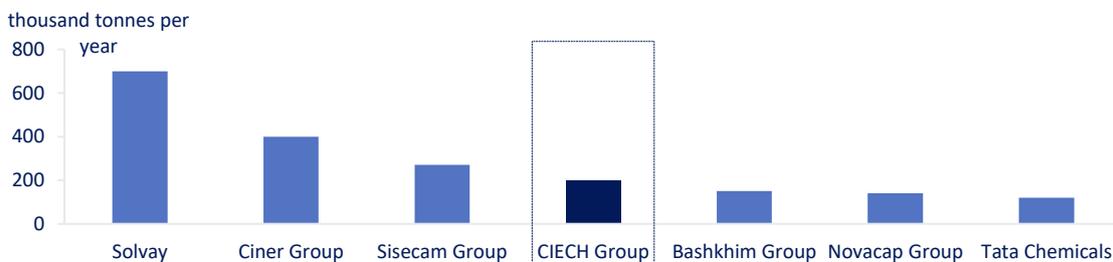
Global production capacities for sodium bicarbonate are estimated at about 7.2 million tonnes per year. Asia accounts for nearly 55% of these capacities. The share of Europe together with Russia and Turkey reaches 27% and North America – 16%. In 2019, the largest capacity increases were recorded in China.

FIGURE 15: PRODUCTION CAPACITIES OF SODIUM BICARBONATE BY REGION



*Europe together with Russia and Turkey
Source: Own compilation based on data from IHS Markit

FIGURE 16: LARGEST PRODUCERS OF SODIUM BICARBONATE IN THE REGION COMPRISING EUROPE AND TURKEY BY PRODUCTION CAPACITY IN 2019



Source: Own compilation based on IHS Markit and others

In the European region (including Turkey) sodium bicarbonate production capacity is estimated at around 2 million tonnes per year; including the CIECH Group's new plant in Germany with a capacity of 50 thousand tonnes/year, launched in 2019. The biggest producer both in Europe and globally is Solvay, owning factories in seven countries. Currently, the CIECH Group

with production capacity at 200 thousand tonnes per year is the second largest producer in Europe (and fourth after Solvay, Ciner Group and Sisecam Group in the region, including Turkey).

The target market for the CIECH Group for sodium bicarbonate is Poland and the foreign markets, especially Western Europe. The share in the sodium bicarbonate market of the CIECH Group is about 11% in Europe (with Russia but without Turkey) and 3% globally. Sodium bicarbonate is produced in two soda factories of the Group: in Inowrocław and in Stassfurt. CIECH Soda Polska S.A. is the only producer of sodium bicarbonate in Poland with about 2/3 of the market. The CIECH Group's share in the German market is about 25%.

Much like the soda ash markets, Polish and European markets for sodium bicarbonate are mature markets, not volatile to rapid changes, with yearly growth of 4%–5%.

In the coming years, above average dynamics can be expected within the scope of hemodialysis due to an increase in incidence of illnesses related with modern lifestyle in developed countries (primarily kidney diseases caused by diabetes). Due to growing requirements of environmental protection, a major increase in usage of sodium bicarbonate for fumes desulphurisation is expected.

The animal feed industry is usually the most vulnerable to economic shifts among the target sectors for sodium bicarbonate. However, the EU forecasts for the following year show small – marginal or by a few percentages – changes for the different types of feed for which sodium bicarbonate is used.

An increase in sodium bicarbonate production capacity is planned for 2020, which may have a significant impact on the European market. Solvay has announced an expansion of its production capacity in Bulgaria by 200 tt/year on the basis of sodium carbonate produced there already in 2020. This project may contribute to the periodical oversupply of the product in Europe and neighbouring regions. However, the actual significance of this project will depend on the segments to which new supplies will be directed. The activities of Solvay so far show that the new capacity can be allocated largely to flue gas cleaning (a segment with great growth prospects), e.g. in the light of increasing requirements for emissions in maritime transport – new International Maritime Organisation 2020 standards).

An increase in demand for sodium bicarbonate is supported by global mega-trends, including concerning environmental protection and civilization diseases.

Evaporated salt

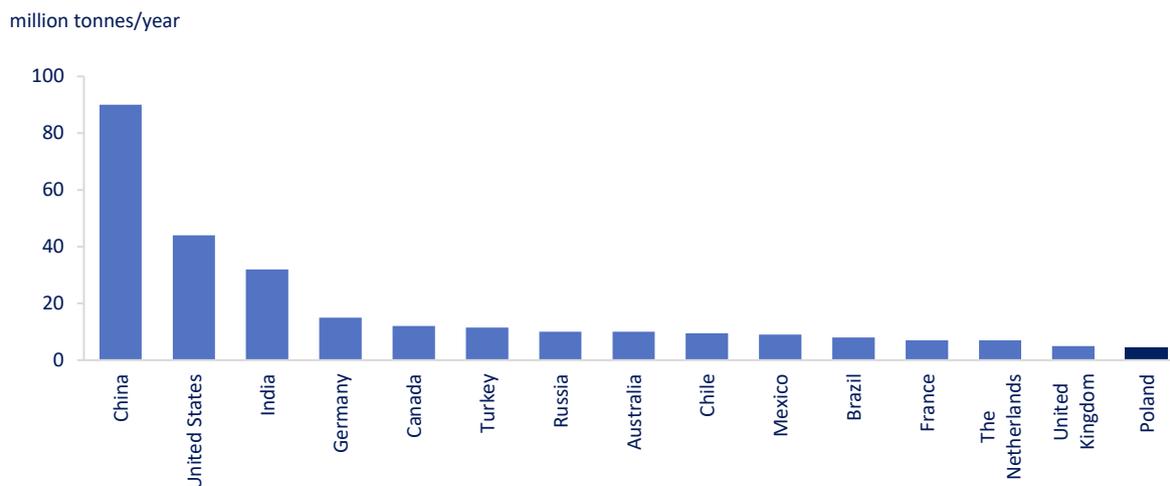


The CIECH Group is the largest Polish producer of evaporated salt, with a share in the domestic production capacity of approx. 80%

Since the beginning of the second decade of the 21st century, global salt production has been on an upward trend of approx. 1% p.a. on average – from around 300 million tonnes in 2010 to around 330 million tonnes in 2019. The growth of the global market was mainly related to the growing demand for chlor-alkalis and sodium carbonate in Asia.

The ten biggest producers (countries) are responsible for over 3/4 of global supply. Among them are only two European countries (Germany, producing approximately 15 million tonnes per year and Russia, producing 10 million tonnes per year). Poland (producing more than 4 million tonnes of salt a year) is ranked among the second tenth in the global ranking, with a share in total production of 1.3%.

FIGURE 17: MAJOR SALT PRODUCERS IN THE WORLD (INCLUDING POLAND)



Source: Own compilation based on USGS and other sources.

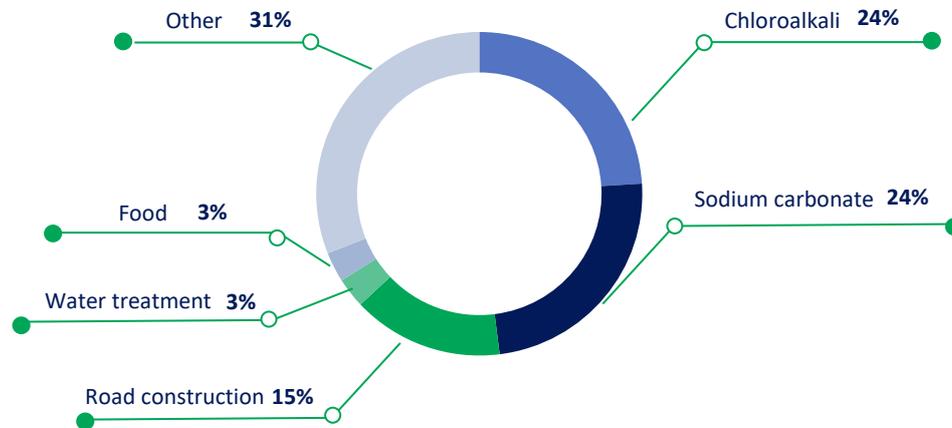
European salt production capacities are estimated at more than 100 million tonnes per year (including producers using salt only for the purposes of their own chemical production, such as Solvay and Dow Chemical). The largest producer in Europe operating in the free market is the K+S Group (formerly Esco), with capacities of 9-10 million tonnes per year and production plants in several countries of Western Europe. Other companies with large production capacities (above 5 million tonnes per year) include a Ukrainian company, Artyomsol (around 7 million tonnes per year; capacities used recently to a small extent) and a chemical concern, Nouryon – formerly AkzoNobel (around 6 million tonnes per year).

Salt is usually present in the European market in two forms: rock salt and evaporated salt. Evaporated salt is one of the key products of the CIECH Group, which offers it in various distribution channels. Salt produced in our plants in Janikowo is used in food, meat, chemical (e.g. in electrolysis) and many other industries. Salt tablets used in specialized installations – water treatment systems – are also an important product. Another distribution channel of growing importance for the CIECH Group are animal feed plants and large farms. It is for this branch that feed salt and salt licks are dedicated, for balancing the animal diet.

Due to advantages of evaporated salt with regards to quality parameters, chemical industry in Western Europe abandoned using of rock salt. A similar process occurred in food and households industries. Rock salt is presently used primarily in highway maintenance for winter de-icing. Evaporated salt, on the other hand, is widely used in every field of industry and in households. Its purest grade is also used in the pharmaceutical industry.

In Europe, most of salt is used in the soda ash and chlorine-alkali industries (approx. half of the demand). In recent years, much less salt has been used for highway maintenance. Globally, use of salt in highway maintenance is significant only in North America (about 1/3). In other regions of the world, chemical sector (chlorine-alkali industry and sodium carbonate industry) is the main buyers of salt. In Asia (outside China), Latin America, Africa and the Middle East, significant volumes of salt are used for direct consumption and food production.

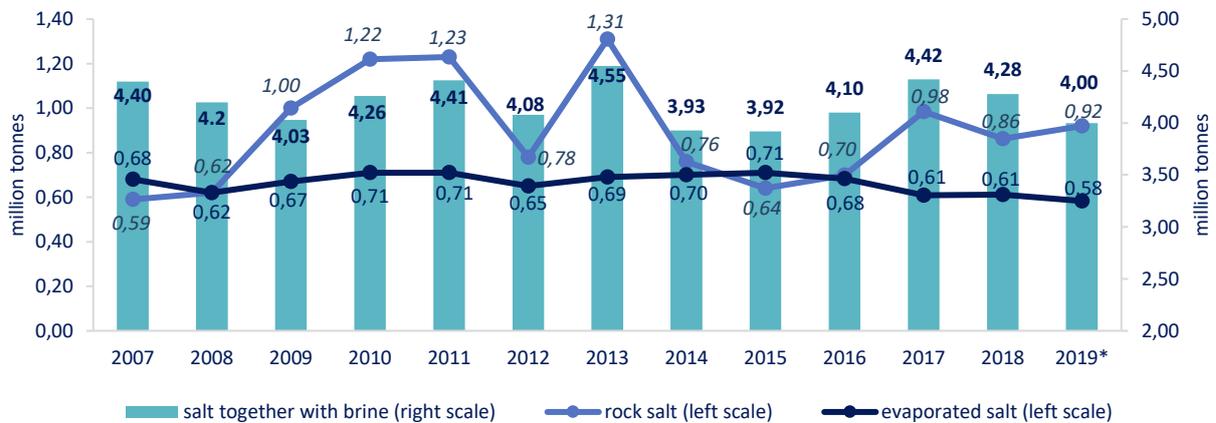
FIGURE 18: SALT CONSUMPTION STRUCTURE IN EUROPE



Source: own estimates based on Roskill and other sources

Polish salt market structure differs from the one in Europe. Much more important is the salt used for the production of sodium carbonate, in highway maintenance and for direct consumption, while the salt used in the chlorine-alkali industry is of lesser significance.

FIGURE 19: SALT PRODUCTION IN POLAND WITH DIVISION INTO KINDS IN THE YEARS 2007-2019



Source: Own compilation based on the Central Statistical Office; * estimates based on preliminary data for 12 months of 2019.

Poland belongs to leading salt producers in Europe. Total production of evaporated salt, rock salt and brine in the past decade oscillated between 3.9 and 4.5 million tonnes.

Polish salt market, like Europe, is mature. The volume of evaporated salt consumption shows a slight average annual growth rate of 1%-1.5%. This growth is mainly driven by highly processed salt products, e.g. for water treatment systems and health care. On the other hand, the market of rock salt used mainly for winter road maintenance is variable. The demand for rock salt in case of atmospheric anomalies can change by several dozen percent. The CIECH Group is practically not present on the road salt market, therefore weather anomalies do not affect our sales volume. However, we play an important role in the following segments: table salt (food industry and direct consumption), water treatment systems and chemical industry (electrolysis salt).

The CIECH Group with its production capacity of 550 thousand tonnes per year is the biggest producer of evaporated salt on the Polish market, with a share in domestic capacity of approximately 80%.

In the coming year, the directions and further development of the global salt market will be determined by general economic development (because of important role of chemical industry in salt consumption) as well as seasonal factors (due to important role of salt in road maintenance in the developed countries). Development of plants in Asia (with regard to synthetic chlorine-alkali and sodium carbonate) will be especially important for the chemical sector. The projected average annual growth rate of salt consumption worldwide is estimated at around 2%. In Europe, the rate may be about two times lower, but in the case of evaporated salt, i.e. in the area where the CIECH Group operates, we expect the average annual market growth at about 1.5%. This is due to the well-proven quality advantage of evaporated salt over other types of salt (rock and sea salt).

Due to global economic, social or demographic trends, specialist products become more and more important in the salt industry. There is a growing awareness of the need to improve water quality – an increase in demand for salt tablets from many industries and from households is visible. In turn, increasing volumes of evaporated salt of pharmacological purity grade are used in pharmaceutical industry. Due to the development civilization diseases related to lifestyle in developed countries, expenditures on health care are growing. The quality of pharmaceuticals also improves, which determines the increase in consumption of salt used in this industry.

There is a worldwide increase in demand for specialist products of the salt industry – salt tablets for water treatment and salt used in the pharmaceutical industry.

The prospects for evaporated salt market development in Europe, including Poland, are stable. The possible quantitative increases will depend on sales dynamics in the sector of highly processed products, e.g. for water treatment systems.

2.2.2 ORGANIC SEGMENT

Crop protection chemicals (CPC)



The CIECH Group is the largest domestic producer of crop protection products and one of the leaders in the domestic market of herbicides.

About 45% of sales of global crop protection chemicals is attributable to herbicides. Fungicides and insecticides account for about 28% and 25% of the global market value respectively.

FIGURE 20: STRUCTURE OF GLOBAL CONSUMPTION OF CROP PROTECTION CHEMICALS BY TYPE AND BY VALUE

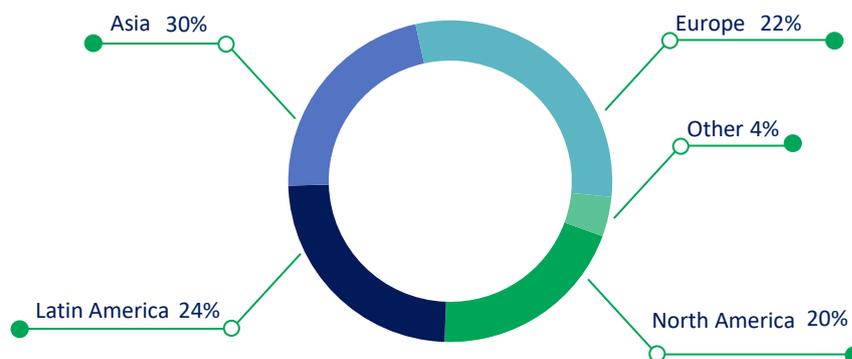


Source: Own compilation based on Phillips McDougall.

In 2019, as in previous years, the global market for crop protection agrochemicals was dominated by several major global producers: Syngenta (from the ChemChina Group that also includes Adama), Bayer (which acquired Monsanto, an American corporation, in 2018), BASF, Corteva (effect of the merger of Dow Chemicals and DuPont) and FMC. These companies are main contributors to the world markets because they significantly influence directions of the industry development, including: development of new technologies and introduction of innovative products to the market. The total share of the aforementioned producers in the total global sales of agrochemicals is estimated at about 2/3.

It is estimated that in 2019, the value of sales in the global market of crop protection chemicals reached approx. USD 58 billion and was comparable to that of the previous year. The absence of a clear growth of the market in the past year was caused by unfavourable weather conditions in some regions of the world (e.g. floods in the USA, drought in Australia), combined with the continued very good economic situation in South America and a further increase in demand in Asia due to a rapidly growing population (albeit with some stagnation of pesticide production in China - failures and stoppages as a result of environmental controls), as well as an appreciation of the USD.

FIGURE 21: STRUCTURE OF SALES OF CROP PROTECTION CHEMICALS BY REGION (% OF VALUE)



Source: Own compilation based on Phillips McDougall.

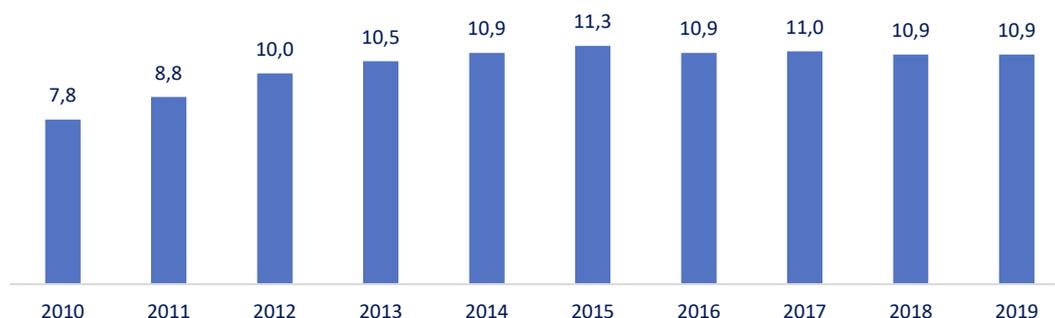
Asia and Latin America are currently the largest regional markets of crop protection chemicals with shares in global sales amounting to approx. 30% and 24% respectively. Slightly smaller markets are Europe and North America (about 20% each). The rest of the world accounts for several percent of global consumption. Estimates for the European market in 2019 indicate that this figure remained relatively flat from the previous year.

From the beginning until the half of this decade, demand for CPC in Europe has been growing rapidly (by approx. 8% annually on average, according to the value in EUR). Since 2016, European sales have remained at about EUR 11 billion, which can be attributed to the fact that Europe is a very mature market. The sales volume in 2019 was driven by: extreme weather conditions, relatively high stocks of commodities and associated low prices, activities of NGOs aimed at reducing the use of crop protection products in Western Europe; offset by a clear increase in demand on Central and Eastern European markets.

In general, prospects for further development of the European market of crop protection chemicals can be assessed as positive, especially in the area of generic products manufactured by the CIECH Group.

FIGURE 22: SALES OF CROP PROTECTION CHEMICALS IN EUROPE IN 2010-2019 (preliminary estimates for 2019)

EUR billion



Source: Own compilation based on Phillips McDougall.

For a number of years, the biggest European markets for CPC are France, Germany, Italy, Russia, Spain, United Kingdom and Poland. However, the importance of countries such as Romania and Ukraine is also increasing.

In Poland, since the beginning of this decade, the consumption of crop protection products has been following a growing trend with some fluctuations between 70-100 thousand tonnes/year. The estimated increase in tonnage in 2019 should be associated with a moderately good economic situation in domestic agriculture, accompanied by a slowdown in the increase in prices of inputs for agriculture. Despite the overall upwards trend in local CPC production, the Polish market continues to be dominated by foreign suppliers with a very wide range of products.

The long-term growth prospects for the CPC market remain attractive, especially in terms of generic products manufactured by the CIECH Group.

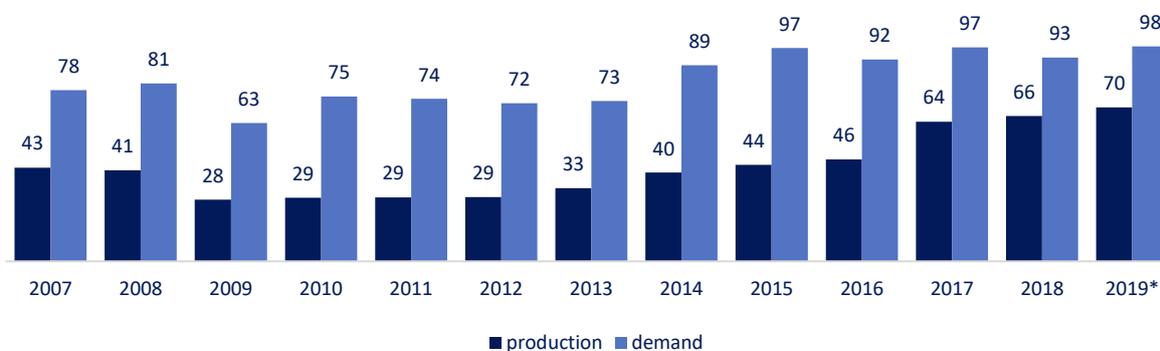
Imports, in terms of weight, account for approx. 60% of demand (approx. 90% in terms of value). The reason of such a disproportion is lack of sufficient offer of Polish producers, who have much less of financial resources to conduct research on new products, their registration and marketing.

The CIECH Group's development strategy in the field of crop protection products includes intensive research and development activities, the expansion of its product portfolio and progressive foreign expansion.

The share of herbicides in the structure of CPC consumption in Poland is similar to the global one. Significantly more herbicides are used in Poland because of high percentage of grains in general cultivated area. Insecticide consumption is lower than the world average (in general, in the moderate climate zone, the pressure of diseases is much higher than that of pests – the so-called Central Zone).

FIGURE 23: VOLUME OF PRODUCTION AND CONSUMPTION OF CROP PROTECTION CHEMICALS IN POLAND IN THE YEARS 2007-2019

(in thousand tonnes)



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

Global concerns and several local producers are main participants in the Polish market. CIECH Sarzyna S.A. is the largest domestic producer. The company's activity regarding crop protection chemicals is focused on the Polish market, where the CIECH Group has a share of approx. 5% (in terms of value). This share is much higher with regards to grain herbicides segment, which is the company's main product group, and amounts to about 23%. In 2019, the CIECH Group continued its foreign expansion in the area of agrochemicals. With the acquisition of Spanish supplier of crop protection products, Proplan, in 2018, the Group is today present in more than 50 countries worldwide with the right products for agriculture. This is also due to the consistent implementation of the development strategy (in the area of plant protection), which consists in intensification of research and development activities, expansion of the product range and strengthening of the sales and marketing areas.

Over the next few years, the value of the domestic market for crop protection products should continue to grow at a fairly fast pace. In Poland, the unit consumption of active substances of CPC in kg per 1 ha of arable land and permanent crops as well as field treatments is still much lower than in many Western European countries. Moreover, it can be assumed that economic situation of Polish farmers should be sustained due to direct subsidies received from the EU. Additionally,



controversies concerning genetically modified plants (GMO) should effectively influence the higher demand level for traditional crop protection chemicals.

For the next few years, the global demand for crop protection products is also expected to continue to grow at a robust pace, with an average annual rate of 3% (in terms of value). Growth will be driven mainly by overseas markets such as Latin America, some countries in Africa and the Far East, i.e. those where the CIECH Group is already present. In Western Europe, the market will be rather stable, while in the central and eastern regions of our continent, significant growth is still expected.

The development strategy of the CIECH Group in the field of crop protection products includes intensive research and development activities, expansion of the product offer, and ongoing foreign expansion.

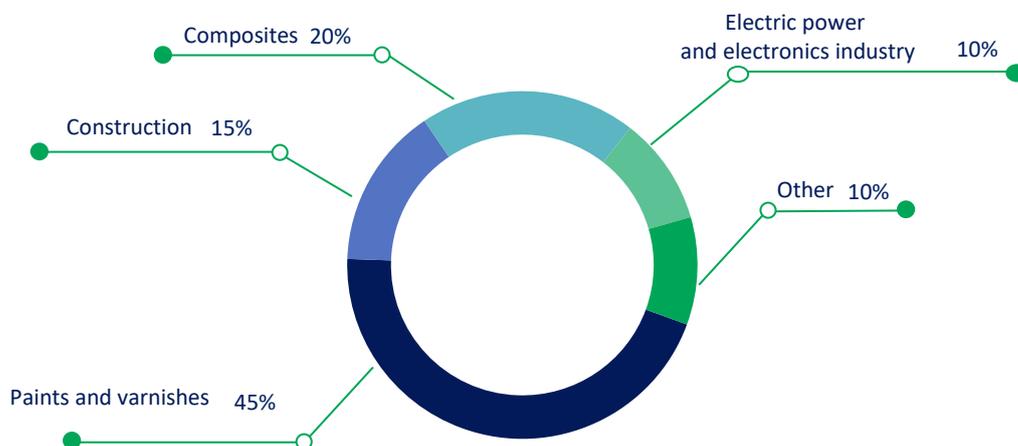
Market forecasts are based on the assumption of decreasing arable land area on the global scale, increasing population and the resulting necessity of constant yield increase. On the other hand, various national and international regulatory bodies, whose task is to monitor the consumption of crop protection chemicals in order to lower their negative influence on the natural environment will affect the growth in consumption of crop protection chemicals.

Epoxy and saturated polyester resins

The CIECH Group is the sole Polish producer of epoxy resins and a prominent supplier of epoxy resins to European markets.

The majority of epoxy resins offered on the market are standard mass commodities products (approx. 80%). Other, specialties products are intended for niche applications such as composites in the aerospace or wind power industry. In Europe, these resins are used primarily (45%) for the production of powder paints and varnishes (chemically resistant, insulation, electrical insulation). Approximately 20% of the volume of epoxy resins is consumed for the production of composites. Another 15% is used in the construction sector (screeds, sealants, fillers, binders, coatings, wall coverings), and approx. 10% — in electric and electronic sectors.

FIGURE 24: APPLICATION SEGMENTS OF EPOXY RESINS IN EUROPE



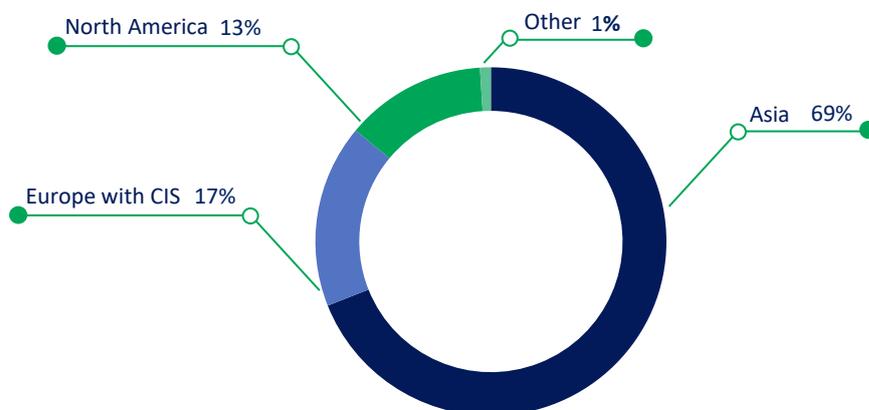
Source: Own compilation based on the IHS Markit data.

Global production capacity of epoxy resins (liquid and solid) is estimated more than 5 million tonnes per year: Asia (approx. 70%), Europe and CIS (about 900 thousand tonnes per year), North America (about 700 thousand tonnes per year). Despite the general oversupply, an increase in capacity in Asia was recorded last year. The largest global resin manufacturers are: KUKDO (South Korea), Nan Ya (Taiwan), Jiangsu Sanmu (China), Chang Chun (Taiwan) and US-based corporations: Hexion, Olin and Huntsman. The above-mentioned companies are collectively responsible for approx. half of the world production of these resins.

The CIECH Group, through CIECH Sarzyna S.A., is the only producer of epoxy resins in Poland and one of a dozen or so in Europe (as regards base resins). Production capacity of the Group is estimated at 30 thousand tonnes per year. The biggest

competitors in Poland are suppliers from the EU and Far East. Primary export markets of the CIECH Group are Western and Central European countries where we compete with companies such as KUKDO and Kumho Petrochemical from South Korea and Spolchemie from the Czech Republic.

FIGURE 25: GEOGRAPHIC STRUCTURE OF EPOXY RESINS PRODUCTION CAPACITY



Source: Own compilation based on the IHS Markit data and other sources.

The global market size of epoxy resins (liquid and solid) in 2019 is estimated at 3.1–3.2 million tonnes per year. The demand in Europe (including CIS) is estimated at about 450 thousand tonnes per year and the CIECH Group's share in the European market – at approx. 3%. Respectively, domestic consumption is estimated at around 26 thousand tonnes/year, and our share in the Polish market is estimated at around 20%.

In spite of increasing consumption, usage of production capacities in Europe is low (50-60%). This results from a significant increase in production capacities in previous years, relatively low local demand and imports – in particular from Asia. In the long term, the prospects for increase of demand are quite optimistic (globally by 4%-5% yearly on average). The highest growth rates are to be expected on the largest market - in Asia, and the lowest - in Europe (to the tune of 2%). Above average growth prospects are also assumed for a relatively small market of Central and Eastern Europe.

The CIECH Group implements a development programme for new products dedicated to the fast-growing composite market.

The key segments driving the growth in consumption of epoxy resins in the following years will be glues and composites for aviation and wind power plants (globally) as well as electronics and powder paints (in the Far East and South-East Asia region).

In the powder paint segment, important substitutes for epoxy resins are saturated polyester resins. Through CIECH Sarzyna S.A., the CIECH Group is also a producer of saturated polyester resins with production capacities of 12 thousand tonnes per year. Saturated polyester resins are used primarily for production of solvent-free powder paints. The European market for these products, estimated at 230-240 thousand tonnes/year, is developing at the rate of 2% on average per year.

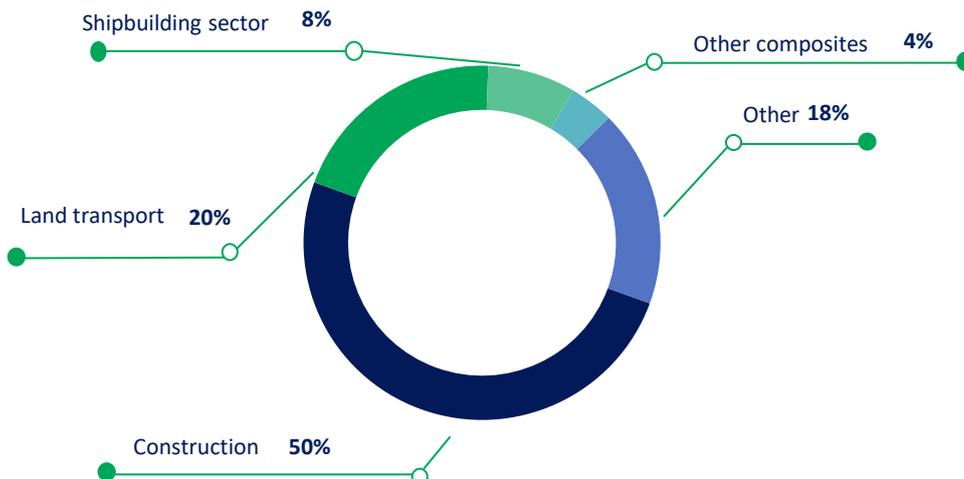
The market for saturated polyester resins is dominated by global players, and due to the location of production capacities, inter-continental trade remains insignificant. The largest net importers are Germany and UK, while the largest net exporters are the Netherlands, Spain and Italy. Growth of the saturated polyester resins market is primarily driven by the development of the powder coatings segment in the construction industry, household appliances segment as well as machinery and equipment segment.

The primary sales markets of the CIECH Group are: Poland and other Western and Central European countries, where we compete with companies such as Allnex, DSM, Inopol, Megara, SIR Industriale and in specialist products from Synthomer.

Unsaturated polyester resins

The global market for unsaturated polyester resins is related to their consumption in the construction industry (approx. 50%) as well as the production of yachts and means of transport on land. The majority of these resins in Europe is used in construction and transport industries. The demand of these two segments accounts for more than 2/3 of the market.

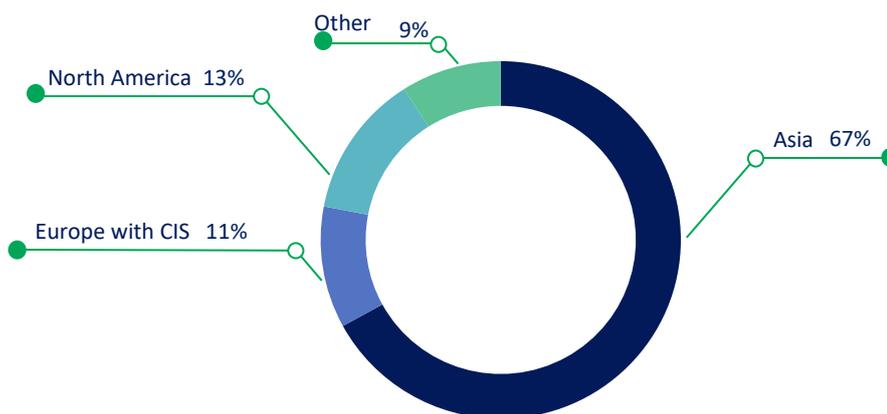
FIGURE 26: APPLICATION SEGMENTS OF UNSATURATED POLYESTER RESINS IN EUROPE



Source: Own compilation based on the IHS Markit data.

The global production capacity of unsaturated polyester resins is estimated at approximately 9 million tonnes per year. Of that, approximately 1 million tonnes per year is produced in Europe (including CIS).

FIGURE 27: GEOGRAPHIC STRUCTURE OF UNSATURATED POLYESTER RESINS PRODUCTION CAPACITY



Source: Own compilation based on the IHS Markit data.

About 30 producers of these resins are active in Europe. The biggest four international concerns own about 2/3 of the European production capacity. These include international concerns: the Polynt-Reichhold Group, AOC Aliancys (joint venture formed by CVC and DSM), Ashland and Scott Bader. Small producers usually focus on high value market niches because of very strong competition.

The largest producer of unsaturated polyester resins in Poland is Lerg S.A. The second largest producer is the CIECH Group (with capacity of approx. 30 thousand tonnes per year). A significant portion of sales is directed to the domestic market (of approximately 70 thousand tonnes per year), where the CIECH Group holds a share of approx. 20%. Resins from CIECH Sarzyna S.A. are also supplied to other European markets. As of 2 January 2020, the resin business was spun off from CIECH Sarzyna S.A. to CIECH Żywiec Sp. z o.o.

Important competitors on the Polish market include (in addition to domestic companies) suppliers from Finland, Italy, France, Germany, South Korea, Sweden and the Netherlands. The unsaturated polyester resins consumption in Europe (including CIS) is estimated at about 600 thousand tonnes per year.

Because the use of resins is highly dependent on the economic situation in construction and transport industries, a moderate growth rate is expected for this market in Europe in the upcoming years (by 2% annually on average, as compared to global growth rate of 4%).

Construction industry (pipelines, tanks, structural elements, synthetic marble, etc.) will have the most significant impact on resins sales on the European market in the coming years. Also automotive industry will be important (substitution of metal parts with the ones made of resins). However, these two sales directions will be characterized by a pretty slow increases.

Flexible polyurethane foams (PUR)



The CIECH Group has about 16% share in the polyurethane foam market in Poland and is responsible for approx. 25% of the domestic production (except for production for own needs).

Flexible polyurethane foams are used mainly in production of furniture and sleeping mattresses, which amount to more than ¾ of consumption of this material. Another 15%–20% is used in automotive industry for production of seats and interiors. As a result, demand for foams is sensitive to economic cycles.

FIGURE 28: APPLICATION SEGMENTS OF FLEXIBLE POLYURETHANE FOAMS IN EUROPE



Source: Own compilation based on the IAL Consultants and Europur data.

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

Globally, production of flexible polyurethane foams used in furniture production is very fragmented (over a thousand producers of total production capacity of 6-7 million tonnes per year). Production capacities of Polish producers are estimated at 210-220 thousand tonnes per year. Major competitors of the CIECH Group on the Polish market are: Eurofoam, MZCh Organika, Vita Polymers and CIS. IKEA also hold large production capacities, however, they are designated mainly for internal purposes.

The CIECH Group, through Ciech Pianki Sp. z o.o., has about 16% share in the Polish market of flexible polyurethane foams, and approx. 25% in the domestic market of these foams without taking into account imports and own production.

Over the next few years, the global market for flexible polyurethane foams – such as those manufactured by the CIECH Group – (estimated at more than 6 million tonnes) is expected to grow at a rate of 3%-4%. This will mainly be attributable rising standards of living in developing countries. European demand for soft polyurethane foams, such as those used in the furniture industry, is estimated at about 1.3 million tonnes per year (including Turkey). In 2019, the Polish market for these foams is estimated at around 190,000 tonnes, down a few percent on the previous year. This decline is due to the slowdown in the strong upward trend in domestic furniture and mattress production, witnessed for more than a year now, mainly as a result of a drop in sales to Western European countries and, above all, to Germany (a clear weakening of the general economic situation last year). In turn, developments in the furniture market translate directly into the market for flexible PUR foams.

The domestic market of flexible polyurethane foams benefits from a very good position of the Polish furniture industry on foreign markets – the second largest exporter of furniture worldwide.

In the following years, however, we estimate that the domestic market for flexible polyurethane foams should gradually recover and grow by about 3% annually on average. This will generally be supported by the very good position of the Polish

furniture industry on foreign markets (second place in the world ranking of furniture exporters after China; price competitiveness; plans for further export expansion).

2.2.3 SILICATES AND GLASS SEGMENT

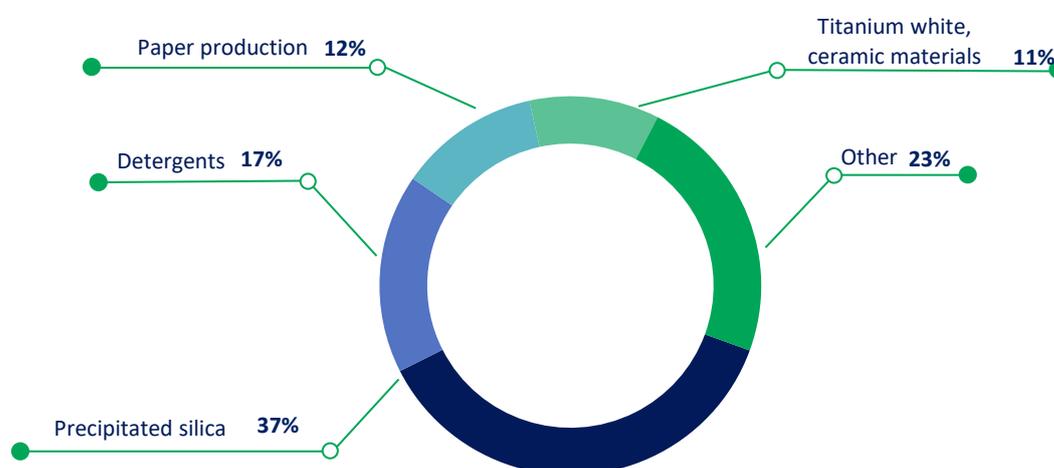
Sodium silicates (glassy sodium silicate and sodium water glass)

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

Sodium silicates are used for production of precipitated silica (about 40% of consumption in Europe, used mainly in the tyre and beauty product industries), detergents (more than 15%), paper, coatings based on titanium white and ceramic materials and in other industries.

In developing countries, applications related to production of detergents dominates, and the total consumption of these silica depends to a large extent on the number of citizens.

FIGURE 29: APPLICATION SEGMENTS OF SODIUM SILICATES IN EUROPE



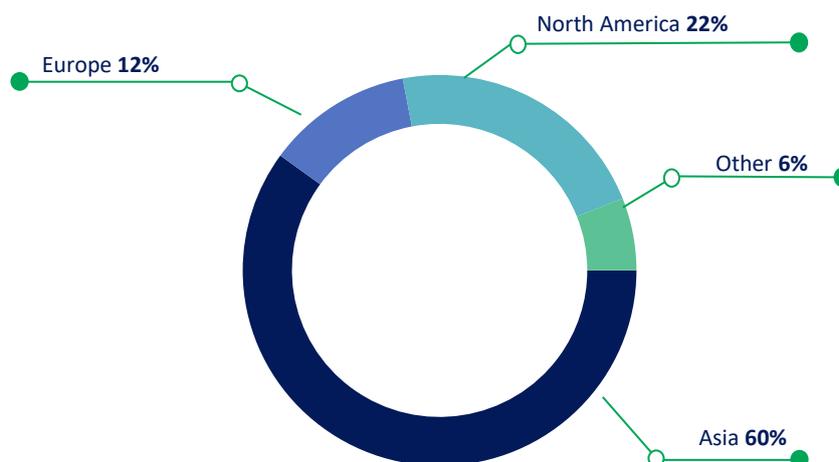
Source: Own compilation based on the IHS Markit data.

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

The largest production capacities are located in Asia (about 60%) and the most developed regions of the world (Europe, North America) are responsible for approx. 1/3 of global production capacities in total.

FIGURE 30: GEOGRAPHIC STRUCTURE OF PRODUCTION CAPACITIES OF SODIUM SILICATES

Source: Own compilation based on the IHS Markit data.



Sodium silicate production capacities in Europe are estimated at approx. 1.2 million tonnes per year. However, majority of these capacities is used by producers, who in general do not offer silicates on the free market. European production capacities are located in Western and Central Europe. PQ and BASF concerns as well as the CIECH Group, are European leaders in silicates production. Our Group's share in total production capacities in Europe is estimated at about 14% for glassy sodium silicate (third largest producer).

Total demand for sodium silicates in Europe, at the free market, is estimated at more than 400 million tonnes per year, and has recently grown at an average annual rate of a few percent (CAGR of 3.9%). A segment with a much higher than average growth rate is the production of precipitated silica, although due to its consumption mainly in the tyre industry, the recent downturn in the automotive sector will most likely translate into a slowdown in this growth rate.

The CIECH Group, owing to investments in the expansion of capacity in previous years, has been strengthening its position on the free market of sodium silicates. We estimate our share in sales of silicates in Europe at approx. 35%.

Potassium silicates

Potassium silicates (in the form of glassy silicates or potassium water glass) are used as a raw material in the production of plaster and facade paints for construction, welding (production of electrodes), production of detergents, molecular sieves, fertilisers and crop protection chemicals.

The European market for potassium silicate is a mature market with a small growth rate of around 1% per year. The growth of this area is positively affected by segments which are growing at above-average rates: the market for speciality detergents in liquid form and the market of molecular sieves (used for gas cleaning in various chemical processes). There are several glassy potassium silicates producers in the European market, with Van Baerle and PQ holding the dominant market share. We estimate that the production capacity in Europe is around 60 thousand tonnes per annum, including CIECH Group's capacity in CIECH Vitrosilicon of up to 3 thousand tonnes per year.

FIGURE 31: APPLICATION SEGMENTS OF POTASSIUM SILICATES IN EUROPE



Source: Own compilation based on the IHS Markit data.

Glass products (decorative lanterns, jars)

Glass products manufactured by CIECH Vitrosilicon are intended for niche markets: decorative lanterns are used to manufacture vigil lights; COMFORT-type jars with clamp lids and – in small volumes – twist-off jars are to be used for food products.

Decorative lanterns

Vigil lights are the products used mainly in Poland and in some Central European countries. Consequently, activity of the CIECH Group in this respect is focused on the domestic market. The demand for vigil lights is related to the tradition of visiting cemeteries, and sales are performed mainly around 1 November every year. Supplies of lanterns used in the production of vigil lights are delivered earlier, mainly in the second and third quarter of a year.

In Poland, there are only few producers of decorative lanterns (glass-works). At the same time, complete vigil lights are manufactured by about 300 companies that usually buy lanterns directly from producers. Major producers of decorative lanterns are: CIECH Vitrosilicon S.A. in Iłowa and HS Sława S.P. in Kielce.

The domestic market of decorative lanterns is estimated at about 200 million pieces per year. The CIECH Group, through CIECH Vitrosilicon S.A. has been without any doubt a leader of this market for many years. Key advantages of the leader include: production potential and a wide and differentiated product range.

The market for glass lanterns is very mature and no increase in demand is expected.

Jars

CIECH Vitrosilicon specialises in the manufacture of COMFORT-type jars with glass lids and fastening clasps, used on niche markets (for storage of bulk products and products that do not require pasteurisation). The CIECH Group is the only producer of such jars, and sales are targeted at the domestic market and to foreign markets (approx. 15%). Competitive products on the Polish market are imported from Germany, China and Italy. The domestic market of Comfort-type jars is estimated by the CIECH Group at about 3.2 million pieces per year. The Group with a share of more than 20% is the third supplier on this market.



CIECH GROUP'S STRATEGY
AND DEVELOPMENT CONDITIONS

3 CIECH GROUP'S STRATEGY AND DEVELOPMENT CONDITIONS

3.1 CIECH GROUP STRATEGY FOR 2019-2021

The Management Board of CIECH S.A. carries out an on-going analysis of the market environment and identifies innovative solutions aimed at the building of the CIECH Group's value. Therefore, the Management Board presented an update of the CIECH Group strategy for 2019-2021, approved by a resolution of the Supervisory Board on 5 December 2018.

According to the adopted document, the strategic objective is to maximise the CIECH Group's value, primarily by increasing competitive advantages in the key soda business, continuous improvement of customer service, further investing in the development of specialist businesses in other segments, intensive use of innovations and the effects of R&D efforts to increase production efficiency and expand the product portfolio and value creation through changes in the asset portfolio.

The CIECH Group's visions and ambition is to create real value for all stakeholders.

FIGURE 32: VISION AND AMBITIONS OF THE CIECH GROUP FOR 2019-2021



Objectives set in the CIECH Group's strategy will implemented through:

TABLE 2: IMPLEMENTATION OF STRATEGIC OBJECTIVES FOR 2019-2021

 <p>Soda segment</p>	<p>Increasing the efficiency of the soda business, which will translate into an increase in customer satisfaction and enable the Group to increase its share in the sodium bicarbonate market and to develop the salt business by, among other things:</p> <ul style="list-style-type: none"> • increasing production capacity of sodium bicarbonate and expanding the portfolio to include, among others, sodium bicarbonate for dialysis (soda), • a programme of continuous production efficiency improvement, also through modernisation in the area of energy (soda and salt), • a programme of increasing maintenance efficiency (soda and salt), • commencing production and sales of products from the new plant in Germany with capacity of 450 thousand tonnes by 2021, which means +75% compared to the current capacity (salt),
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	<ul style="list-style-type: none"> • increasing the share of the Group's products in the specialist products market, including, among others, salt tablets, pharmaceutical salt and granulated salt (salt).
 Organic segment	Consistent strengthening of the market position in the organic segment through, among other things: <ul style="list-style-type: none"> • expanding the portfolio of active substances (increase by 40+) and new product registrations (increase by 200+) (crop protection chemicals), • strengthening the position on key markets, i.e. Poland and Spain, and developing sales on other markets (crop protection chemicals), • increasing the share of sales outside Poland to 40% (crop protection chemicals), • development of specialist products (resins), • maintaining current market position (foams).
 Silicates and Glass segment	Selective strengthening of the market position through, among other things: <ul style="list-style-type: none"> • taking advantage of the growing silicates market, • maintaining current market position in glass packaging.
 Organisational culture	The HR vision involves building an environment in which the best people can grow and create a culture of effectiveness, thus implementing the Group's strategy by: <ul style="list-style-type: none"> • building the best teams, • creating a culture of continuous efficiency improvement, • introducing state-of-the-art performance review and career planning tools.

3.2 STRATEGIC ACTIVITIES IN 2019

The CIECH Group has been continuously performing its strategic activities which impact the achievement of the financial objectives and the maximisation of the Group's goodwill.

In terms of the main segments of activities and other objectives set by the Group, it is necessary to mention the following activities carried out in 2019:

TABLE 3: ACTIVITIES OF THE CIECH GROUP IN 2019

 Soda segment	<ul style="list-style-type: none"> • Increase in the share of sales to end customers, • Development of logistics and post sales services. • Taking advantage of the economic upturn and effective relocation of volumes, which resulted in increased prices. • Relocation of sales towards higher-margin markets. • Expansion of sales on the Polish feed and food market (sodium bicarbonate). • Inter-segment diversification through introduction of new, highly processed products into the product portfolio – implementation of an investment in pharmaceutical-grade soda. • Flexible reactions to production constraints in CSR (sodium carbonate) and CSP (sodium carbonate and bicarbonate), active management of volumes between locations allowed to maintain continuity of supply to sensitive customers. • All these efforts are somewhat overshadowed by the situation of the Romanian plant affected by the mining disaster at CET's Alunu lignite mine which triggered a series of events with the final decision to hibernate CSR. • Improvement in salt-related logistics through the construction of a high-storage warehouse. • Expansion of the salt product range – licks and salt granules.
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Organic
segment

- Development of strategy of product portfolio expansion in the R&D – AGRO area.
- Expansion of the existing product portfolio, a significant investment supporting the development of the CHWASTOX brand – obtaining full registration for all cereal crops in Poland, a significant extension of the registration in the field of weed control, essential for complete protection.
- New strategy to reach key markets: CIECH Proplan SOLUCIONES in Spain, NEW AGRICULTURE SCOPE in Poland; new structure and division of markets in the Export Department.
- Intense advertising campaigns in the Distribution Channel, targeted at the end customers, i.e. farmers – supported by innovative loyalty programs.
- Intensification of new product registrations in Poland (another 5 products based on active substances not offered by CIECH before), several registrations on the very promising market in Romania, several new registrations in Spain and Mediterranean countries.
- Close cooperation with suppliers of key substances and components in the most important markets in China and India.
- Dynamic development of the R&D Department, obtaining GLP certificate for the CIECH R&D laboratory in Warsaw.
- In the first quarter of 2019, SaniGel®, a sanitary gelcoat, was released on the Polish market, enabling the production of high quality sanitary products, such as washbasins, shower trays and bathtubs. In less than a year since the start of sales, the new product has been so popular with customers that an increase in production capacity is being considered.
- Increasing the production capacity of PUR foams, as well as elimination of production bottlenecks as a result of completion of a long block warehouse.
- Implementation of OEKO-TEX® standard 100 class 1 certification and process of STeP by OEKO-TEX® certification (final stage) to consolidate the strong market position in the PUR foam industry.



Silicates and
Glass segment

- Expanding the range of liquid silicates with new products dedicated to specialist applications: VITROCER, VITROTECH and VITROAGRO.



Optimisation and
development

- Continued development of the R&D area to support the development of products being a response to growing needs of the market. The CIECH Group also implements a number of R&D projects aimed at, among others, improving the efficiency of plants.

3.3 DEVELOPMENT PROSPECTS

The prospects for CIECH S.A.'s and the CIECH Group's development result both from its market position and position in the chemical industry as well as the present and the forecast conditions of environment of the Group in Poland and worldwide. Key development prospects of the CIECH Group and CIECH S.A. in individual segments of its operations are discussed below. More information about market factors affecting the CIECH S.A.'s and CIECH Group's operations is provided in Chapter II of this report: External environment.

The most important economic factors in the environment of CIECH S.A. and the CIECH Group include:

- situation on consumer markets of the CIECH Group – including the glass packaging sector, furniture sector, automotive sector, plastics sector, chemicals and chemical products sector, agricultural sector and construction sector,
- level of economic activities in Europe – growth rate of the EU industrial production, domestic demand,
- market conditions – including conditions on the raw material market and currency situation,
- European and global economy situation, in particular, the direction of the Chinese economy GDP's changes being difficult to foresee,
- legal and regulatory environment.

TABLE 4: DEVELOPMENT PROSPECTS OF THE CIECH GROUP AND CIECH S.A. IN INDIVIDUAL BUSINESS SEGMENTS

Soda segment

Sodium carbonate	
Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none"> • More than ten percent increase in exports of Turkish soda to Western Europe in 2019. • Lifting anti-dumping duties in India on goods of American, Chinese, Russian and Turkish origin. • A slight increase in exports of Chinese soda in 2019, mainly aimed at the Indian Subcontinent and Africa. • Moderate increase in global demand. • Weakening demand for new cars, resulting in lower demand for flat glass from the automotive sector. • Recycling of packaging glass (the threat of decreasing demand for soda in the production of glass packaging). • Decreasing demand for washing powder in favour of liquid detergents (resulting in a decrease in the consumption of soda in the detergent industry). • Growing demands for the energy efficiency of buildings that can be satisfied through, among others, improved insulation in newly-built houses (increased consumption of glass wool). 	<ul style="list-style-type: none"> • Maintaining the presence in key European markets (Europe CEE) despite strong competition. • Significant reduction of sales on the Indian market due to the erosion of prices caused by the lifting of anti-dumping duties on US, Chinese, Turkish and Russian producers and the commissioning of new capacities by RSPL. • Intensification of sales on the domestic market, mainly due to the expansion of glassworks in Poland. • Intensification of sales on prospective markets (Egypt, Bangladesh, Oman, Myanmar) until the termination of the contract for supply of process steam by CET Govora. • Consistent relocation of sales towards higher-margin markets (a significant reduction in sales to the UK and France). • Consistent development of direct sales. • Further increase in the share of carriage management as an integral service function. • Building strong, long-term relationships with key customers.

Sodium bicarbonate

Key trends in the market environment

- Strong competition in the feed segment with cheaper products imported mainly from Turkey, Bosnia and Russia.
- Solvay announces that it will launch production of sodium bicarbonate in Devnya (Bulgaria) in 2020 with a production capacity of 200 tt.
- The market is changing, the demand is increasing and, at the same time, the production capacity is growing.
- Global megatrends supporting the increasing demand for sodium bicarbonate:
 - ✓ Increased availability of treatment through hemodialysis and the resulting increase in demand for soda used for this purpose.
 - ✓ Improving health care in developing countries – increased consumption of soda used in the pharmaceutical industry.
 - ✓ Growing regulatory requirements in the area of environmental protection – a major increase in usage of consumption for fumes desulphurisation is expected.
 - ✓ Global population growth (mainly Asia and Africa) accelerating the rate of food consumption – increased consumption of soda used in the food industry.
 - ✓ Discontinuation of the quota system for milk production in the EU (since 2015) resulting in an increase in milk production and potentially increased consumption of soda in feed.

Strategic activities of the CIECH Group

- Expansion of the portfolio towards more processed products, specialised products and products that fit in with the trends related to environmental protection and demographic changes.
- Concentration of operations in key markets.
- Implementation of sales strategy focused on the supply of higher grades of sodium bicarbonate to customers in the pharmaceutical sector.
- Intensification of sales of food, feed and pharmaceutical soda.
- Consistent development of direct sales.
- Further increase in carriage management as an integral service function.

Evaporated salt

Key trends in the market environment

- Apparent increase in demand for specialist products of the salt industry – salt tablets, salt of pharmacological purity grade used in the pharmaceutical sector, salt for the food industry and for direct consumption (e.g. with low sodium content).
- Growing awareness of the need to improve water quality – an increase in demand for salt tablets from the industry, hospitals and similar institutions and households.
- Growing market of salt for feed and salt licks – development of agriculture in the country.
- Moderate increase in European and global demand for salt.
- Decreasing importance of rock salt with increasing importance of evaporated salt in the European industry

Strategic activities of the CIECH Group

- Launch of a project to build an evaporated salt production plant in Germany (production capacity of around 450,000 tonnes of salt per year).
- Expansion of the offer in the direction of specialty products within the dry salt portfolio – new directions of sales of existing products.

Organic segment

Crop protection products

Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none">• Despite the cyclical weather extremes, the market for crop protection products in Poland has been growing steadily over the last 10 years, by far more than 5% annually on average. Markets in Western Europe are stable, whereas growth rates in Central and Eastern Europe are similar to those in Poland.• Changes in the regulations concerning registration, production and sale of crop protection chemicals.• Consolidation and professionalisation of farms in Poland.• Turmoil in global markets due to political uncertainty and military conflicts, the emergence of epidemiological threats and new policies in key countries (e.g. “Blue Sky” in China).• Consolidation of companies in the crop protection chemicals industry on a global level - implications for local businesses and turmoil associated with divestment of products.	<ul style="list-style-type: none">• The CIECH Group is intensively expanding its product portfolio in key markets. In line with the expansion of the portfolio, marketing and sales activities are being intensified.• Anticipating and monitoring changes, taking appropriate steps and mitigating potential constraints on the AGRO product portfolio.• The CIECH Group has been implementing state-of-the-art tools to support its sales team, ensuring the capability to provide better services to customers in the distribution channel and to farmers.• The CIECH Group's activities are aimed at direct access to manufacturers of key substances and components; taking advantage of opportunities for its own MCPA production, consolidating its position on markets where it is present and entering new markets.• Monitoring the market situation, identifying and negotiating potential business partnerships.

Resins

Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none">• Low demand and oversupply of resins from Asia determines low transaction prices and prices of epoxy resins. The majority of market prices on the continent, dictated by competitors in the commodity segment, are below CIECH's profitability threshold.• Increased ER (epoxy resins) production capacity – in 2019, 167,000 tonnes of epoxy production capacity was added in Asia, which contributed to increased supply and availability of this group of resins on the global market.• Crisis in the automotive, marine, construction and white goods industries. Developments reported mainly in the coating industry, price pressure and a price war between major European suppliers of powder coating resins to gain volume.• High demand for unsaturated polyester resins for composites. Unstable and unpredictable fluctuations in the prices of petroleum-based raw materials prompted composite manufacturers to focus on unsaturated polyester resins.• Slowdown of global economic growth in 2019 to 3.2% (vs. 3.8% and 3.6% in 2017 and 2018 respectively) – according to the IMF.• The growth continues to be driven by specialty resins.	<ul style="list-style-type: none">• Focus in the ER (epoxy resins) area on promoting specialty products such as EPIDIAN® FLOOR epoxy floors and a unique resin for decorative applications – EPIDIAN® DECO.• Focus on the development and implementation of specialist products in high-demand areas such as the sanitary industry.• Exploiting the high demand and achieving objectives in the area of unsaturated polyester resins.

Foams

Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none">• Direct dependence of demand for flexible polyurethane foams on the situation in industries that are the biggest consumers of the product i.e. furniture and automotive industries.• Significant increase in the availability of strategic raw materials – a slowdown in the upward trend in prices.	<ul style="list-style-type: none">• Enhancing cooperation with existing customers and searching for new prospective customers.• Optimisation of the product portfolio.• Increasing the efficiency of processes and logistics in the plant.• Reducing production costs and increasing feedstock supply security.• Diversification of components used for foam production – greater fragmentation of suppliers in order to maintain or reduce satisfactory prices of raw materials used.

Silicates and Glass segment

Glass products, silicates, water glass

Key trends in the market environment	Strategic activities of the CIECH Group
<ul style="list-style-type: none">• Moderate long-term increase in global demand for sodium silicates due to an increase in production of precipitated silica.• Growing global demand for the so-called green tires produced using precipitated silica manufactured from sodium silicates.• Growing demand for liquid detergents resulting in a decrease in the consumption of sodium silicates in this area.• Continuous trend of rich and diverse design of lanterns for vigil lights accompanied by a simultaneous increase in the share of sales of vigil lights by retail chains.• Persistently low level of sales prices of standard twist-off jars for the food processing market	<ul style="list-style-type: none">• Focusing on the use of new applications of silicates and development of high-margin products.• Continuous expansion of the range of lanterns for vigil lights, intensification of efforts aimed at obtaining network contracts.

3.4 RISKS TO OPERATIONS

Risk management at the CIECH Group

The CIECH Group continues to develop the risk management system which constitutes a significant element in supporting its operations. This process aims at identifying, on an on-going basis, and reducing risks that may arise and introducing mechanisms to recognise, identify and properly manage various external risks affecting the future growth of the CIECH Group's value, so that they would be neutral to the implementation of strategic objectives.

The Risk Management System of the CIECH Group is an organised set of general principles and guidelines, defining how the risks to which the CIECH Group is exposed should be managed. The system determines the responsibility for the implementation of these principles in the CIECH Group. The objective of the system is to lay a foundation for introducing risk management methods, procedures, requirements and reports required for keeping the CIECH Chemical Group's risk at an acceptable level.

Risk management in the CIECH Group is an instrument that supports the Management Board and Supervisory Board of CIECH S.A. in day-to-day management of the Group and monitoring the effectiveness of internal control and internal audit systems. Risk management objectives in the CIECH Group are implemented through:

- systematic approach to the identification of all risks,
- supporting the allocation of resources by setting priorities for risks,
- selection and implementation of the best risk management strategy,
- risk monitoring, analysis and reporting that take into account all potential effects of existing risks.

TABLE 5: LIST OF THE MOST SIGNIFICANT RISKS RELATED TO THE FUNCTIONING OF THE GROUP

Operational risks

Risk related to the availability of raw materials

In order to maintain the continuity of manufacturing processes at the CIECH Group's production plants, it is vital to ensure the availability of necessary raw materials. For some areas of operations of the Group's plants there is a limited number of suppliers for key raw materials. Interruptions in supplies, delays or unavailability of these raw materials can lead to interruptions in production processes. For this reason, the CIECH Group is particularly committed to ensuring a continuous and timely supply of raw materials that additionally must meet high quality requirements.

As regards the sourcing of raw materials for the key area of the CIECH SA Group's operations, i.e. for the soda and salt segment, the basic raw materials, namely limestone and brine (necessary for the production of soda using the Solvay method), are sourced locally from reliable suppliers with whom the Group has cooperated for many years on the basis of long-term contracts. Some production plants of the CIECH Group, in particular those manufacturing soda ash, are located in areas with a limited number of suppliers in the profitable radius. For this reason, having long-term contracts with these suppliers is essential to ensure continuity of supplies of raw materials. Energy commodities necessary for production processes are also sourced under long-term contracts. Key terms of the supply contracts, such as price and quality, are generally flexible and can be modified under certain circumstances to better reflect current business conditions. However, there is no guarantee that this flexibility will be sufficient to adapt the contracts to current business conditions in a way acceptable for the Group, which could have negative impact on the Group's operating activity and financial situation.

Last year, the CIECH Group was forced to suspend soda production at its Romanian plant due to the termination of a contract for the supply of process steam by CET Govora, the sole available supplier of this raw material. The new price proposed by the supplier, which is approx. 135% higher than in 2018, makes it impossible for CIECH Soda Romania S.A. to run a profitable business. Based on the analyses performed, the Management Board of the CIECH Group decided to suspend soda production at the plant in Romania. At the same time, since this decision was made, i.e. since September 2019, the CIECH Group has been working on providing the Romanian plant with supplies of raw materials necessary for the technological process which will allow for the resumption of profitable production.

Another factor that may hamper the availability of raw materials necessary for production processes are the existing difficulties in the transport of bulk raw materials related to limited availability of rolling stock and limitations in connection with ongoing infrastructure repairs.

The risk is estimated to be moderate. The risk occurred in the case of a manufacturing plant in Romania, as a result of which the production of soda in that plant was suspended until further notice.

Risk mitigation methods

In order to reduce the risk of availability of raw materials, the CIECH Group should primarily, where possible and economically justified, become independent of external suppliers. To this end, the Group constantly seeks alternative ways to purchase raw materials and improve its negotiating position towards current suppliers as a large and reliable business partner. With regard to the materialized risk for the soda plant in Romania, the CIECH Group is exploring and analysing possible solutions to make the plant completely independent from an external steam supplier.

In the case of power coal, the Group seeks to enter into long-term contracts, as a way to mitigate this risk. For coke, the Group partially replaces this raw material with anthracite. The CIECH Group actively utilises its own transport capacity in order to minimise the risk related to the availability of rail transport and analyses, on an ongoing basis, the needs for availability and capacity to store raw materials in a manner that ensures their availability and continuity of production processes.

Operational risks

Risk of breakdowns and unplanned stoppages

It is essential for the CIECH Group to ensure continuity of production processes. Manufacturing operations of the CIECH Group companies may be interrupted or disrupted by a number of risk factors, such as unauthorized physical access to facilities related to technological processes or office premises (where data relevant to the organisation's operations are processed), criminal activity (including malpractice, fraud, corruption) of employees and persons from outside the organisation, damage to or serious failures of equipment, structures (including construction disasters), production systems, as a result of atmospheric threats, breakdowns (domino effect), decisions of external supervisory authorities (including Technical Inspection Office, Rail Transport Office, County Building Inspection Authority, National Labour Inspectorate, County Sanitary Inspector, Tax Inspection Office), accidents.

Each occurrence of these factors leads to unplanned downtime and failure of key production infrastructure which results in the inability to implement the assumed production plans and in financial losses for the Group.

The risk of failure and unplanned downtime may materialize both as a result of internal factors and actions of employees, which the Group manages on an ongoing basis, and as a result of external factors beyond the Group's control resulting from the environment of production facilities or administrative decisions.

The risk is estimated to be moderate

Risk mitigation methods

With respect to internal risk factors related to failures and unplanned downtime, the Group takes a number of initiatives aimed at building employee awareness concerning physical security as well as occupational health and safety, and executes projects aimed at minimizing and eliminating unplanned downtime and failures. In the case of external factors beyond the Group's control, the manner of mitigating the risk of failure and unplanned downtime is to monitor the Group's business environment on an ongoing basis and take preventive measures to minimise the effects of risk materialisation. In order to effectively and efficiently manage the risk, regardless of whether the risk is caused by internal or external factors, the Group has launched coordinated efforts to build a comprehensive Business Continuity Management System, to implement an Asset Management System, in particular covering the production infrastructure, and an Occupational Health and Safety Management System. The Group is currently at the stage of implementing these arrangements, and the effects resulting from the establishment and implementation of these arrangements will be visible and measurable for the Group and its production plants in the coming years.

Risk of failure to retain or attract staff to the CIECH Group

Over the last few years, the labour market has been an employee market. The consequence of this is a high likelihood of losing key employees in various areas. This applies equally to the managerial, technical and administrative areas. Companies are more and more frequently experiencing a lack of opportunities to attract employees. In particular, the problem is intensifying with regard to employees who are qualified specialists in their fields and have unique skills and experience in a given industry. The CIECH Group also encounters similar problems that may affect its operations.

The unique nature of the CIECH Group's operations and its development plans require hiring personnel with high qualifications in various domains. Ability to maintain a competitive position and implementation of business strategy depends significantly on the quality and the experience of staff. The loss of competences important for the CIECH Group or impossibility to acquire them has an effect on operating activities and may translate into the financial condition of the Group, making it impossible to achieve the business and financial objectives set for the CIECH Group.

The risk is estimated to be moderate

Risk mitigation methods

Due to the relatively high costs of acquiring personnel with desired competences and skills, the search for employees having appropriate experience constitutes an element of an ongoing policy of the CIECH Group. In order to minimize the effects of the risk of loss or inability to attract qualified personnel, the Group continuously improves its managerial, technical and administrative staff. In addition, the Group has implemented mechanisms to improve working and pay conditions, prepares and implements development and incentive programmes, and provides employees with a range of training courses to improve their expertise in line with the Group's business needs and the expectations of employees at various levels in the organisation.

Operational risks

An essential element of personnel policy of the company is to build the image of the CIECH Group as an attractive employer for young, educated and ambitious people. Therefore, the Group cooperates with selected universities and conducts, every year, apprenticeships and traineeships projects in the Group companies.

Risk of personnel disputes

As at 31 December 2019, the CIECH Group employed 3,705 persons, 60% of whom belongs to trade unions. Therefore, the risk of personnel disputes or long-term negotiations, conducted with the employer by trade union organisations to influence the employer, cannot be ruled out.

The risk is estimated to be low

Risk mitigation methods

The CIECH Group companies take a number of measures to maintain good relations with trade unions, such as various agreements with trade unions in place at the Group companies. The Management Board of the Group and the Company maintains a continuous dialogue with employees and trade unions in a spirit of cooperation and mutual trust.

Business risks

Risk of oversupply and decrease in prices of soda resulting from strong price competition and downturn in the glass production segment

The growing price competition from existing and new domestic and foreign producers may occur on the main markets and in industries in which the Group operates, especially in a group of customers with more than one supplier of sodium carbonate. The competition within the chemical industry depends on local market dynamics and varies significantly depending on specific product and its use. In addition, the competition depends on many factors, including: demand, product prices, stability of supply, relevant production capacity, customer service quality, product quality, and availability of substitutes.

As regards the soda segment, after the entry of new volumes from the Turkish project, the CIECH Group continues to identify the possibility of increasing the activity of trading companies in the area of our operations, which has so far been only moderately affected by the new supply – i.e. Poland and Germany – and thus triggering greater price pressure in view of the fact that CIECH S.A. has increased its prices in contracting for 2020. This may be amplified by the indirect competition of Western European producers moving eastwards - looking for a way out for volumes as part of market balancing.

The risk is estimated to be high

Risk mitigation methods

In the face of intensifying competition and weakening economic situation in the segments that consume sodium carbonate, the CIECH Group has been taking active steps to develop the soda segment by: active management of customer portfolio, geographical sales directions, applications in which we locate products, improvement of production processes efficiency, as well as strengthening customer relations and development of services.

These actions allow the CIECH Group to compete against other soda manufacturers in Europe in an effective manner. In addition, developments in China, the world's largest soda industry, involving a significant reduction in capacity expansion and production restrictions linked to the Blue Sky policy and the considerable economic unpredictability of the region, should have a positive impact on the global balance of supply and demand.

Economic risk

The CIECH Group business is based on the sales of chemical products used as raw materials and semi-finished goods in a wide range of industries, including the glass, household chemistry, furniture, automotive, construction, food, pharmaceutical, chemical and consumer goods industries. The demand for the CIECH Group customers' products is affected by global economic conditions and other factors, including conditions in the construction, automotive and packaging industries, the costs of labour and the energy costs, the exchange rates fluctuations, the interest rate fluctuations, and other factors beyond control of the Group.

The key area of the CIECH Group's operations, generating a significant part of its revenue, comprises the sales of soda and organic products, where the prices are cyclical and sensitive to changes in the supply and demand, the availability and price of raw materials, the general economic conditions, and other factors that are beyond control of the CIECH Group. These industries are characterised by periods of increased demand, leading to high operating profits and margins,

Business risks

followed by periods of oversupply resulting primarily from significant production capacity increases or a decreased demand, leading, in turn, to reduced profits and margins.

Other areas of the CIECH Group's activity, including epoxy resins used mainly in the construction and paint industry, are also affected by cyclicity. They also experience periods of increased demand combined with rising prices and margins and lower demand resulting in oversupply and falling prices and margins. The demand for epoxy resins is closely linked to the demand for end-use products of paint, construction and electronic industries, which, in turn, depends on the overall economic situation. The cyclicity may affect the prices of the CIECH Group's products and may negatively impact the Group's operating activity and financial standing.

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

The risk is estimated to be moderate

Risk mitigation methods

The CIECH Group seeks to minimise the risk by monitoring the economic situation on the Polish, European and global market. It keeps track of important developments and circumstances that may affect the Group's operations and takes action on an ongoing basis to reduce the potential negative effects of economic changes affecting its own operations and operations of its key customers. The objectives set forth in the Group's new Strategy, such as increasing the share of non-soda products in the Group's EBITDA (A), are also aimed at minimising this risk.

Risk of changes in market prices of raw materials

One of the key factors affecting the viability of production of the CIECH Group companies are the fluctuations of raw material and fuel costs, inability to retain or replace key suppliers, unexpected supply shortages or supply chain disruptions. Obtaining and maintaining attractive prices of production and energy raw materials directly affects the profit generated by the Group and is key to achieving the goals set for the Group.

Over the last few years, we have witnessed a high volatility of raw material prices. The availability and prices of raw materials are influenced by factors that mostly are beyond the CIECH Group's control, such as market conditions, general global economic prospects, production constraints by the suppliers, fluctuations of oil or other commodity prices, infrastructure failures, political conditions, weather conditions, legal regulations and other. It should also be noted that fluctuations in prices of key energy raw materials consumed by the CIECH Group in its day-to-day operations, in particular coal and coke, are caused by global trends and efforts to replace them with renewable energy sources. This means that in the long term traditional energy resources will inevitably be abandoned and replaced by alternative energy sources. Active substances, sourced mainly from Asian suppliers, forming the basis for operations of the CIECH Group's agro segment, may be subject to future sanctions and restrictions resulting from their adverse environmental impact during their manufacture. As suppliers of these substances (mainly from China) are increasingly concerned about the environment, this can lead to higher prices or reduced production of these substances. For the CIECH Group, this will mean reduced availability of active substances and increased prices. These trends will not materialise over the next 2-3 years, but in the long run, one can expect these unfavourable developments to occur.

In 2019, coal prices on the world market followed a downward trend, as opposed to the prices of coal produced in Poland whose prices continued to increase slightly. Thermal coal is used to produce steam and electricity at CIECH Soda Polska S.A.'s plants in Janikowo and Inowrocław. At the same time, market prices of coke remained relatively high in 2019, what made the purchase price of this raw material for production plants in Poland, Romania and Germany higher. At the end of 2019 a downward trend could be observed, which should continue in 2020.

The risk is estimated to be moderate

Risk mitigation methods

The CIECH Group minimises the risks described above by monitoring the situation on the market, negotiating conditions for subsequent periods with its current suppliers and signing long-term contracts, as well as by looking for alternative suppliers. Proactive efforts are made to minimise the adverse effects of increases in raw material prices, by, among other

Business risks

measures, using alternative specifications of raw materials (using anthracite as a cheaper substitute for coal), searching for new sources of supply or by replacing more expensive raw materials with raw materials that are relatively less expensive.

All measures taken aim at limiting the impact of the increase in prices of strategic raw materials on the performance of this segment of the CIECH Group.

Risk of strong price competition from large corporations and Far East producers in the area of crop protection products

The market for crop protection products is highly competitive, with a dominant position of large chemical corporations. The consolidation of both large producers and distributors, which has been witnessed for several years and is still progressing, means that large players benefit from the economies of scale and offer their own products at prices lower than the CIECH Group. In addition, large players offer their products on multiple markets, based on the registrations held. Regulatory changes taking place in this area of the market are an additional driver of its competitiveness (registration processes or prohibitions on the use of certain substances in a specific area).

The risk is estimated to be moderate

Risk mitigation methods

The CIECH Group conducts ongoing development activities in the area of crop protection products through the registration of new active substances, new products, strategic alliances with other companies with respect to access to active substances, as well as entering new geographical markets using the process of zonal registrations. All the measures taken are aimed at expanding the market offering in the area of crop protection products and increasing the competitiveness of the CIECH Group's product range in this business segment.

Risk of climate change resulting in reduced demand for crop protection products

Due to the global climate changes that have been taking place for several years (global warming, long-term droughts, natural disasters), the demand for crop protection products from the CIECH Group's product portfolio is changing. Demand for individual products becomes less predictable due to repeated extreme conditions such as water shortages, significant temperature variations. As a result of long-term climate changes, crops are reduced or discontinued in some parts of the world, which in turn translates into lower demand for crop protection products manufactured by the CIECH Group. It should also be noted that changing weather conditions have a delayed effect on operating results, as the CIECH Group sells products to distributors who, having excessive stocks after bad vegetation period, are interested in a lower number of orders for the following period.

The risk is estimated to be moderate

Risk mitigation methods

In order to mitigate the adverse effects of the risk of climate change and the associated reduction in demand for crop protection products from the CIECH Group's current customers, the Group has launched initiatives aimed at geographical diversification of its customers, trying to spread the sales of crop protection products to customers operating both in the northern and southern hemispheres. The benefits and effects of the measures taken, in view of the need to carry out long-lasting registration processes for crop protection products, will be visible as late as in the next few years (also assuming that unfavourable climatic changes in the coming years will not additionally reduce customer demand for crop protection chemicals).

Financial risks

Risk related to tax settlements

Regulations on corporate and personal income tax, value added tax, social security contributions and other taxes are subject to frequent changes in Poland. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses. In addition, over the past few years there have been changes in tax authorities' interpretations, despite the same regulations in force and after years of their application. Tax settlements are subject to inspection by bodies which are authorised to impose high penalties and fines, and any additional tax liabilities arising from such

Financial risks

inspections need to be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems. The amounts presented and disclosed in the CIECH Group's financial statements may therefore increase as a result of current and future tax inspections.

The Group recognises and measures current and deferred tax assets and liabilities in compliance with the requirements of IAS 12 Income Taxes, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the assessed uncertainty related to tax settlements. Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Group discloses such settlement taking into consideration the assessed uncertainty.

What is more, the lack of stability in the Polish tax regulations may hinder the ability for effective future planning and implementation of the business plan according to the assumptions and an increase in the tax expense may have a material adverse effect on the Group's further growth.

The risk was estimated as moderate to high for some of the pending disputes with the tax authorities and moderate for other matters.

Risk mitigation methods

The Group constantly monitors changes in the law and potential tax risks, taking steps to eliminate them or to reduce them substantially through a constant cooperation with reputable tax advisors and by official inquiries to the tax authorities.

Foreign exchange risk

Due to the nature of its core business, the CIECH Group is subject to currency exposure related to the significant lead of export over import. The exposure value is also affected by investment projects implemented in foreign currencies and the currency structure of external financing. Sources of currency risk to which the Group companies are exposed include: product sale, purchases (raw materials, expenditure on investment projects), loans raised and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the Group's financial results. Fluctuations in the foreign exchange rates may also significantly affect the comparability of the Group's results between the periods.

The CIECH Group's main source of exposure to foreign currency risk is related to EUR and USD. The estimated exposure to the currency exchange risk in EUR (excluding SDC Group and Proplan) amounted to EUR -253.3 million, EUR -250.5 million and EUR -152 million, as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively; in USD: USD 16.1 million, USD -18.1 million and USD -2.5 million, as at 31 December 2017, 31 December 2018 and 31 December 2019 respectively.

The risk is estimated to be moderate

Risk mitigation methods

The CIECH Group aims to naturally hedge its foreign currency exposure, including matching cash flows in given currencies resulting from sales and purchases and denomination of debts in certain currencies, in order to adjust it to the expected exposure to foreign currency risk in operating and investing activities. Moreover, the Group hedges a portion of its foreign currency exposure using derivative instruments. The Group has introduced a uniform market risk management strategy, covering, among other aspects, the currency risk management.

Risk associated with debt financing

The Group finances its activities, to a large extent, with interest-bearing debt, i.e. with loans, finance leases. As at 31 December 2019, the debt on this account amounted to approximately PLN 1,789 million.

The CIECH Group's ability to service the debt in a timely manner depends, among other factors, on future operating activities and the ability to generate sufficiently high cash flows. In the absence of sufficient funds to service the debt, the Group may be forced to limit or postpone business activities and capital expenditures, sell assets, contract additional debt or equity financing and restructure or refinance all or part of the debt.

Debt financing conditions contain obliging clauses and covenants. Where these clauses or covenants are violated and the effects of such violations are not remedied, the Group may be required to immediately repay the debt or a portion thereof. Restrictions contained in financing agreements may also limit the Group's ability to finance future operations and own cash requirements, to implement business undertakings.

Financial risks

Despite the above restrictions, CIECH S.A. and Group companies are able to contract significant amounts of additional debt. Increasing the value of debt may significantly increase the risk associated with the use of financial leverage.

The risk is estimated to be moderate

Risk mitigation methods

As part of the financial planning processes, the CIECH Group analyses and monitors, on a regular basis, the cash flows generated and its ability to maintain liquidity and service its debt.

The CIECH group aims at unifying the debt financing conditions, including the covenants applicable, to limit the risk of infringing these covenants. The observance of provisions of financing agreements and compliance with financial ratios set out therein is monitored on a regular basis. Debt financing is obtained in a controlled and coordinated manner at the Group level. The Group has implemented uniform rules for obtaining external financing in order to take into account the consolidated need for financing of the entire CIECH Group, take advantage of the economies of the scale, reduce financing costs and apply consistent limiting conditions.

When entering into agreements, in order to reduce the risk of infringement and ensure the highest possible flexibility of operating conditions, the Group aims at negotiating the most favourable provisions concerning conditions that limit the financing.

Risk of inability to service the current debt and maintain liquidity

The ability of the CIECH Group to make scheduled payments to repay the Group's debt as well as to finance working capital and capital expenditures depends on the future operating activities and the ability to generate sufficient amounts of cash. If the CIECH Group's future cash flows from operating activities and other capital resources prove insufficient to repay liabilities timely or to satisfy liquidity related requirements, the Group may be forced to:

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

The risk is estimated to be moderate

Risk mitigation methods

As part of the financial planning processes, the Group analyses and monitors the cash flows generated and its ability to maintain liquidity and service its debt. The Group's debt financing sources are diversified in terms of creditors and maturities.

Risk of increase in the debt level

The CIECH Group companies are able to contract significant amounts of additional debt. Increasing the value of debt may significantly increase the risk associated with the use of financial leverage.

The risk is estimated to be moderate

Risk mitigation methods

As part of the financial planning processes, the Group analyses and monitors the financial results, cash flows, rates of return on investments and ability to service new debt. The Group's debt financing sources are diversified in terms of creditors and maturities.

Risk of limited flexibility of operations due to restrictions resulting from financing agreements

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

Credit facility agreements to which the CIECH Group companies are parties limit, among others, the ability of the CIECH Group companies to:

- contract or guarantee additional debts and issue some preference shares,
 - establish certain pledges or incur liabilities secured by a pledge,
-

Financial risks

- make certain payments, including dividends or other profit distribution forms,
- encumber or restrict the payment of dividends or other forms of profit distribution, loans or advances and payments for the transfer of assets to such entity,
- sell, lease or transfer certain assets,
- consolidation or mergers with other entities,
- breach of security created to the benefit of the creditors.

As a result of non-compliance with financing agreements, the creditors may terminate the financing and call in all outstanding amounts.

The risk is estimated to be moderate

Risk mitigation methods

The observance of provisions of financing agreements and compliance with financial ratios set out therein is monitored by the Group. The Group aims at diversifying the financing sources and ensuring the most favourable provisions concerning conditions that limit the financing.

Risk of insufficient insurance coverage

The CIECH Group companies have insurance policies, concluded with international and local insurers, providing protection (with some restrictions with regard to the subject and substantive scope) against selected operational risks, including

- property insurance,
- loss of profits insurance,
- business liability insurance,
- product liability insurance,
- insurance of goods in transport,
- railway rolling stock and vehicles insurance,
- civil liability of company's officers and directors insurance,
- construction and assembly insurance,
- receivables insurance.

The types and amounts of insurance currently held by the CIECH Group companies are in compliance with customary practices in the chemical sector and are adequate to the type of their activities. The insurance held does not cover all potential risks related to scope of activities or other threats, for which the Group might be responsible. The policies are subject to standard deductions, exclusions and limitations, which can affect the possibility to notify claims.

The risk is estimated to be low

Risk mitigation methods

The Group cooperates with insurance brokers to assess whether the scope of insurance cover is appropriate to the Group's operations. The Group companies are subject to regular audits carried out with the insurers, aimed at updating the risk assessment.

Credit risk

The Group is exposed to credit risk of financial institutions connected with cash placed on bank accounts and deposits as well as transactions with financial institutions.

The risk is estimated to be low

Risk mitigation methods

In order to limit the credit risk of financial institutions the CIECH Group enters into transactions with high-rating banks with stable market position.

Financial risks

Risk related to trade credit

The CIECH Group is exposed to credit risk of its business partners connected with the credit rating of customers being parties to sales transactions of products and goods.

The risk is estimated to be low

The credit risk of the business partners is mitigated by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Group uses securities such as letters of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring). An important part of the credit activity is assessing the customers' creditworthiness and obtaining appropriate collateral from them, thus 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.

Interest rate risk

The costs of the Group's debt depend on the reference rate. This refers to loans, factoring and some lease contracts. There is a risk of an increase of the reference rate, which may lead to increased financial costs and deterioration of the CIECH Group's financial result.

The risk is estimated to be low

Risk mitigation methods

The interest rate risk is reduced by the assets owned by the CIECH Group (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions such as cross currency interest rate swaps or interest rate swaps.

Legal and regulatory risks

Risk related to the tightening of regulations concerning the use of the natural environment

Dynamic legal changes in the area of the environmental protection significantly impact the CIECH Group's activities.

The CIECH Group is a subject to very strict regulations, which may generate significant costs regarding compliance with the obligations resulting from the environmental protection regulations applicable to the CIECH Group's activities. CIECH Group's companies operate under the current permits regulating the manner and extent of use of the environment, comply with standards defined by law, in particular in the area of dust emissions, water and sewage management and waste management.

The CIECH Group's operations are significantly affected by the direction of the Energy and Climate Policy which provides for achieving zero net emissions by 2050 and requires individual member states to submit binding and increasingly ambitious measures, including tightening the emission limit by 2030 from 30% to at least 40% of greenhouse gas emission reductions in the entire economy compared to 1990. It should be noted that in 2019, the Industrial Transition Master Plans for energy-intensive EU industries were completed in order to implement the transition towards a climate neutral and circular economy. Therefore, it cannot be ruled out that this unfavourable direction of climate policy will result in additional costs for the purchase of free allowances.

The risk is estimated to be high.

Risk mitigation methods

The CIECH Group companies comply with standards defined by law. By introducing a uniform Environmental Policy, the CIECH Group strives to implement the best available industry practices.

Pursuant to provisions of Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions – IED, implemented in Polish law in 2014 and the adopted National Transitional Plan concerning the reduction of emissions of gaseous and particulate pollutants emitted in CHP plants in Janikowo and Inowrocław, the CIECH Group carried out the modernization of atmospheric protection equipment. It has been carrying out activities aimed at increasing the level of utilisation of raw materials in order to reduce direct CO₂ emissions, including the project of concentrating CO₂ emissions in soda production technology.

Legal and regulatory risks

Risk related to changes in regulations concerning registration of crop protection products on target markets

The CIECH Group makes every effort to ensure that the produced crop protection products (CPPs) comply with the legal requirements for testing, evaluation, registration and safety analysis, which entails additional costs with the uncertainty of availability and marketability of certain raw materials used in the manufacture of finished products in the area of crop protection products.

The production process is strongly regulated and requires compliance with, among others, the EU Regulation No 1907/2006 on Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) and Regulation EC 1107/2009 governing the process of registration of CPPs.

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

In the event of amendments to and entry into force of new laws and regulations, there is a risk for the CIECH Group concerning the unavailability and/or marketability of the raw materials used and products manufactured by the CIECH Group, lead to restriction or ban on their purchase or sale, or oblige the Group to incur increasing costs of fulfilling the requirements regarding registration, labelling and use of such products. Since some of the products manufactured by the CIECH Group are sold on markets on which proper classification is vital for legal requirements determined for such substances, it cannot be excluded that the Group's classification will be questioned or challenged. Any such factors may have negative impact on the CIECH Group's operating activities and financial situation.

EC Regulation No 1107/2009 concerning the placing of crop protection products on the market imposes an increasing number of requirements on entities who place crop protection products on the market. The scope of registration tests required for the registration of crop protection products keeps growing, resulting in the need to constantly increase research expenditure. Guidelines regarding the necessary product risk assessment concerning the impact on human or animal health and impact on environment and organisms living in this environment continue to change. Active substances used in crop protection products are cyclically assessed in terms of risk, which entails a re-evaluation of crop protection products on a given market.

The risk is estimated to be moderate

Risk mitigation methods

In order to reduce the risk, the Group continuously monitors changes in the applicable regulations and prepares market and business analyses, and develops registration plans based on these analyses. The aim is to correctly select the active substances for testing.

Risk associated with judicial proceedings or other non-judicial proceedings

The CIECH Group is exposed to an inseparable risk of susceptibility to diverse types of claims and legal proceedings resulting from cooperation with customers, counterparties, employees and other parties, as well as from the status of a public company listed on Warsaw Stock Exchange and on Frankfurt Stock Exchange. The risks derive from the restrictions and requirements to which public companies are subject in terms of trading rules, access to information, accounting and transactional transparency, etc. In relation to their activities and market position, the CIECH Group companies are subject to adversarial proceedings, including anti-trust proceedings that are a potential source of risk and can be detrimental to their interests if the final decision is unfavourable. In the future, the CIECH Group members may also become a party to legal proceedings regarding, among others, intellectual property rights, producer's liability, product guarantee, environmental or antitrust claims, or enter into settlements regarding legal proceedings and claims that may exert material adverse effect on their operating results which, however, applies equally to any other business entity.

The risk is estimated to be low

Risk mitigation methods

Legal and regulatory risks

The CIECH Group evaluates the existing mechanisms and introduces appropriate internal regulations aimed at eliminating or reducing this risk. In accordance with the accounting policy, provisions are created for such proceedings if it is highly probable that costs will be incurred and their amount may be reasonably assessed.

CIECH S.A., as a holding company managing the Group, is exposed to analogous risks to its operations.

3.5 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Equal concern for economic, social and environmental issues is an important element of the management strategy at the CIECH Group and CIECH S.A.



3.5.1 CSR IN THE CIECH GROUP

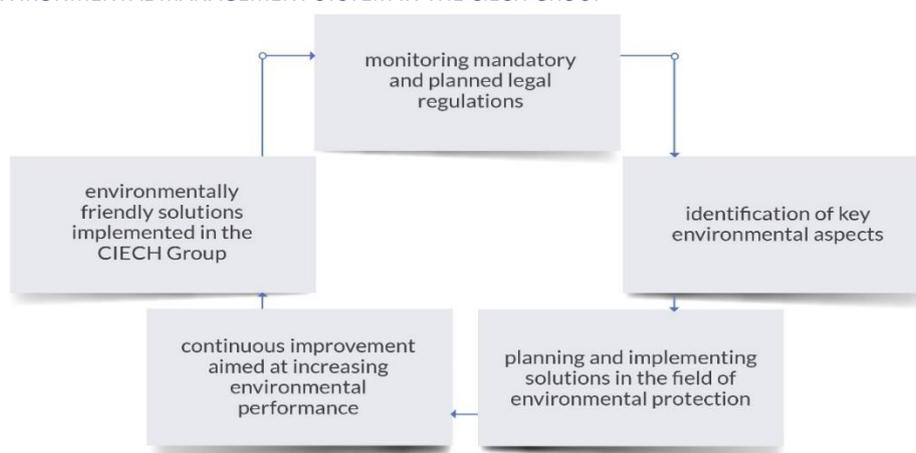
Information on corporate social responsibility was presented in detail in the **Non-financial Report of the CIECH Group for 2019**.

This report complements the data disclosed by the Group with environmental, social, employee and ethical issues. Key issues in the areas of environmental protection, sponsorship activities as well as research and development are presented below.

3.5.2 KEY ISSUES RELATED TO ENVIRONMENTAL PROTECTION

For the CIECH Group, an important issue in the area of environmental protection is maintaining the technology regime and high quality of products, but also minimising negative impact on the environment by limiting emission of pollution to the atmosphere, waters and soil, rational waste management and optimisation of energy consumption per one tonne of the output. Environmental issues are a priority for the CIECH Group, which was reflected in the development and implementation of a Uniform Environmental Policy in 2016. Pursuant to the Policy, all companies of the Group are required to comply with applicable environmental law regulations, reduce air emissions and the amount of wastes produced, utilize natural resources in a rational manner and combat climate changes through CO₂ reduction, and to maintain good social relations in communities where business activities are conducted.

FIGURE 33: ENVIRONMENTAL MANAGEMENT SYSTEM IN THE CIECH GROUP



During the last several years, the CIECH Group has implemented a number of investment projects in the soda segment to support the protection of atmosphere, including:

- reduction of dust emissions from the Group's CHP Plants by modernising ESPs,
- reduction of nitrogen oxide emissions from the Group's CHP Plants by constructing flue gas denitrification units,
- reduction of nitrogen dioxide emissions from the Group's CHP Plants by constructing flue gas desulfurisation units,
- a comprehensive modernisation of the dust removal system at the Lime Furnace Facility in Janikowo.

At present, the Group continues to carry out further projects in the scope of, among others, reduction of CO₂ emissions, reduction of energy consumption and reduction of noise emission.

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

The National Transitional Plan (PPK), applicable to plants that produce energy and steam (CHP plants), extended the deadline to adjust LCP (Large Combustion Plant) systems to new standards, until 30 June 2020 at the latest.

As of 1 July 2020, plants that produce energy and steam will be required to observe very restrictive emission standards for dust (20-25 mg/Nm³), sulphur oxides (200-250 mg/Nm³) and nitrogen oxides (200 mg/Nm³) emissions introduced for large combustion plans (LCP).

It should also be emphasized that in 2017 work on the so-called BAT Conclusions for LCP was completed. The installations have 4 years as of the entry of the BAT Conclusions into force to adapt to the requirements which are more stringent than those set in the IED Directive, i.e. for dust (15–20 mg/Nm³), sulphur oxides (130–200 mg/Nm³) and nitrogen oxides (150–180 mg/Nm³) emissions.

In the area of regulations on the emissions trading system, the ETS Directive has been revised, discussions have also started on the revision of the Carbon Leakage List, and there are plans to redefine benchmarks. The coming months will therefore be crucial for establishing the rules that will apply in the 4th accounting period, i.e. in the years 2021-2030.

Legal status of the use of the environment

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

TABLE 6: LIST OF INTEGRATED PERMITS HELD BY CIECH GROUP COMPANIES

Company	Permit for	Validity period
CIECH Soda Polska S.A. – Production Plant in Inowrocław	Integrated permit for installation to manufacture soda and soda derived products.	Indefinite
CIECH Soda Polska S.A. – Production Plant in Janikowo	Integrated permit for installation to manufacture soda and soda derived products.	Indefinite
CIECH Soda Polska S.A. – Power Plant in Inowrocław	Integrated permit for heat and power station’s installation (4 OP-110 boilers).	Indefinite
CIECH Soda Polska S.A. – Power Plant in Janikowo	Integrated permit for heat and power station’s installation (3 CKTI boilers and 2 OP-140 boilers).	Indefinite
CIECH Soda Deutschland GmbH & Co. KG	Integrated permit for installations to manufacture light and dense sodium carbonate, and sodium bicarbonate.	Indefinite
CIECH Energy Deutschland GmbH	Integrated permit for heat and power station’s installation.	Indefinite
CIECH Soda Romania S.A.	Integrated permit for installation to manufacture sodium carbonate.	12.09.2022
CIECH Sarzyna S.A.	Integrated permit for installations to manufacture unsaturated and saturated polyester resins, epoxy resins, curing agents for epoxy resins, phenol-formaldehyde resins, Flodur and crop protection products (MCPA and MCPP and esters from the esterification of phenoxyacids).	Indefinite
CIECH Vitrosilicon S.A. – Plant in Żary	Integrated permit for installations to manufacture sodium silicate glass and potassium silicate glass.	Indefinite
CIECH Vitrosilicon S.A. – Plant in Iłowa	Integrated permit for installations to manufacture water solution of sodium and potassium silicates (water glass), glass packaging and solid sodium silicate (glassy sodium silicate).	Indefinite
CIECH Pianki Sp. z o.o.	Integrated permit for the installation to manufacture PUR foams.	Indefinite

Environmental liabilities

Due to the nature of the CIECH Group's business, there are active sources of groundwater pollution on some of the Group's lands. The Group incurs ongoing operating expenses and establishes provisions related to the reclamation of contaminated soil and groundwater purification. The amount of provisions for environmental liabilities in CIECH Group as at 31 December 2019 amounted to PLN 94,951 thousand and as at 31 December 2018 – to PLN 78,105 thousand.

EU REACH Regulation

The REACH Directive binding from 1 June 2007 concerns safe usage of chemical substances produced or imported (from countries outside EU) in quantities of 1 ton annually or more. Producers and importers who put substances to turnover in the EU customs area were obligated to complete registration.

In 2019, the CIECH Group registered 1 substance with tonnage range of $\geq 1,000$ tonnes per year and 1 with tonnage range of < 100 tonnes per year. In January 2020, an update of registration documentation for 1 of the substances was submitted, increasing the tonnage to $< 1,000$ tonnes per year. Additionally, an update of the registration documentation for 2 substances is scheduled for the first half of 2020 – the current tonnage will be maintained. The documentation will be supplemented with new results of toxicological tests.

Emission trading

Information on emission trading is provided in items 2.1 and 3.4 of this Report.

3.5.3 SPONSORSHIP AND CHARITY POLICY

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

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

3.6 RESEARCH AND DEVELOPMENT

The CIECH Group consistently implements innovations in key areas of its operations. The activities taken are focused on the development and improvement of products for key markets, improvement of existing production processes as well as implementation of innovative technologies. The CIECH Group has the ambition to become a leader among the most advanced chemical groups in Poland and worldwide. In the CIECH Group, research, innovation and development activities are concentrated in a specially established company, CIECH R&D Sp. z o.o., that coordinates and carries out research and development activities for companies from the Group.

The CIECH Group collaborates with universities and experts in the area of innovation and development, and a part of project implemented is co-financed from EU funds as well as from domestic and regional support funds.

Achievements in research and development

The Group runs a number of R&D projects in virtually all segments. These projects are implemented by R&D Sp. z o.o. These projects are implemented with the use of various support programmes.

The Physicochemical Laboratory of Crop Protection Chemicals located in Warsaw received the GLP (Good Laboratory Practice) certification in 2019.

Cooperation with universities and institutes

In 2019, CIECH R&D Sp. z o.o. implemented research and development projects in cooperation with renowned universities and institutes, including:

Universities	Institutes
<ul style="list-style-type: none">• Warsaw University of Technology• Rzeszów University of Technology• Nicolaus Copernicus University in Toruń• RWTH Aachen University• AGH University of Science and Technology of Kraków	<ul style="list-style-type: none">• New Chemical Syntheses Institute• Institute For Chemical Processing of Coal – ICHPW in Zabrze• Institute of Industrial Organic Chemistry – IPO in Warsaw• Institute of Heavy Organic Synthesis “Blachownia”



FINANCIAL POSITION OF THE CIECH GROUP AND CIECH S.A.



4 FINANCIAL POSITION OF THE CIECH GROUP AND CIECH S.A.

4.1 PRINCIPLES FOR DRAWING UP THE ANNUAL FINANCIAL STATEMENTS OF THE CIECH GROUP AND CIECH S.A.

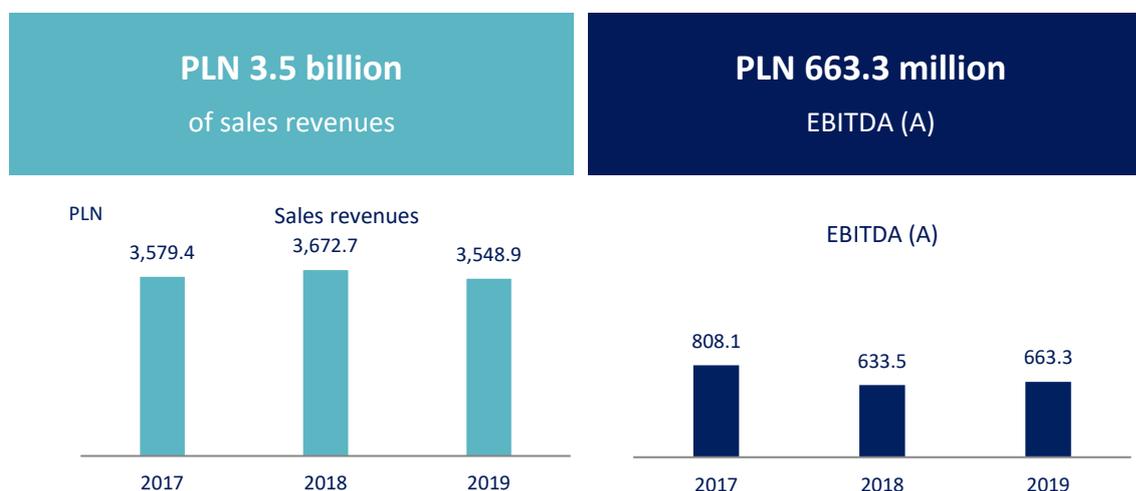
The consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. have been prepared in accordance with accounting principles consistent with the International Financial Reporting Standards (IFRS) that were approved by the European Union (EU) and were effective as at 31 December 2019.

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

The consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. give a fair view of the financial and economic position of the CIECH Group and CIECH S.A. as at 31 December 2019, results of their operations and cash flows for the year ended 31 December 2019. The consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. were prepared on a going concern basis. As at the date of approval of the consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A., no facts or circumstances are known that would indicate any threat to the CIECH Group and CIECH S.A. continuing as going concerns. References to accounting policies applied in the preparation of the consolidated financial statements of the CIECH Group and separate financial statements of CIECH S.A. have been presented, respectively, in notes: 1.4 to the Consolidated financial statements of the CIECH Group and 1.4 to the Separate financial statements of CIECH S.A.

4.2 REVIEW OF KEY ECONOMIC AND FINANCIAL FIGURES CONCERNING THE CIECH GROUP

In 2019, the CIECH Group generated:



In 2019, the Group's results were most significantly shaped by:

- Balancing of the European market of sodium carbonate (demand and supply balance) with a tendency to increase in demand, although at a slower pace than the year before.
- Increase in soda prices on the so-called overseas markets (USD prices).
- Increase in salt prices.
- Inclusion of Proplan, a company acquired in the third quarter of 2018, in consolidation.
- Continuing high prices of raw energy resources used in production of sodium carbonate and prices of CO₂ units, as well as electricity prices paid by the Group.
- A downward trend in prices of epoxy resins in Europe in 2019, to levels that are significantly lower than those of the corresponding period of the previous year.
- Increase in exports of Turkish soda to Western Europe.
- Lower prices of PUR foams as compared to the corresponding period of the previous year, a decrease in demand in Germany – the main market for upholstered furniture.
- Increase in fixed costs related to wage pressure and costs related to the implementation of the maintenance programme.
- Recognition of impairment losses on property, plant and equipment at CIECH Soda Romagna S.A. in connection with the discontinuation of production – for details, see Section 1.1 hereof.

In 2019, the CIECH Group generated sales revenues in the amount of PLN 3,548,879 thousand and adjusted EBITDA of PLN 663,268 thousand. Net profit on continuing operations reached PLN 116,412 thousand, net cash increased by PLN 107,349 thousand and total assets amounted to PLN 5,046,442 thousand as at the end of 2019.

Forecast performance of the CIECH Group

The CIECH Group did not publish any forecasts for 2019.

4.2.1 STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

TABLE 7: CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2019	2018	2017	Change 2019/2018
CONTINUING OPERATIONS				
Net sales revenues	3,548,879	3,672,658	3,579,393	(3.4%)
Cost of sales	(2,767,162)	(2,909,242)	(2,662,729)	4.9%
Gross profit/(loss) on sales	781,717	763,416	916,664	2.4%
Selling costs	(250,562)	(271,734)	(263,481)	7.8%
General and administrative expenses	(202,206)	(144,997)	(141,402)	(39.5%)
Other operating income/expense	(61,439)	32,515	77,027	-
Operating profit/(loss)	267,510	379,200	588,808	(29.5%)
Net financial income/expenses	(85,095)	(74,692)	(73,288)	(13.9%)
Share in net profit or loss of subordinated entities accounted for using the equity method	1,106	516	225	114.3%
Income tax	(67,109)	(192,521)	(121,770)	65.1%
Net profit/(loss) on continuing operations	116,412	112,503	393,975	3.5%
DISCONTINUED OPERATIONS				
Net profit/(loss) on discontinued operations	-	-	-	-
Net profit/(loss) for the period	116,412	112,503	393,975	3.5%
including:				
Net profit or loss attributable to non-controlling interest	(1,278)	459	562	-



	2019	2018	2017	Change 2019/2018
Net profit or loss attributable to shareholders of the parent company	117,690	112,044	393,413	5.0%
EBITDA from continuing operations	578,008	654,403	833,196	(11.7%)
Adjusted EBITDA from continuing operations*	663,268	633,493	808,137	4.7%

*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

Sales revenues

Consolidated sales revenues net from continuing operations of the CIECH Group for 2019 amounted to PLN 3,548,879 thousand. Compared to the previous year, revenues decreased by PLN 123,779 thousand (i.e. by 3.4%). The decrease was mainly due to the suspension of soda production at the soda plant of CIECH Soda Romania S.A. On the other hand, this negative impact was alleviated by, among others, increase in soda prices on the so-called overseas markets (USD prices), increase in salt prices.

Gross profit on sales

Cost of goods sold for 2019 amounted to PLN 2,767,162 thousand, which represents a decrease by PLN 142,080 thousand (i.e. by 4.9%) compared to the cost of goods sold in 2018, amounting to PLN 2,909,242 thousand.

Operating profit/loss

Selling costs for 2019 amounted to PLN 250,562 thousand which represents a decrease by PLN 21,172 thousand (i.e. by 7.8%), compared to PLN 271,734 thousand in 2018. Selling costs accounted for 7.1% of sales revenues for 2019. This decrease is attributable, among other factors, to a lower level of sales and, consequently, to lower transport costs from the share of carriage management.

General and administrative expenses for 2019 amounted to PLN 202,206 thousand which is an increase by PLN 57,209 thousand (i.e. by 39.5%) as compared to PLN 144,997 thousand in 2018. The increase resulted, among others, from the recognition of a provision for an incentive scheme for key managerial staff, costs of employment and salary increases, and increased expenditure related to new functions in order to implement the strategy.

Other operating income for 2019 amounted to PLN 112,822 thousand which represents an increase by PLN 23,782 thousand (i.e. by 26.7%), compared to the amount of PLN 89,040 thousand for 2018. The increase in other operating income in 2019 resulted, among other factors, from higher sales of surplus CO₂ certificates held by the Romanian company. Moreover, due to the implementation of investment tasks aimed at improving energy efficiency in the previous periods, in 2019 CIECH Soda Polska S.A. received new energy efficiency certificates (white certificates) whose value, due to the sharp increase in the prices of the certificates on the exchange, exceeded the value of expenditure on investment projects. The surplus amounted to PLN 13.5 million (the value of certificates obtained was determined on the basis of market prices) and was recognised on a one-off basis in other operating income.

Other income also includes the amount of PLN 17,612 thousand, representing the value of deferred payment for the acquisition of Proplan. EUR 4,136 thousand of discounted conditional deferred payment which depended on Proplan's results for 2018 and 2019, was payable respectively in 2019 and 2020 (the estimation of nominal payments at the moment of acquisition of control was EUR 4,270 thousand). However, due to the fact that Proplan failed to achieve financial results allowing for payment of this part of consideration for the acquisition of Proplan Plant Protection Company, S.L., the value of this deferred payment was recognised on a one-off basis as other operating income in the amount of PLN 17,612 thousand.

Other operating expenses for 2019 amounted to PLN 174,261 thousand which represents an increase by PLN 117,736 thousand from 2018, when these expenses amounted to PLN 56,525 thousand. An increase in other operating expenses results mainly from the recognition of an impairment loss on fixed assets in CIECH Soda Romania S.A. in connection with the hibernation of the plant at the end of the third quarter of 2019 and, consequently, the growing cost of idle production capacity. Operating profit for 2019 stood at PLN 267,510 thousand, whereas in the comparative period it reached PLN 379,200 thousand.

Financing activities and net profit/loss

Financial income for 2019 amounted to PLN 5,065 thousand and recorded a decrease compared to the corresponding period of the preceding year, when it amounted to PLN 19,159 thousand.

Financial expenses for 2019 amounted to PLN 90,160 thousand and recorded a slight decline as compared to the preceding year, when they amounted to PLN 93,851 thousand.

Costs of servicing external debt decreased as compared to the corresponding period. Net financial income/(expenses) was additionally burdened by, among others, an increase in environmental provisions due to a change in discount rates for long-term provisions.

The CIECH Group's income tax for 2019 stood at PLN 67,109 thousand. The tax for 2018 amounted to PLN 192,521 thousand, when it reflected the recognition of provisions for CIT in connection with pending proceedings in the amount of PLN 90,237 thousand and the recognition of an impairment loss of PLN 18,337 thousand on deferred tax assets. The consolidated net profit for 2019 amounted to PLN 116,412 thousand (of which PLN 117,690 thousand was a net profit attributable to the shareholders of the parent company and PLN -1,278 thousand was the loss of non-controlling shares).

EBITDA¹

TABLE 8: CONSOLIDATED EBITDA OF THE CIECH GROUP

	2019	2018	2017	Change 2019/2018
Net profit/(loss) on continuing operations	116,412	112,503	393,975	3.5%
Income tax	67,109	192,521	121,770	(65.1%)
Share in net profit or loss of subordinated entities accounted for using the equity method	(1,106)	(516)	(225)	(114.3%)
Financial expenses	90,160	93,851	86,787	(3.9%)
Financial income	(5,065)	(19,159)	(13,499)	73.6%
Amortisation and depreciation	310,498	275,203	244,388	12.8%
EBITDA from continuing operations	578,008	654,403	833,196	(11.7%)

EBITDA from continuing operations for 2019 amounted to PLN 578,008 thousand which represents a decrease by PLN 76,395 thousand from the amount of PLN 654,403 thousand earned in 2018. EBITDA decreased mainly due to lower result on other operating activities.

The EBIT margin ratio amounted to 7.5% at the end of 2019 (10.3% in the preceding year) and the EBITDA margin ratio amounted to 16.3% (17.8% in the preceding year). The adjusted EBIT margin ratio amounted to 9.9% at the end of 2019 (9.8% in the preceding year) and the adjusted EBITDA margin ratio amounted to 18.7% (17.2% in the preceding year).

Adjusted EBITDA

Adjusted EBITDA ²is another additional ratio of operating performance. Adjusted EBITDA is EBITDA adjusted for costs/revenues that were classified by the management as one-off due to their nature. Adjusted EBITDA is a key ratio used in the Group to assess its performance.

¹EBITDA is the net profit/loss for a financial year plus income tax plus a share in net profit of subordinated entities evaluated with the equity method plus financial costs/income plus profit/loss on sale of a discontinued operation plus amortization and depreciation. EBITDA is not a liquidity ratio or business performance ratio calculated in accordance with IFRS. EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and serve debt. EBITDA and similar ratios are used by different companies for different purposes and are often calculated in a manner adapted to the conditions in which these companies exist. Care needs to be exercised when comparing EBITDA with EBITDA of other companies.

²Other companies may calculate adjusted EBITDA in a manner different from the manner applied by the CIECH Group. Adjusted EBITDA is not a measure of financial performance under IFRS and is therefore not audited. It should not be used as a ratio of liquidity or as an alternative to operating profit or net profit for a year or as another measure of results calculated in accordance with IFRS.

TABLE 9: ADJUSTED EBITDA OF THE CIECH GROUP

	2019	2018	2017
EBITDA from continuing operations	578,008	654,403	833,196
One-offs including:	85,260	(20,910)	(25,059)
Impairment losses (a)	72,600	2,203	1,238
Cash items (b)	(915)	(16,654)	(2,017)
Non-cash items (without impairment) (c)	13,575	(6,459)	(24,280)
Adjusted EBITDA from continuing operations	663,268	633,493	808,137

(a) Impairment losses are associated with the recognition/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 measurement 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).

4.2.2 FINANCIAL PERFORMANCE BY OPERATING SEGMENT OF THE CIECH GROUP

During 2019, the CIECH Group's activities were focused on four operating segments: soda, organic, silicates and glass, and on the transport segment. Additionally, financial performance reported includes figures for the "other operations" segment, corporate functions and consolidation exclusions. The structure of sales revenues, by business segment, has not changed significantly in comparison with 2018. Invariably, the largest share in revenues was attributed to the sales of soda segment products (sodium carbonate, sodium bicarbonate and salt), i.e. 68.0%.

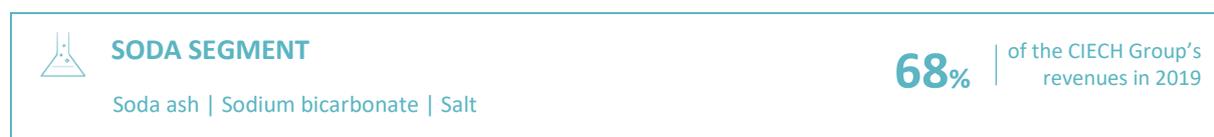


FIGURE 34: REVENUES AND ADJUSTED EBITDA IN THE SODA SEGMENT OF THE CIECH GROUP



In 2019, the Group's results in the soda segment were most significantly shaped by:

Positive developments:

- moderate increase in global demand for sodium carbonate,
- defence of CIECH S.A.'s position on key European markets (CEE) despite strong competition and consistent relocation of sales towards higher-margin markets,
- implementation of sales strategy focused on the supply of higher grades of sodium bicarbonate to customers in the pharmaceutical sector,
- growing demands for the energy efficiency of buildings that can be satisfied through, among others, improved insulation in newly-built houses (increased consumption of glass wool),
- introduction of new salt products: granulates and licks,
- stable increase in salt sales prices,
- installation of a system to produce brine from salt dust waste.

Negative developments:

- more than ten percent increase in exports of Turkish soda to Western Europe in 2019;
- significant reduction of sales on the Indian market due to the erosion of prices caused by the lifting of anti-dumping duties on US, Chinese, Turkish and Russian producers and the commissioning of new capacities by RSPL.
- weakening demand for new cars, resulting in lower demand for flat glass from the automotive sector,
- recycling of packaging glass (the threat of decreasing demand for soda in the production of glass packaging),
- problems in maintaining a high rate of capacity utilisation due to the threat to the stability of brine supplies,
- intensified repair work on energy assets resulting in temporary disturbances in the continuity of supply of process steam.

TABLE 10: THE CIECH GROUP'S PERFORMANCE IN THE SODA SEGMENT

	2019	2018	2017	Change 2019/2018	Change %	% of to- tal reve- nues in 2019	% of to- tal reve- nues in 2018	% of to- tal reve- nues in 2017
Sales revenues	2,416,305	2,422,568	2,429,920	(6,263)	(0.3%)	68.0%	65.9%	67.8%
Dense soda ash	1,325,469	1,308,146	1,371,834	17,323	1.3%	37.3%	35.6%	38.3%
Light soda ash	444,555	498,849	490,220	(54,294)	(10.9%)	12.5%	13.6%	13.7%
Salt	197,732	184,819	169,909	12,913	7.0%	5.6%	5.0%	4.7%
Sodium bicarbonate	166,374	159,978	158,309	6,396	4.0%	4.7%	4.4%	4.4%
Energy	140,469	143,154	97,645	(2,685)	(1.9%)	4.0%	3.9%	2.7%
Gas*	1,041	3,367	7,645	(2,326)	(69.1%)	0.0%	0.1%	0.2%
Calcium chloride	26,402	26,815	25,614	(413)	(1.5%)	0.7%	0.7%	0.7%
Other products	47,373	40,986	60,310	6,387	15.6%	1.4%	1.1%	1.7%
Revenues from inter-segment transactions	66,890	56,454	48,434	10,436	18.5%	1.9%	1.5%	1.4%
Gross profit /(loss) on sales	614,715	602,865	756,073	11,850	2.0%			
EBITDA	487,570	539,853	704,370	(52,283)	(9.7%)			
Adjusted EBITDA	574,214	536,856	690,667	37,358	7.0%			

* Resale of surplus gas.

Sales in the soda segment for 2019 amounted to PLN 2,416,305 thousand which represents a slight decrease by PLN 6,263 thousand (i.e. by 0.3%) as compared to sales for 2018, amounting to PLN 2,422,568 thousand. The decrease was mainly due to the suspension of soda production at the Romanian company, CIECH Soda Romania S.A. This was offset by a moderate increase in demand for soda, increase in salt sales prices and introduction of new products.

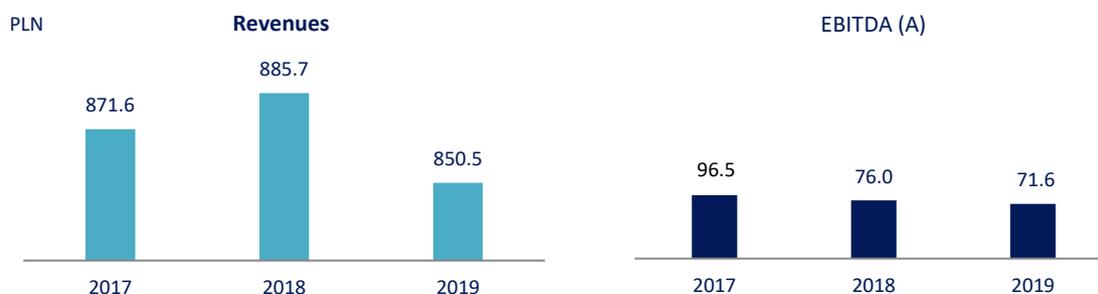
The gross profit on sales in the soda segment for 2019 amounted to PLN 614,715 thousand compared to PLN 602,865 thousand for 2018. The detailed reasons for the changes are described above.

The creation of a write-off on fixed assets due to the soda production being stopped at the plant in CIECH Soda Romania S.A. had a significant impact on the EBITDA level of the soda segment. The value of the write-off amounted to PLN 73.5 million.


ORGANIC SEGMENT

Crop protection products | Polyurethane foams | Resins

24% | of the CIECH Group's revenues in 2019

FIGURE 35: REVENUES AND ADJUSTED EBITDA IN THE ORGANIC SEGMENT OF THE CIECH GROUP


In 2019, the Group's results in the organic segment were most significantly shaped by:

Positive developments:

- increased availability and lower prices of strategic raw materials for the production of PUR foams,
- improvement of formulas for foam production (e.g. decrease in waste),
- exploiting the supply gap in the Spanish market, e.g. for Paclobutrazol, Prosulfocarb, Diclofop,
- stabilisation of trading conditions and new transparent contracts for distributors,
- obtaining new product registrations,
- expansion of MCPA sales to Australia and Thailand,
- obtaining REACH registration of up to 1000 tonnes for esters and growth of ester sales in Austria,
- effective commercialization of high-margin products: EPIDIAN DECO, SANIGEL (Sanitary gelant), Sanitary casting resin,
- effective purchasing policy for UPR strategic raw materials.

Negative developments:

- decrease in sales volume and strong price pressure on the foam market, resulting from weakening demand for furniture in Western Europe,
- disrupted supplies, mainly for Diclofop, Prosulfocarb and Metribuzin, increasing costs and reducing sales volumes,
- delays in registration processes in export markets, postponing benefits to future years,
- adverse weather conditions - drought and, consequently, reduction of purchases of PPCs in the entire agricultural sector, leading to increased competition and price erosion,
- lower-than-expected effect of pre-sales in Q4 2019 and planned transfer of some volumes to Q1 2020,
- strong price pressure and capacity expansion by Asian producers (with back-integration) in the epoxy segment,
- SPR segment portfolio based on low-margin products from the commodity segment, which are being increasingly effectively replaced by competitors' products.

TABLE 11: THE CIECH GROUP'S PERFORMANCE IN THE ORGANIC SEGMENT

	2019	2018	2017	Change 2019/2018	Change %	% of total revenues in 2019	% of total revenues in 2018	% of total revenues in 2017
Sales revenues	850,530	885,699	871,557	(35,169)	(4.0%)	24.0%	24.0%	24.4%
Resins	296,593	326,518	316,452	(29,925)	(9.2%)	8.4%	8.9%	8.8%
Polyurethane foams	257,495	317,222	314,174	(59,727)	(18.8%)	7.3%	8.6%	8.8%
Crop protection products	285,134	240,488	224,032	44,646	18.6%	8.0%	6.5%	6.3%
Other products	10,832	1,116	14,531	9,716	870.6%	0.3%	0.0%	0.4%
Revenues from inter-segment transactions	476	355	2,368	121	34.1%	0.0%	0.0%	0.1%
Gross profit /(loss) on sales	171,273	156,421	153,068	14,852	9.5%			



	2019	2018	2017	Change 2019/2018	Change %	% of total revenues in 2019	% of total revenues in 2018	% of total revenues in 2017
EBITDA	71,551	76,381	96,768	(4,830)	(6.3%)			
Adjusted EBITDA	71,631	75,983	96,517	(4,352)	(5.7%)			

Sales in the organic segment for 2019 amounted to PLN 850,530 thousand which represents a decrease by PLN 35,169 thousand (i.e. by 4.0%) as compared to sales for 2018, amounting to PLN 885,699 thousand.

The gross profit on sales in the organic segment for the year ended 31 December 2019 amounted to PLN 171,273 thousand and was higher than in 2018. Adjusted EBITDA decreased by PLN 4,352 thousand from 2018. This decrease was caused both by weaker results in resins and PUR foams (reasons are described above).



SILICATES AND GLASS SEGMENT

Glass products | Water glass | Silicates

7% of the CIECH Group's
revenues in 2019

FIGURE 36: REVENUES AND ADJUSTED EBITDA IN THE SILICATES AND GLASS SEGMENT OF THE CIECH GROUP



In 2019, the Group's results **in the silicates and glass segment** were most significantly shaped by:

Positive developments:

- higher sales of silicates as a result of higher sales prices obtained in 2019,
- change in the packaging product structure towards higher margin products and achievement of higher sales prices,
- signing a fixed-price gas supply contract for two years (2019-2020).

Negative developments:

- aggressive competition in the sodium silicate market mainly due to significant under-utilisation of production capacity among other producers,
- increased competition in the glass packaging area, narrowing the range of products in the group of jars and lanterns,
- rising electricity prices.

TABLE 12: THE CIECH GROUP'S PERFORMANCE IN THE SILICATES AND GLASS SEGMENT

	2019	2018	2017	Change 2019/2018	Change %	% of total revenues in 2019	% of total revenues in 2018	% of total revenues in 2017
Sales revenues	245,345	248,969	229,345	(3,624)	(1.5%)	6.9%	6.8%	6.4%
Sodium silicates	169,824	167,896	144,291	1,928	1.1%	4.8%	4.6%	4.0%
Potassium silicates	6,153	6,305	5,696	(152)	(2.4%)	0.2%	0.2%	0.2%
Container glass	68,565	73,270	78,578	(4,705)	(6.4%)	1.9%	2.0%	2.2%
Other products	657	1,416	771	(759)	(53.6%)	0.0%	0.0%	0.0%
Revenues from inter-segment transactions	146	82	9	64	78.0%	0.0%	0.0%	0.0%
Gross profit /(loss) on sales	61,007	52,313	52,400	8,694	16.6%			
EBITDA	40,491	34,422	36,844	6,069	17.6%			
Adjusted EBITDA	42,167	34,603	36,768	7,564	21.9%			

Sales in the silicates and glass segment for 2019 amounted to PLN 245,345 thousand which represents a decrease by PLN 3,624 thousand (i.e. by 1.5%) as compared to sales for 2018, amounting to PLN 248,969 thousand. This decrease was primarily driven by lower sales of glass packaging.

The gross profit on sales in the silicates and glass segment for 2019 amounted to PLN 61,007 thousand compared to PLN 52,313 thousand for the year ended 31 December 2018.



TRANSPORT SEGMENT

Transport services | Railway transport | Transshipment

4% | of the CIECH Group's
revenues in 2019

FIGURE 37: REVENUES AND ADJUSTED EBITDA IN THE TRANSPORT SEGMENT OF THE CIECH GROUP



In 2019, the Group's results in the transport segment were most significantly shaped by:

Positive developments:

- stable situation on the rail transport market for aggregates, coal, bulk goods.

Negative developments:

- investment projects and repairs of PKP PLK infrastructure – delayed trains due to repairs,
- difficulties in attracting experienced staff in the railway market, especially train drivers,
- delay in the purchase of locomotives.

TABLE 13: THE CIECH GROUP'S PERFORMANCE IN THE TRANSPORT SEGMENT

	2019	2018	2017	Change 2019/2018	Change %	% of total revenues in 2019	% of total revenues in 2018	% of total revenues in 2017
Sales revenues	137,403	147,180	124,454	(9,777)	(6.6%)	3.9%	4.1%	3.5%
Transport services	12,571	16,772	11,097	(4,201)	(25.0%)	0.4%	0.5%	0.3%
Revenues from inter-segment transactions	124,832	130,408	113,357	(5,576)	(4.3%)	3.5%	3.6%	3.2%
Gross profit /(loss) on sales	8,875	17,984	16,855	(9,109)	(50.7%)			
EBITDA	19,933	19,385	15,610	548	2.8%			
Adjusted EBITDA	20,386	15,333	16,064	5,053	33.0%			

Sales in the transport segment for 2019 amounted to PLN 137,403 thousand which represents a decrease by PLN 9,777 thousand (i.e. by 6.6%) as compared to sales for 2018, amounting to PLN 147,180 thousand.

The gross profit on sales in the transport segment for the year ended 31 December 2019 amounted to PLN 8,875 thousand compared to PLN 17,984 thousand for the year ended 31 December 2018.



OTHER ACTIVITIES SEGMENT

Services | Distribution | Sale and management of real property

Sales in the other activities segment for 2019 amounted to PLN 126,774 thousand which represents a decrease by PLN 62,773 thousand (i.e. by 33.1%) as compared to sales for 2018, amounting to PLN 189,547 thousand. The decrease is mainly attributable to lower sales of trading goods by CIECH Trading S.A.

The gross profit on sales in the other activities segment for the year ended 31 December 2019 amounted to PLN 30,044 thousand compared to PLN 35,093 thousand for the year ended 31 December 2018.

4.2.3 ASSET POSITION OF THE CIECH GROUP

TABLE 14: BASIC CONSOLIDATED BALANCE SHEET DATA

	31.12.2019	31.12.2018	31.12.2017	Change 2019/2018
Total assets	5,046,442	4,822,132	4,643,511	4.7%
Total non-current assets	3,734,188	3,549,574	3,204,963	5.2%
Total current assets	1,312,254	1,272,558	1,438,548	3.1%
Inventories	455,704	438,518	364,517	3.9%
Current receivables	538,898	611,279	523,068	(11.8%)
Cash and cash equivalents	299,580	192,139	489,754	55.9%
Short-term financial assets	17,282	29,832	57,979	(42.1%)
Assets held for sale	790	790	3,230	0.0%
Total equity	1,977,217	1,899,127	2,184,645	4.1%
Equity attributable to shareholders of the parent	1,978,234	1,898,839	2,187,596	4.2%
Non-controlling interest	(1,017)	288	(2,951)	-
Non-current liabilities	1,947,307	1,636,755	1,369,282	19.0%
Total current liabilities	1,121,918	1,286,250	1,089,584	(12.8%)

Assets

As at the end of 2019, the Group's non-current assets amounted to PLN 5,046,442 thousand. As compared to the balance as at 31 December 2018, the value of non-current assets increased by PLN 224,310 thousand. This change is attributable to the introduction of measurement of right-of-use assets to the financial statements, in accordance with IFRS 16 *Leases*. As at 31 December 2019, the total effect on the Group's non-current assets was PLN 120,505.

In addition, the balance of non-current assets was significantly affected by the recognition of impairment losses on property, plant and equipment at CIECH Soda Romagna S.A. in the total amount of PLN 73,486 thousand, in connection with the discontinuation of production – for details, see Section 1.1 hereof.

The Group's current assets amounted to PLN 1,312,254 thousand as at 31 December 2019. The largest components of non-current assets included: short-term receivables accounting for 40.3%, inventory accounting for 34.7% as well as cash and cash equivalents accounting for 22.7% of total current assets. Compared to the end of December 2018, the value of current assets increased by PLN 36,696 thousand.

This change resulted from, among other factors:

- higher balance of cash accumulated in companies,
- lower balance of trade receivables,
- higher balance inventories resulting mainly from an increase in inventories in the soda and organic segments.

Capital resources

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

Liabilities

As at 31 December 2019, the CIECH Group's liabilities (non-current and current) amounted to PLN 3,069,225 thousand, which is an increase compared to the end of December 2018 by PLN 146,220 thousand (i.e. by 5.0%).

The debt ratio amounted to 60.8% as at 31 December 2019 (at the end of December 2018 to 60.6%). The consolidated net debt of the Group amounted to PLN 1,522,361 thousand as at 31 December 2019 and increased in comparison to the balance as at the end of December 2018 by PLN 20,593 thousand.

Debt instruments currently used

The Group's sources of debt financing include: term loan, revolving credit, overdraft as well as lease liabilities. Additional information about the management of financial resources is provided in Section 4.6.

4.2.4 CASH POSITION OF THE CIECH GROUP

TABLE 15: CONSOLIDATED CASH FLOWS OF THE CIECH GROUP

	2019	2018	2017	Change 2019/2018
Net cash from operating activities	531,864	453,938	628,832	17.2%
Net cash from investing activities	(407,343)	(626,669)	(389,137)	35.0%
Net cash from financing activities	(17,172)	(125,101)	(165,773)	86.3%
Total net cash flows	107,349	(297,832)	73,922	-
Free cash flows	124,521	(172,731)	239,695	-

In 2019, total net cash flows were positive and amounted to PLN 107,349 thousand. Compared to the same period of the previous year, the cash flows generated by the Group were higher by PLN 405,181 thousand. Cash flows from operating activities amounted to PLN 531,864 thousand and increased as compared to the same period in 2018 by PLN 77,926 thousand. In 2019, the net cash flows from investing activities were negative, which was mainly the result of expenses for an investment programme implemented by the Group. The net cash from financing activities was negative and amounted to PLN 17,172

thousand. In comparison to 2018, they were higher by PLN 107,929 thousand. The balance of cash from financing activities resulted mainly from funds obtained from credit facilities and repayment of lease liabilities.

TABLE 16: ABILITY TO GENERATE CASH FLOWS OF THE CIECH GROUP

	2019	2018	2017
Financial surplus (net profit/(loss) on continuing operations + depreciation and amortisation)	426,910	387,706	638,363
Other adjustments to net profit/(loss) on continuing operations	49,114	182,129	38,364
Adjusted financial surplus	476,024	569,835	676,727
Change in working capital	55,840	(115,897)	(47,895)
Cash flows from operating activities	531,864	453,938	628,832
Cash flows from investing activities	(407,343)	(626,669)	(389,137)
Free cash flows	124,521	(172,731)	239,695

In 2019, the CIECH Group generated positive free cash flows, which means that it was able to finance its capital expenditure with cash flows generated on operating activities.

4.2.5 SELECTED FINANCIAL RATIOS AND WORKING CAPITAL OF THE CIECH GROUP

Liquidity of the CIECH Group

Liquidity ratios as at 31 December 2019 increased as compared to their level as at 31 December 2018. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.17 as at 31 December 2019, while the quick liquidity ratio amounted to 0.76.

TABLE 17: LIQUIDITY RATIOS OF THE CIECH GROUP

	31.12.2019	31.12.2018	31.12.2017
Current ratio	1.17	0.99	1.32
Quick ratio	0.76	0.65	0.99

Working capital of the CIECH Group

As at the end of 2019, working capital, defined as the difference between current assets and short-term liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) was positive and amounted to PLN 7,211 thousand, which is a decrease by PLN 81,863 thousand compared to the end of 2018.

TABLE 18: WORKING CAPITAL OF THE CIECH GROUP

	31.12.2019	31.12.2018	31.12.2017
1. Current assets, including:	1,312,254	1,272,558	1,438,548
Inventories	455,704	438,518	364,517
Trade receivables and advances for deliveries	295,534	377,072	339,093
2. Cash and other short-term investments	316,862	221,971	547,733
3. Adjusted current assets (1-2)	995,392	1,050,587	890,815
4. Current liabilities, including:	1,121,918	1,286,250	1,089,584
Trade liabilities and advances taken	397,427	447,871	387,331
5. Short-term credits and other current financial liabilities*	133,737	324,737	234,483
6. Adjusted current liabilities (4-5)	988,181	961,513	855,101
7. Working capital including short-term credits (1-4)	190,336	(13,692)	348,964
8. Working capital (3-6)	7,211	89,074	35,714

* Other short-term financial liabilities include current lease liabilities + current derivative liabilities + factoring liabilities.

Trade working capital is the difference between current assets (trade receivables and inventory) and trade liabilities. The recorded levels of working capital and trade working capital vary due to a number of factors such as the change in the scale of business, changes in key suppliers' payment terms, foreign exchange rates, the Group companies' strategic decisions regarding inventory maintenance and the seasonal nature of operations (in particular in the crop protection chemicals business).

In order to ensure adequate financial liquidity, the Group has the access to a revolving credit facility and factoring limits.

The CIECH Group's profitability ratios

In 2019, most profitability ratios of the CIECH Group in respect of the continuing operations were at a lower level than in 2018.

TABLE 19: THE CIECH GROUP'S PROFITABILITY RATIOS

	2019	2018	2017	Change 2019/2018
CONTINUING OPERATIONS				
Gross return on sales	22.0%	20.8%	25.6%	1,2p.p.
Return on sales	9.3%	9.4%	14.3%	(0.1) p.p.
EBIT margin	7.5%	10.3%	16.4%	(2.8) p.p.
EBITDA margin	16.3%	17.8%	23.3%	(1.5) p.p.
Adjusted EBIT margin	9.9%	9.8%	15.7%	0.1 p.p.
Adjusted EBITDA margin	18.7%	17.2%	22.6%	1,5p.p.
Net return on sales (ROS)	3.3%	3.1%	11.0%	0,2p.p.
Return on assets (ROA)	2.3%	2.3%	8.5%	0.0 p.p.
Return on equity (ROE)	5.9%	5.9%	18.0%	0,0p.p.
Earnings/(loss) per share (in PLN) from continuing operations	2.23	2.13	7.47	0.10

* Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

FIGURE 38: PROFITABILITY LEVELS OF THE CIECH GROUP



EBITDA (A) – adjusted EBITDA – excluding one-off events reported in particular quarters.

Indebtedness

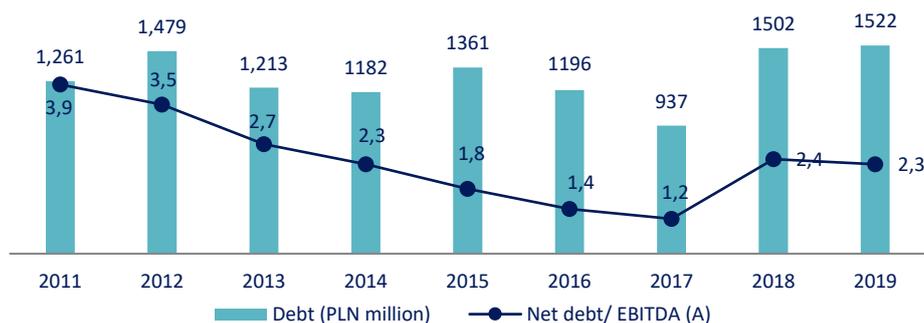
The debt ratio increased in comparison to December 2018 and amounts to 60.8%. Consequently, the relative level of net debt (net financial liabilities in relation to EBITDA) increased as compared to the end of 2018.

TABLE 20: THE CIECH GROUP'S DEBT RATIOS

	31.12.2019	31.12.2018	31.12.2017	Change 2019/2018
Debt ratio	60.8%	60.6%	53.0%	0.2p.p.
Long-term debt ratio	38.6%	33.9%	29.5%	4.7p.p.
Debt to equity ratio	155.2%	153.9%	112.6%	1.3p.p.
Equity to assets ratio	39.2%	39.4%	47.0%	1.6 p.p.
Gross financial liabilities	1,821,941	1,693,907	1,426,428	7.6%
Net financial liabilities	1,522,361	1,501,768	936,674	1.4%
Annualised EBITDA	578,008	654,403	833,196	(11.7%)
Adjusted EBITDA (annualised)*	663,268	633,493	808,137	4.7%
Net financial liabilities / Annualised EBITDA*	2.6	2.3	1.1	13.0%
Net financial liabilities / Adjusted EBITDA (annualised)	2.3	2.4	1.2	(4.2%)
Gross financial liabilities / Annualised EBITDA	3.2	2.6	1.7	23.1%
Gross financial liabilities / Adjusted EBITDA (annualised)	2.7	2.7	1.8	-

*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

FIGURE 39: DEBT OF THE CIECH GROUP (IN PLN MILLION) AND NET DEBT/EBITDA (A) RATIO



4.2.6 GROUP'S PERFORMANCE IN THE 4TH QUARTER OF 2019

 TABLE 21: CIECH GROUP'S PERFORMANCE IN THE 4TH QUARTER OF 2019

	01.10.-31.12.2019*	01.10.-31.12.2018*	01.10.-31.12.2017*
CONTINUING OPERATIONS			
Net sales revenues	803,391	970,752	961,743
Cost of sales	(597,708)	(787,316)	(680,549)
Gross profit/(loss) on sales	205,683	183,436	281,194
Other operating income	41,561	32,004	54,985
Selling costs	(54,801)	(66,856)	(73,984)
General and administrative expenses	(49,392)	(31,277)	(42,956)
Other operating expenses	(46,148)	(24,715)	(11,873)
Operating profit/(loss)	96,903	92,592	207,366
Financial income	(8,438)	4,956	7,127
Financial expenses	(34,521)	(55,585)	(31,478)
Net financial income/(expenses)	(42,959)	(50,629)	(24,351)



	01.10.-31.12.2019*	01.10.-31.12.2018*	01.10.-31.12.2017*
Share in net profit of subordinated entities accounted for with equity method	139	325	63
Profit/(loss) before tax	54,083	42,288	183,078
Income tax	(18,942)	(129,509)	(45,411)
Net profit/(loss) on continuing operations	35,141	(87,221)	137,667
DISCONTINUED OPERATIONS	-	-	-
Net profit/(loss) on discontinued operations	-	-	-
Net profit/(loss) for the period	35,141	(87,221)	137,667
including:			
Net profit/(loss) attributable to shareholders of the parent	35,627	(87,291)	137,467
Net profit/(loss) attributable to non-controlling interest	(486)	70	199
Earnings/(loss) per share (in PLN):			
Basic	0.67	(1.65)	2.60
Diluted	0.67	(1.65)	2.60

*Unaudited data

In the fourth quarter of 2019, operating profit of the CIECH Group was similar to that of the corresponding period of 2018, having increased slightly by PLN 4,311 thousand. Lower sales resulted mainly from lower volumes of soda ash production due to the suspension of production at CIECH Soda Romania S.A.'s plant, followed by an increase in the cost of idle capacity and provisions for employee benefits in connection with the voluntary redundancy programme.

4.3 REVIEW OF KEY ECONOMIC AND FINANCIAL FIGURES CONCERNING CIECH S.A.

During 2019, CIECH S.A. generated net profit from continuing operations of PLN 60,436 thousand, net cash increased by PLN 114,918 thousand and total assets as at the end of 2019 amounted to PLN 3,889,932 thousand.

Forecast performance of the CIECH S.A.

CIECH S.A. did not publish any forecasts for 2019.

4.3.1 STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

TABLE 22: STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	2019	2018	2017	Change 2019/2018
CONTINUING OPERATIONS				
Net sales revenues	2,286,065	2,418,534	2,365,764	(5.5%)
Cost of sales	(1,942,809)	(2,029,456)	(1,863,346)	4.3%
Gross profit/(loss) on sales	343,256	389,078	502,418	(11.8%)
Selling costs	(178,256)	(221,224)	(207,112)	19.4%
General and administrative expenses	(76,984)	(55,688)	(55,327)	(38.2%)
Other operating income/expense	21,956	113	2,234	19330.1%
Operating profit/(loss)	109,972	112,279	242,213	(2.1%)
Net financial income/expenses	(22,841)	221,734	59,258	-
Income tax	(26,695)	(63,401)	(57,564)	57.9%
Net profit/(loss) on continuing operations	60,436	270,612	243,907	(77.7%)
DISCONTINUED OPERATIONS				
Net profit/(loss) on discontinued operations	-	-	-	-



	2019	2018	2017	Change 2019/2018
Net profit/(loss) for the period	60,436	270,612	243,907	(77.7%)
EBITDA from continuing operations	123,405	120,906	247,426	2.1%
Adjusted EBITDA from continuing operations*	119,586	120,581	246,185	(0.8%)

*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".

Sales revenues

Net sales revenues net from continuing operations of CIECH S.A. for 2019 amounted to PLN 2,286,065 thousand. Compared to the previous year, revenues decreased by PLN 132,469 thousand (i.e. by 5.5%). The changes were mainly due to market factors.

The **positive** contributors to the presented sales revenues were as follows:

- moderate increase in global demand for sodium carbonate,
- implementation of sales strategy focused on the supply of higher grades of sodium bicarbonate to customers in the pharmaceutical sector,
- stable increase in salt sales prices,
- increased availability and lower prices of strategic raw materials for the production of PUR foams,

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

- decreased sales volumes of soda ash due to the suspension of production by CIECH Soda Romania S.A.,
- lower sales of raw materials for the production and crop protection chemicals, resins and PUR foams.

TABLE 23: CIECH S.A.'S SALES BY BUSINESS SEGMENT

	31.12.2019	31.12.2018	31.12.2017	Change 2019/2018	Change %	% of total revenues in 2019
Soda segment, including:	1,771,913	1,822,982	1,817,739	(51,069)	(2.8%)	77.5%
Dense soda ash	985,772	1,006,615	1,053,263	(20,843)	(2.1%)	43.1%
Light soda ash	410,357	467,732	445,528	(57,375)	(12.3%)	18.0%
Salt	197,626	182,634	169,968	14,992	8.2%	8.6%
Sodium bicarbonate	98,702	97,255	94,998	1,447	1.5%	4.3%
Calcium chloride	26,174	26,159	19,829	15	0.1%	1.1%
Other goods and services	53,282	42,587	34,153	10,695	25.1%	2.4%
Organic segment, including:	451,532	531,116	505,095	(79,584)	(15.0%)	19.7%
Raw materials for production of crop protection products	117,681	130,734	117,596	(13,053)	(10.0%)	5.1%
Raw materials for production of plastics	196,420	245,919	235,199	(49,499)	(20.1%)	8.6%
Raw materials for the production of polyurethane foams	127,479	143,793	142,961	(16,314)	(11.3%)	5.6%
Other goods and services	9,952	10,670	9,339	(718)	(6.7%)	0.4%
Silicates and Glass segment, including:	12,304	16,939	15,108	(4,635)	(27.4%)	0.6%
Sodium silicates	10,436	15,225	13,868	(4,789)	(31.5%)	0.5%
Other goods and services	1,868	1,714	1,240	154	9.0%	0.1%
Transport segment, including:	47,357	44,465	25,128	2,892	6.5%	2.1%
Transport services	47,357	44,465	25,128	2,892	6.5%	2.1%
Other segment, including:	2,959	3,032	2,694	(73)	(2.4%)	0.1%
Revenues from third parties	2,959	3,032	2,694	(73)	(2.4%)	0.1%
TOTAL	2,286,065	2,418,534	2,365,764	(132,469)	(5.5%)	100.0%

CIECH S.A.'s sales in the soda segment

Sales in the soda segment for the year ended 31 December 2019 amounted to PLN 1,771,913 thousand, which is a decrease by PLN 51,069 thousand, compared to sales for the year ended 31 December 2018 which amounted to PLN 1,822,982

thousand. The decrease was mainly caused by lower sales of soda ash due to the suspension of production at CIECH Soda Romania S.A.

CIECH S.A.'s sales in the organic segment

Sales in the organic segment for the year ended 31 December 2019 amounted to PLN 451,532 thousand, which is a decrease by PLN 79,584 thousand, compared to sales for the year ended 31 December 2018 which amounted to PLN 531,116 thousand. The decrease resulted primarily from lower sales of raw materials for the production of resins and polyurethane foams.

CIECH S.A.'s sales in the silicates and glass segment

Sales in the silicates and glass segment for the year ended 31 December 2019 amounted to PLN 12,304 thousand, which means a decrease as compared to the previous year by PLN 4,635 thousand.

CIECH S.A.'s sales in the transport segment

Sales in the transport segment for the year ended 31 December 2019 amounted to PLN 47,357 thousand, which is an increase from the previous year's sales of PLN 44,465 thousand. This increase was driven mainly by an increase services provided to the Group companies.

Cost of sales

Cost of goods sold for the year ended 31 December 2019 amounted to PLN 1,942,809 thousand, which is a decrease by PLN 86,647 thousand (or 4.3%) compared to PLN 2,029,456 thousand in the cost of goods sold in 2018. The decrease was caused by lower sales of soda from the Group and lower sales of raw materials for the organic segment.

Gross profit on sales

TABLE 24: CIECH S.A.'S GROSS PROFIT ON SALES BY BUSINESS SEGMENT

	2019	2018	2017	Change 2019/2018
Soda segment	324,915	370,752	485,937	(12.4%)
Organic segment	15,509	15,142	14,224	2.4%
Silicates and Glass segment	1,737	2,481	1,329	(30.0%)
Transport segment	757	97	527	680.4%
Other	338	606	401	(44.2%)
Gross profit /(loss) on sales	343,256	389,078	502,418	(11.8%)

Soda segment

The gross profit on sales in the soda segment for the year ended 31 December 2019 amounted to PLN 324,915 thousand compared to PLN 370,752 thousand for the year ended 31 December 2018. The decrease was mainly caused by lower sales of soda ash from the Group companies as a result of the suspension of production at CIECH Soda Romania S.A.

Organic segment

The gross profit on sales in the organic segment for the year ended 31 December 2019 amounted to PLN 15,509 thousand compared to PLN 15,142 thousand for the year ended 31 December 2018.

Silicates and Glass segment

The gross profit on sales in the silicates and glass segment for the year ended 31 December 2019 amounted to PLN 1,737 thousand compared to PLN 2,481 thousand for the year ended 31 December 2018.

Operating profit

Other operating income for 2019 amounted to PLN 26,903 thousand which represents an increase by PLN 22,749 thousand compared to the amount of PLN 4,154 thousand for 2018. Other income includes the amount of PLN 17,612 thousand, representing the value of deferred payment for the acquisition of Proplan. EUR 4,136 thousand of discounted conditional deferred payment which depended on Proplan's results for 2018 and 2019, was payable respectively in 2019 and 2020 (the estimation of nominal payments at the moment of acquisition of control was EUR 4,270 thousand). However, due to the fact that Proplan failed to achieve financial results allowing for payment of this part of consideration for the acquisition of Proplan Plant Protection Company, S.L., the value of this deferred payment was recognised on a one-off basis as other operating income in the amount of PLN 17,612 thousand.

Selling costs for 2019 amounted to PLN 178,256 thousand which represents a decrease by PLN 42,968 thousand (i.e. by 19.4%), compared to PLN 221,224 thousand in 2018. This decrease was mainly due to lower transport costs resulting from lower sales volume.

General and administrative expenses for 2019 amounted to PLN 76,984 thousand which means that increased as compared to the amount of PLN 55,688 thousand in 2018.

Other operating expenses for 2019 amounted to PLN 4,947 thousand which is an increase by PLN 906 thousand from PLN 4,041 thousand in 2018.

Operating profit for 2019 reached PLN 109,972 thousand, while in the comparable period it amounted to PLN 112,279 thousand.

Financing activities and net profit/loss

Financial income for 2019 amounted to PLN 88,495 thousand and decreased from PLN 343,552 thousand reported in the previous year. In 2019, financial income reported under financing activities was positively affected by, among others, gains on measurement of financial instruments and higher dividends received from subsidiaries, whereas in the corresponding period – by a reversal of an impairment loss on shares in SDC GmbH in the amount of approximately PLN 260 million.

Financial expenses for 2019 amounted to PLN 111,336 thousand and recorded a decline as compared to the preceding year, when they amounted to PLN 121,818 thousand. The decrease in financial expenses was mainly attributable to lower impairment losses on shares.

The Company's separate net profit for 2019 amounted to PLN 60,436 thousand and was lower by PLN 210,176 thousand than the net profit for 2018. Compared to 2018, the lower level of net profit is mainly attributable to the net of finance income (in 2018 the impairment loss on shares in SDC GmbH was reversed). The net profit was negatively affected by weaker results of basic operating activities, higher level of administrative expenses.

EBITDA³

TABLE 25: CIECH S.A.'S EBITDA

	2019	2018	2017	Change 2019/2018
Net profit/(loss) on continuing operations	60,436	270,612	243,907	(72.1%)
Income tax	26,695	63,401	57,564	(57.9%)
Financial expenses	111,336	121,818	283,535	(21.0%)
Financial income	(88,495)	(343,552)	(342,793)	74.2%
Amortisation and depreciation	13,433	8,627	5,213	55.7%
EBITDA from continuing operations	123,405	120,906	247,426	2.1%

³EBITDA is the net profit/loss for a financial year plus income tax plus costs/financial income plus profit/loss on sale of a discontinued operation plus amortisation and depreciation. EBITDA is not a liquidity ratio or business performance ratio calculated in accordance with IFRS. EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and serve debt. EBITDA and similar ratios are used by different companies for different purposes and are often calculated in a manner adapted to the conditions in which these companies exist. Care needs to be exercised when comparing EBITDA with EBITDA of other companies.

EBITDA from continuing operations in the year ended 31 December 2019 amounted to PLN 123,405 thousand, which represents an increase by PLN 2,499 thousand, compared to PLN 120,906 thousand for the year ended 31 December 2018. EBITDA was affected by, on the one hand, lower level of operating activity and, on the other hand, higher level of depreciation due to the introduction of IFRS 16 and recognition of right-of-use assets as of 2019.

Adjusted EBITDA⁴

TABLE 26: ADJUSTED EBITDA OF CIECH S.A.

	2019	2018	2017
EBITDA from continuing operations	123,405	120,906	247,426
One-offs including:	(3,819)	(325)	(1,241)
Impairment losses	-	210	1
Cash items (a)	(40)	112	(84)
Non-cash items (without impairment) (b)	(3,779)	(647)	(1,158)
Adjusted EBITDA from continuing operations	119,586	120,581	246,185

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

(b) Non-cash items include: result on sales of property, plant and equipment, the costs of suspended investments, provisions for liabilities and compensation and other items (including extraordinary costs and other provisions).

4.3.2 ASSET POSITION OF CIECH S.A.

TABLE 27: SELECTED BALANCE SHEET DATA OF CIECH S.A.

	31.12.2019	31.12.2018	31.12.2017	Change 2019/2018	Change in value 2019/2018
Total assets	3,889,932	3,927,454	3,652,664	(1.0%)	(37,522)
Total non-current assets	2,517,014	2,424,310	1,952,407	3.8%	92,704
Total current assets	1,372,918	1,503,144	1,700,257	(8.7%)	(130,226)
Inventories	30,694	41,019	31,795	(25.2%)	(10,325)
Current receivables	378,010	400,673	280,765	(5.7%)	(22,663)
Cash and cash equivalents	169,983	54,988	375,393	209.1%	114,995
Short-term financial assets	794,231	1,006,464	1,012,304	(21.1%)	(212,233)
Total equity	1,463,206	1,402,701	1,549,029	4.3%	60,505
Non-current liabilities	1,632,936	1,393,685	1,172,446	17.2%	239,251
Total current liabilities	793,790	1,131,068	931,189	(29.8%)	(337,278)

Assets

As at the end of 2019, the CIECH S.A.'s non-current assets amounted to PLN 2,517,014 thousand. As compared to the balance as at 31 December 2018, the value of non-current assets increased by PLN 92,704 thousand. This change is attributable to the introduction of measurement of right-of-use assets to the financial statements, in accordance with IFRS 16 *Leases* and an increase in intangible assets due to the recognition of the SAP accounting system.

⁴Adjusted EBITDA is another additional ratio of operating performance. Adjusted EBITDA is EBITDA adjusted for costs/revenues that were classified by the management as one-off due to their nature. We believe that adjusted EBITDA is an important ratio when estimating and measuring the Company's recurring business performance. Other companies may calculate adjusted EBITDA in a manner different from the manner applied by CIECH S.A. Adjusted EBITDA is not a measure of financial performance under IFRS and is therefore not audited. It should not be used as a ratio of liquidity or as an alternative to operating profit or net profit for a year or as another measure of results calculated in accordance with IFRS.

CIECH S.A.'s current assets amounted to PLN 1,372,918 thousand as at 31 December 2019. Compared to the end of December 2018, the value of current assets decreased by PLN 130,226 thousand. This decrease resulted from lower balance of loans advanced to subsidiaries. The decrease in current receivables resulted from, among other factors, a decrease in financing of Group companies through the cash pooling system and a lower balance of factoring receivables outstanding at the balance sheet date.

Liabilities

As at 31 December 2019, liabilities (non-current and current) of CIECH S.A. amounted to PLN 2,426,726 thousand, which is a decrease compared to the end of December 2018 by PLN 97,465 thousand. The decrease was mainly due to the payment of a tax liability of PLN 66.4 million.

The debt ratio amounted to 62.1% as at 31 December 2019 (at the end of December 2018 to 64.3%). CIECH S.A.'s standalone net debt amounted to PLN 1,632,234 thousand as at 31 December 2019 and decreased from the end of December 2018 by PLN 124,156 thousand.

Capital resources and debt instruments

The sources of liquidity include cash flows generated from operating activities, cash from the sale of assets, cash available due to the revolving credit facility agreement and overdraft facilities. The Company also uses factoring agreements.

Debt instruments currently used

CIECH S.A.'s sources of debt financing include, among others, a term loan, revolving credit and working capital facilities.

4.3.3 CASH POSITION OF CIECH S.A.

TABLE 28: CIECH S.A.'S CASH FLOWS

	2019	2018	2017
Net cash from operating activities	(62,551)	64,232	300,288
Net cash from investing activities	135,380	(268,087)	(131,486)
Net cash from financing activities	42,089	(116,765)	(137,479)
Total net cash flows	114,918	(320,620)	31,323
free cash flows	72,829	(203,855)	180,386

In 2019, total net cash flows were positive and amounted to PLN 114,918 thousand. Compared to the same period of the previous year, the cash flows generated by CIECH S.A. were higher by PLN 435,538 thousand. Cash flows from operating activities were negative and amounted to PLN 62,551 thousand. They decreased as compared to the same period in 2018 by PLN 126,783 thousand. This level was driven by lower operating result, higher level of interest and liabilities in relation to the payment of tax liability together with interest amounting to PLN 66.4 million.

In 2019, the net cash flows from investing activities were positive. Investment inflows were higher than investment outflows by PLN 135,380 thousand. Repayments of loans advanced to subsidiaries had the main impact on net cash flows from investment activities.

The net cash from financing activities was positive and amounted to PLN 42,089 thousand. As compared to the corresponding period of 2018, they were higher by PLN 158,854 thousand. These activities were mainly affected by outflows and expenses related to the disbursement of credit lines and funds obtained from the cash pooling arrangement.

Ability to generate cash flows

In 2019, CIECH S.A. generated positive free cash flows due to the fact that the amount of investment inflows was higher than cash flows from operating activities. The high level of inflows from investing activities is mainly due to the repayment of loans by subsidiaries.

TABLE 29: CIECH S.A.'S ABILITY TO GENERATE CASH FLOWS

	2019	2018	2017
Financial surplus (net profit/(loss) on continuing operations + depreciation and amortisation)	73,869	279,239	249,120
Other adjustments to net profit/(loss) on continuing operations	(114,871)	(241,141)	(57,538)
Adjusted financial surplus	(41,002)	38,098	191,582
Change in working capital	(21,549)	26,134	108,706
Cash flows from operating activities	(62,551)	64,232	300,288
Cash flows from investing activities	135,380	(268,087)	(119,902)
Free cash flows	72,829	(203,855)	180,386

4.3.4 SELECTED FINANCIAL RATIOS AND WORKING CAPITAL OF CIECH S.A.

Profitability ratios of CIECH S.A.

In 2019, the majority of profitability ratios of CIECH S.A. in respect to continuing operations declined in relation to those recorded in 2018.

TABLE 30: CIECH S.A.'S PROFITABILITY RATIOS

	2019	2018	2017	Change 2019/2018
CONTINUING OPERATIONS				
Gross return on sales	15.0%	16.1%	21.2%	(1.1) p.p.
Return on sales	3.9%	4.6%	10.1%	(0.7) p.p.
EBIT margin	4.8%	4.6%	10.2%	0.2 p.p.
EBITDA margin	5.4%	5.0%	10.5%	0.4 p.p.
Adjusted EBIT margin	4.6%	4.6%	10%	0.0 p.p.
Adjusted EBITDA margin	5.2%	5.0%	10.4%	0.2 p.p.
Net return on sales (ROS)	2.6%	11.2%	10.3%	(8.6) p.p.
Return on assets (ROA)	1.6%	6.9%	6.7%	(5.3) p.p.
Return on equity (ROE)	4.1%	19.3%	15.7%	(15.2) p.p.
Earnings/(loss) per share (in PLN) from continuing operations	1.15	5.13	4.63	(3.98)

**Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology".*

CIECH S.A.'s liquidity and working capital

Liquidity ratios as at 31 December 2019 increased as compared to their level as at 31 December 2018. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.73 as at 31 December 2019, while the quick liquidity ratio amounted to 1.69.

TABLE 31: CIECH S.A.'S LIQUIDITY RATIOS

	31.12.2019	31.12.2018	31.12.2017
Current ratio	1,73	1.33	1.83
Quick ratio	1,69	1.29	1.79

CIECH S.A.'s working capital

As at the end of 2019, working capital, defined as the difference between current assets and current liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) was negative and amounted to PLN 57,694 thousand, which is an increase by PLN 114,515 thousand compared to the end of 2018.

TABLE 32: CIECH S.A.'S WORKING CAPITAL

	31.12.2019	31.12.2018	31.12.2017
1. Current assets, including:	1,372,918	1,503,144	1,700,257
Inventories	30,694	41,019	31,795
Trade receivables and advances for deliveries	287,389	280,416	217,339
2. Cash and other short-term investments	964,214	1,061,452	1,387,697
3. Adjusted current assets (1-2)	408,704	441,692	312,560
4. Current liabilities, including:	793,790	1,131,068	931,190
Trade liabilities and advances taken	385,748	476,681	398,885
5. Short-term credits and other current financial liabilities*	327,392	517,167	431,961
6. Adjusted current liabilities (4-5)	466,398	613,901	499,229
7. Working capital including short-term credits (1-4)	579,128	372,076	769,067
8. Working capital (3-6)	(57,694)	(172,209)	(186,669)

* Other current financial liabilities include current derivative liabilities + lease liabilities + factoring liabilities + cash pooling liabilities.

Trade working capital is the difference between current assets (trade receivables and inventory) and trade liabilities. The recorded levels of working capital and trade working capital vary due to a number of factors such as the change in the scale of business, changes in key suppliers' payment terms, foreign exchange rates, the Company's strategic decisions regarding inventory maintenance. In order to ensure adequate financial liquidity, the Company has the access to a revolving credit facility and factoring limits.

Indebtedness

In 2019, the debt ratio decreased in comparison to December 2018 and amounts to 62.4%.

TABLE 33: CIECH S.A.'S DEBT RATIOS

	2019	2018	2017	Change 2019/2018
Debt ratio	62.4%	64.3%	57.6%	(1.9) p.p.
Long-term debt ratio	42.0%	35.5%	32.1%	6.5 p.p.
Debt to equity ratio	165.8%	180.0%	135.8%	(14.2) p.p.
Equity to assets ratio	37.6%	35.7%	42.4%	1.9 p.p.

4.3.5 CIECH S.A.'S PERFORMANCE IN THE 4TH QUARTER OF 2019

 TABLE 34: CIECH S.A.'S PERFORMANCE IN THE 4TH QUARTER OF 2019

	01.10.-31.10.2019*	01.10.-31.12.2018*	01.10.-31.12.2017*
CONTINUING OPERATIONS			
Net sales revenues	489,286	631,121	602,562
Cost of sales	(368,882)	(570,937)	(460,970)
Gross profit on sales	120,404	60,184	141,592
Other operating income	22,069	(3,569)	1,801
Selling costs	(37,021)	(55,190)	(58,450)
General and administrative expenses	(10,897)	(8,093)	(17,415)
Other operating expenses	(2,312)	1,790	(1,160)
Operating profit	92,243	(4,878)	66,368
Financial income	20,330	294,467	236,190
Financial expenses	(22,126)	(47,769)	(214,273)
Net financial income/(expenses)	(1,796)	246,698	21,917
Profit before tax	90,447	241,820	88,285
Income tax	(20,681)	(43,657)	(19,954)
Net profit from continuing operations	69,766	198,163	68,331
Net profit for the financial year	69,766	198,163	68,331
Earnings per share (in PLN):			
Basic	1.33	3.76	1.30
Diluted	1.33	3.76	1.30
Earnings per share (in PLN) from continuing operations:			
Basic	1.33	3.76	1.30
Diluted	1.33	3.76	1.30

*Unaudited data

In the fourth quarter of 2019, CIECH S.A. recorded an increase in operating profit by PLN 97,121 thousand compared to the corresponding period of 2018, while the level of net profit is lower, mainly due to lower proceeds from financing activities. The net profit of CIECH S.A. in the fourth quarter of 2019 was mainly driven by, among other factors: higher profit on core operations, significantly lower selling costs and change in impairment losses on shares in subsidiaries held by CIECH S.A., including the recognition of an impairment loss on shares in CIECH Trading S.A. in the amount of PLN 15.1 million.

4.4 INVESTING ACTIVITIES OF THE CIECH GROUP

Investments implemented in 2019

The CIECH Group has and constantly updates its capital expenditure program for production facilities in order to develop or maintain the current levels of production in particular plants and their expansion, as well as to fulfil the conditions related to customers' requirements and new legal regulations. Capital expenditure incurred by the Company and its subsidiaries is primarily intended to replace worn-out equipment and to modernise facilities in order to improve energy efficiency, reduce emissions, streamline the automation and control process, streamline management processes, as well as to seek new development opportunities.

Investment expenditures incurred by the CIECH Group companies in 2019 amounted to approx. PLN 412 million. Major capital expenditures were spent on several large-scale projects, including the construction of a salt plant in Stassfurt, extension and modernisation of plants in the soda segment, development of new products in the Agro segment. Furthermore, in 2019 CIECH Soda Polska S.A. finalised the implementation of large projects relating to development of flue gas desulphurisation and denitrification systems in CHP plants, and to the modernisation of the energy area to improve the efficiency and effectiveness of the energy area (replacement and modernisation of turbine generators, modernisation of boilers). Expenditure in the R&D area in 2019 was primarily focused on the registration of new active substances and crop protection products based on those

substances. Other investment expenditures were incurred mainly in relation to modernisation and replacement projects which aimed at improving and retaining the production capacity as well as improving the production efficiency of the plants. Decisions relating to executing development projects are made on the basis of a detailed analysis of each task, including analyses of investment effectiveness and ratios such as: the internal rate of return (IRR), net present value (NPV) and payback period. Key projects implemented in 2019 are presented below:

TABLE 35: KEY INVESTMENT PROJECTS OF THE CIECH GROUP IMPLEMENTED IN 2019

	Investment project	Implementation status in 2019
	<p>Development investments in the Soda segment – CIECH Soda Deutschland</p> <p>The Stassfurt plant is implementing a two-stage project to build a facility for the production of a highly specialised product, i.e. soda for dialysis. In 2017, key tender procedures were completed, technological and construction designs were prepared and a number of administrative decisions were obtained. Construction started in 2018, construction of the facility was completed in 2019, and currently the capacity of the facility is being increased.</p>	<p>Project in the start-up phase of the facility.</p>
	<p>Salt – increase of production capacity</p> <p>In 2018, the planning phase was completed and the implementation phase of the Group's largest project in the salt area – the construction of the plant in Strassfurt – commenced. The project is scheduled for completion at the end of 2020.</p>	<p>Project in implementation</p>
	<p>Construction of the installation for treatment of flue gas</p> <p>Based on the latest technologies, a project is implemented involving the construction of the installation for desulphurisation and denitrification of flue gas, and improvement of efficiency of the dust removal process in CHP plants in Inowrocław and Janikowo. As a result, both plants will meet the highest possible environmental standards for air emissions.</p> <ul style="list-style-type: none"> • Construction of flue gas denitrification plant – CHP Inowrocław • Construction of flue gas denitrification plant – CHP Janikowo • Construction of flue gas desulphurisation plant – CHP Inowrocław • Construction of flue gas desulphurisation plant – CHP Janikowo. 	<p>Project completed.</p>
	<p>R&D projects</p> <p>In 2019, the CIECH Group incurred significant expenditures on R&D activities:</p> <ul style="list-style-type: none"> • registrations of new active substances used in the production of crop protection chemicals and products based on these active substances, • search for new applications for currently manufactured products and wastes (salt dust). 	
	<p>Energy Project Package</p> <p>In 2018, the implementation of a multi-annual investment programme in the energy area was commenced. Replacement and modernisation projects implemented under the programme will contribute to increasing the efficiency and reliability of energy generation sources, especially in the Inowrocław and Janikowo plants (replacement of coal mills, modernisation and replacement of boilers, modernisation and replacement of turbines).</p>	<p>Project in implementation.</p>

Capital expenditures planned for the upcoming 12 months

As part of the investment expenditure plan for 2020, the CIECH Group assumes further implementation of the aforementioned projects, execution of new development projects that are currently in the preparatory phase and execution of new tasks aimed at restoring and increasing the production capacity of individual plants. The most important projects include the construction of a salt plant in Stassfurt, continuation of tasks in the area of increasing production capacity in the soda area and the restoration and upgrade of assets, as well as the upgrade of the energy area (upgrade of boilers and turbines). The CIECH Group will also continue a number of R&D activities aimed at increasing the efficiency of technological processes in the area of production and implementing modern products responding to the growing needs of the market (in particular, increasing the efficiency of soda ash production, as well as work on the extension and optimisation of the agro

product portfolio). The CIECH Group is also working on new development projects. The implementation of these projects will depend on business decisions taken on an individual basis.

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

The CIECH Group's investment policy has been updated to include new task planning and implementation principles and is always adapted to the current ability to acquire capital so that it fully covers the planned material and capital investment. The sources of financing of investing activities in the CIECH Group are as follows:

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

4.5 STATE AID USED

For another year, the CIECH Group has been actively using public funds in its operations.

In June 2019, CIECH R&D Sp. z o.o. completed the implementation of the project "Development by CIECH R&D sp. z o.o. in cooperation with Nicolaus Copernicus University in Toruń (subcontractor) of a globally innovative technology for ammonia brine carbonation allowing the increase of sodium efficiency in the sodium carbonate production process". The amount of aid received in 2019 exceeded PLN 60 thousand.

A project aimed at reversing CO₂ in the soda production process was also implemented for another year. **Works completed in 2019 enabled to obtain not only promising test results, but also to receive a refund of over PLN 2.1 million.**

In 2019, the CIECH Group companies obtained further subsidies for the implementation of research and development projects contributing to increasing the company's value by enhancing innovation and developing a portfolio of state-of-the-art, advanced products ensuring high profitability of the business:

- CIECH Soda Polska S.A. raised over PLN 4.9 million for the project aimed at the development and implementation of anomaly detection methods and algorithms, predictive and prescriptive algorithms and the development of a neural metamodel to optimise processes at some nodes of the sodium carbonate production plant.
- Smart Fluid Sp. z o.o. raised more than PLN 5 million to carry out R&D works aimed at verifying in real conditions the thesis about the possibility of using shear thickened liquids developed by the Company for large-scale, economically viable production of material, which is a semi-finished product for manufacturers of widely understood clothing / protective elements / sports accessories.

Additionally, CIECH Soda Polska S.A. has successfully completed the process of applying for a decision on support as part of the Polish Investment Zone. The maximum amount of income tax exemption that can be used is more than PLN 20 million.

4.6 FINANCIAL RESOURCE MANAGEMENT

4.6.1 EXTERNAL DEBT FINANCING OF THE GROUP

The Group's debt financing is secured mainly through loans made available to CIECH S.A. under:

1. the Facilities Agreement signed with a consortium of banks dated 9 January 2018:
 - term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 31 December 2019 was PLN 1,340,275 thousand),
 - 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 2019 was PLN 0 thousand).
2. overdraft facilities up to PLN 100,000 thousand and EUR 10,000 thousand under agreements dated 28 and 29 August 2018 (as at 31 December 2019, the amount used was PLN 47,908 thousand),

3. revolving credit facilities up to PLN 392,788 thousand and EUR 25,000 thousand, under agreements dated 18 April 2019 (as at 31 December 2019, the amount used was PLN 246,463 thousand).

The total value of facilities available under the aforesaid agreements is PLN 2,232,110 thousand; the limits are drawn down in the amount of PLN 1,634,646 thousand.

Facilities Agreement

On 9 January 2018, an annex amending and restating the facilities agreement of 29 October 2015 (the "Facilities Agreement") was signed by CIECH S.A. as the borrower, subsidiaries of CIECH S.A.: CIECH Soda Polska S.A., CIECH Sarzyna S.A. and CIECH Soda Deutschland GmbH & Co.KG, CIECH Energy Deutschland GmbH, CIECH Soda Romania S.A. as guarantors ("Guarantors") and Bank Handlowy w Warszawie S.A., Bank Millennium S.A., Santander Bank Polska S.A. and BOŚ S.A., Credit Agricole Bank Polska S.A., HSBC Bank Polska S.A., HSBC Bank plc, Industrial and Commercial Bank of China (Europe) S.A. (spółka akcyjna) Oddział w Polsce, Powszechna Kasa Oszczędności Bank Polski S.A., mBank S.A. and BNP Paribas S.A. ("Creditors"). On 28 November 2019, Bank Ochrony Środowiska S.A. acceded to the agreement as the Creditor.

Facilities granted:

Under the Facilities Agreements, the Creditors granted the following facilities to the Company:

- The synthetic term loan in PLN and EUR granted by the Lenders in order to: (i) finance general corporate aims of the Company ("Term Loan"); The Term Loan was disbursed on 6 April 2018 in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand
- Revolving credit facility in PLN to the total amount of PLN 250,000 thousand, granted by the Creditors in order to finance the general corporate aims and the working capital of the Group, excluding acquisitions and prepayment for the Term Loan (hereinafter referred to as the "Revolving Credit Facility", and "Facilities" jointly with the "Term Loan"). As at 31 December 2019, the amount drawn under the facility was PLN 0.

Interest rate:

The Term loans bear interest at a floating rate determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt to EBITDA. The current level of margin, set on the basis of financial ratios as at the end of the first half of 2019, is 1.75%.

Facilities repayment conditions:

The main repayment conditions of the Facilities are as follows:

- amortisation of the Term Loan in the value of 26.12% of the loan amount on 30 December 2021 and 30 September 2022, the remaining portion of the loan is to be repaid on 31 December 2022,
- repayment of the Working Capital Loan with the lapse of the interest period selected by the Company for a given loan amount used, with mechanism of automatic revolving of the used amount for subsequent interest periods,
- cases of gross breach, allowing the creditors to request an earlier repayment of the facilities:
 - no payment of the amounts due to the Creditors;
 - violating the financial covenant provided for in the Facilities Agreement;
 - ceasing the entire business activity conducted by the Company or its important part;
 - violations of the law;
- the final date of repayment of the Term Loan and the Revolving credit facility – 31 December 2022.

Security for repayment of the facilities:

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

As at 31 December 2019, facilities granted pursuant the Facilities Agreement are secured by, e.g. securities established by the Company and Guarantors, in order to secure the parallel debt created pursuant to the Intercreditor Agreement concluded on 28 November 2012 and amended on 9 January 2018, including:

- pledges (register and financial pledges in relation to the companies seated in Poland and the corresponding securities in Germany and Romania), on the shares or stocks of Guarantors,
- registered pledge on property and other assets of CIECH S.A.,

- financial pledges on the rights to the funds deposited on the bank accounts of CIECH S.A. and Guarantors (including securities corresponding to financial pledges in Germany and Romania),
- statements of submission to enforcement proceedings of CIECH S.A. and Guarantors,
- powers of attorney to the bank accounts of CIECH S.A. and Guarantors.

Other essential terms of the Facilities Agreement:

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

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

Overdraft facilities

On 29 August 2018, overdraft facility agreements were signed by CIECH S.A. and Bank Millennium S.A. in the amount of PLN 50,000 thousand and EUR 10,000 thousand. The agreements were concluded until 29 August 2019 and on 23 August 2019, pursuant to Annex 1, their term was extended until 28 August 2020. Drawn-down amounts of the facilities will bear interest at the 1M WIBOR and 1M EURIBOR rate, respectively, plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

On 28 August 2018, an overdraft facility agreement was signed by CIECH S.A. and Bank Pekao S.A. in the amount of PLN 50,000 thousand. The agreement was concluded until 28 August 2019 and, pursuant to Annex 1 of 27 August 2019, its repayment date was changed to 31 August 2020. A drawn-down amount of the facility will bear interest at the 1M WIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is legally secured by collateral established in accordance with the Intercreditor Agreement of 28 November 2012. The terms and conditions of the agreement do not differ from standard terms used for facility agreements.

Revolving facilities

On 18 April 2019, a facility agreement was signed by CIECH S.A. and Bank Pekao S.A. in the amount of PLN 300,000 thousand. The agreement was concluded for the period until 7 May 2022. A drawn-down amount of the facility will bear interest at the 3M WIBOR or 6M WIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

On 18 April 2019, a facility agreement was signed by CIECH S.A. and Bank BNP Paribas S.A. in the amount of PLN 92,788 thousand. The agreement was concluded for the period until 7 May 2022. A drawn-down amount of the facility will bear interest at the 1M WIBOR or 3M WIBOR or 6M WIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

On 18 April 2019, a facility agreement was signed by CIECH S.A. and Banko de Sabadell S.A., London Branch in the amount of EUR 25,000 thousand. The agreement was concluded for the period until 7 May 2022. A drawn-down amount of the facility will bear interest at the 1M EURIBOR or 3M EURIBOR or 6M EURIBOR rate plus the bank's margin. The facility is intended to finance the Company's day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

Intercreditor Agreement

On 28 November 2012, CIECH S.A. and particular companies of the Group have concluded an intercreditor agreement (“Intercreditor Agreement”), subsequently amended on 9 January 2018, in order to establish a shared security package, regulate the relations and the possible priority between: (i) creditors and other senior creditors due to the initial loan agreement and any other loan agreements which will replace the initial loan agreement; (ii) entities who will enter into the Intercreditor Agreement as Parties of certain allowed agreements securing against risks; (iii) the Trustee acting on its own behalf and on behalf of the owners of bonds issued on foreign markets; (iv) Espirito Santo Investment Bank as the administrative agent for the purpose of the Domestic Bonds; (v) representatives of creditors and equivalent creditors; (vi) internal creditors and debtors within the group; and (vii) bank PKO BP S.A. as the Security Agent.

4.6.2 INTRAGROUP LOANS GRANTED

TABLE 36: SUMMARY OF LOANS GRANTED BY CIECH S.A. TO SUBSIDIARIES IN 2019

Borrower	Repayment date	As at 31 December 2019		Conditions of granting
		The amount of loan granted per agreement (in the currency in thousands)	The amount of loan disbursed in PLN '000	
CSD GmbH & CO KG*	04.10.2023	EUR 26,539	EUR 26,539/ PLN 113,015	fixed interest rate of 2.7%
CIECH Salz Deutschland GmbH*	04.10.2023	EUR 112,207	EUR 14,461/ PLN 61,583	fixed interest rate of 2.7%
Proplan Plant Protection Company S.L.	31.12.2020	EUR 1,500	EUR 1,500/ PLN 6,388	fixed interest rate of 2.7%
Proplan Plant Protection Company S.L.	31.12.2020	EUR 3,000	EUR 1,500/ PLN 6,388	fixed interest rate of 2.7%
CIECH Sarzyna S.A.	31.12.2020	PLN 57,249	PLN 57,249	interest at 6M WIBOR + margin of 2.4%

* Agreement signed on 20 December 2019 on the division of the loan granted by CIECH S.A. to CSD GmbH & CO KG in the amount of EUR 138,746 thousand so that a part of the disbursed loan and a part of the loan not disbursed was transferred to CIECH SA Salz GmbH.

TABLE 37: SUMMARY OF LOANS CONCLUDED BETWEEN SUBSIDIARIES IN THE CIECH GROUP IN 2019

Lender	Borrower	Repayment date	As at 31 December 2019		Conditions of granting
			The amount of loan granted per agreement (in the currency in thousands)	The amount of loan disbursed in PLN '000	
Gamma Finanse Sp. z o.o.	Verbis Kappa Sp. z o.o. SKA	31.12.2020	PLN 11,000	11,000	interest at 12M WIBOR + margin of 2.4%
Verbis Kappa Sp. z o.o. SKA	CIECH Sarzyna S.A.	31.12.2020	PLN 1,500	1,500	interest at 6M WIBOR + margin of 2.4%
Algete Sp. z o.o.	CIECH Sarzyna S.A.	31.12.2020	PLN 3,500	3,500	interest at 6M WIBOR + margin of 2.4%

Sureties and guarantees granted as at 31 December 2019 were described in detail in Section 4.8.

4.7 MATERIAL LITIGATION PENDING BEFORE A COURT, AN APPROPRIATE ARBITRATION AUTHORITY OR A PUBLIC ADMINISTRATION AUTHORITY

Information about material litigation pending before a court, an appropriate arbitration authority or a public administration authority is presented in Note 9.2 to the Consolidated Financial Statements of the CIECH Group for 2019 and in Note 9.2 to the Financial Statements of CIECH S.A. for 2019.

4.8 INFORMATION ON CHANGES IN CONTINGENT ASSETS AND LIABILITIES OF THE CIECH GROUP

Information on contingent assets and liabilities of the CIECH Group is presented in Note 9.2 to the Consolidated Financial Statements of the CIECH Group for 2019 and in Note 9.2 to the Financial Statements of CIECH S.A. for 2019.

4.9 TRANSACTIONS WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

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.

For a description of transactions concluded between related parties, see Note 9.3 to the Consolidated Financial Statements of the CIECH Group for 2019 and Note 9.3 of the Financial Statements of CIECH S.A. for 2019.

4.10 CONTRACT WITH THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

Information about contracts concluded with the entity authorised to audit the consolidated financial statement is presented in Note 9.4 to the Consolidated Financial Statements of the CIECH Group for 2019 and in Note 9.4 to the Financial Statements of CIECH S.A. for 2019.



**ORGANISATION, MANAGEMENT,
STRUCTURE AND HUMAN RE-
SOURCES**

IN THE CIECH GROUP



5 ORGANISATION, MANAGEMENT, STRUCTURE AND HUMAN RESOURCES IN THE CIECH GROUP

5.1 EQUITY AND ORGANISATIONAL LINKS

The CIECH Group consists of domestic and foreign manufacturing, distribution and trade companies operating in the chemical industry. The CIECH Group comprises CIECH S.A. as the parent company, and related companies located, inter alia, in Poland, Germany, Romania and Spain.

Parent company	CIECH Spółka Akcyjna
Registered office	00-684 Warsaw, Wspólna Street 62
KRS (National Register number)	Court 0000011687 (District Court for the Capital City of Warsaw in Warsaw, 12 th Commercial Division of the National Court Register)
Website	www.ciechgroup.com
IR Contact	ri@ciechgroup.com

As at 31 December 2019, the CIECH Group comprised 38 business entities, including:

- parent company,
- 31 subsidiaries, of which:
 - 21 domestic subsidiaries,
 - 10 foreign subsidiaries,
- 3 domestic affiliates,
- 1 foreign affiliate,
- 1 jointly controlled domestic entity,
- 1 jointly controlled foreign entity.

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

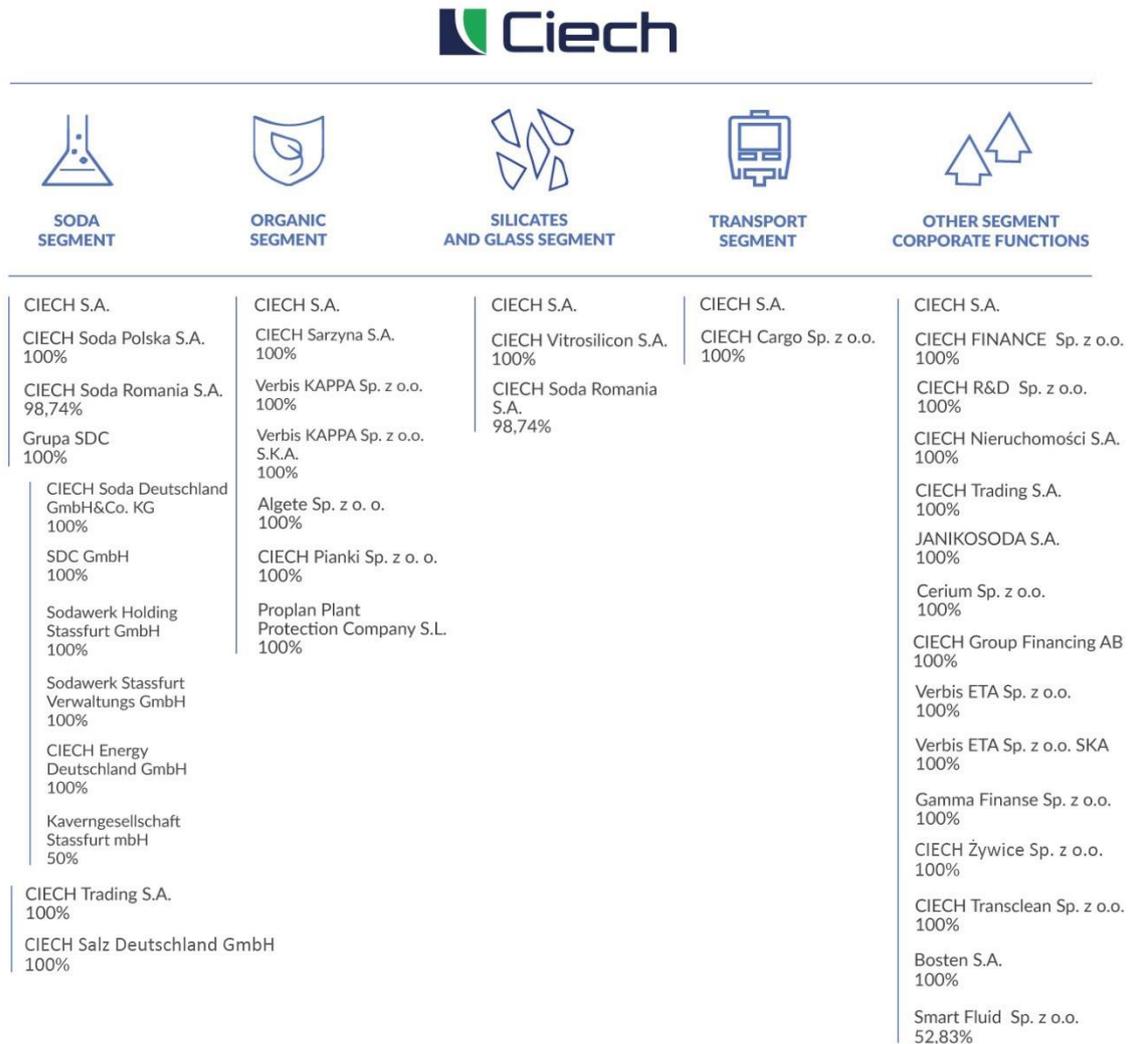
The parent company of CIECH S.A. has a branch in Romania, a branch in Germany, and operates through its offices in Inowrocław and Nowa Sarzyna. CIECH Trading S.A. subsidiary has a branch in Bydgoszcz.

The trading activity is carried out mostly by CIECH S.A., domestic and foreign trading subsidiaries of CIECH S.A., as well as selected manufacturing companies (CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., SDC Group, CIECH Pianki Sp. z o.o.) while the manufacturing activity is carried out by production companies, subsidiaries of CIECH S.A. The production is located in 8 plants, with four largest production plants (two in Poland, one in Germany and one in Romania) operate in the soda segment and manufacture soda ash and soda derived products (in the case of CIECH Soda Romania S.A., the plant also manufactures products in the silicates and glass segment, the soda plant in Janikowo also manufactures salt products and the plant in Germany produces electric energy sold to third parties). The other 4 plants are dedicated to the organic segment, and to silicates and glass segment, and are located in Poland. Currently, soda production at the plant in Romania has been suspended (for more information, see Section 1.1 of this report).

5.2 SCOPE OF ACTIVITIES OF CIECH S.A. AND CONSOLIDATED ENTITIES WITHIN THE GROUP

The CIECH Group's business activities are primarily divided by business segments, including in 2019: soda segment, organic segment, silicates and glass, and transport segment. A detailed description of the management segments is presented in item 1.3. The following diagram shows the structure of the CIECH Group, including fully consolidated companies or companies accounted for using the equity method in the consolidated financial statements of the CIECH Group as at 31 December 2019.

FIGURE 40: SEGMENT STRUCTURE OF THE CIECH GROUP AS AT 31 DECEMBER 2019



Detailed information about the number of shares held by CIECH S.A./the CIECH Group in the equity of individual companies, along with the consolidation methods, is presented in Note 9.5 to the Consolidated Financial Statements of the CIECH Group for 2019.

5.3 SCOPE OF ORGANISATION AND MANAGEMENT IN THE CIECH GROUP AND CHANGES IN 2019

In 2019, the CIECH Group's business model was based on the Matrix Management model in which the heads of specific areas within CIECH S.A are responsible for their proper functioning in the entire CIECH Group.

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

- Concentration of a wide range of business and support functions at CIECH S.A. level.
- For management purposes, establishment of so-called Business Units within segments, which are focused on product groups and responsible for product manufacturing and sales.
- Focusing production companies on their production activity.
- Clear division of competences and responsibilities (operational management of production companies by the holding company).
- Reduction of positions related to overlapping business and support functions.
- Centralisation of management of finance, IT, HR and legal area.

5.4 OWNERSHIP CHANGES

In 2019, the following changes occurred in relation to the companies in which CIECH S.A. held shares, either directly or indirectly. These changes translated into changes in the structure of the CIECH Group.

1) Increased shareholding in companies

- **CIECH R&D Sp. z o.o.**

On 22 November 2018, the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. increased the Company's share capital by PLN 2 thousand, i.e. from PLN 40,005 thousand to PLN 40,007 thousand through creation of new, equal and indivisible shares with a value of PLN 50 per share. The right to acquire 40 new shares with a total nominal value of PLN 2 thousand was granted to CIECH S.A. in exchange for a cash contribution of PLN 2,200 thousand, where the amount of PLN 2,198 thousand represented the share premium allocated to the supplementary capital. The court registered the share capital increase on 23 January 2019.

- **Vasco Polska Sp. z o.o. – currently: CIECH Żywiec Sp. z o.o.**

On 11 January 2019, the Court registered the increase of the share capital of Vasco Polska Sp. z o.o. effected pursuant to a resolution of the Extraordinary General Meeting of Vasco Polska Sp. z o.o. dated 14 November 2018. The Company's share capital was increased by PLN 500, i.e. from PLN 50 thousand to PLN 50.5 thousand through creation of 10 new, equal and indivisible shares with a nominal value of PLN 50 per share. The right to acquire the new shares was granted to CIECH S.A. in exchange for a cash contribution of PLN 130 thousand, where the amount of PLN 129.5 thousand represented the share premium and was allocated to the supplementary capital.

On 11 January 2019, CIECH S.A. was registered by the Court as the sole shareholder of the Company following the acquisition by CIECH S.A. of 100 shares in the company, representing 10% of the share capital, from the minority shareholder. The agreement on the sale of shares in Vasco Polska Sp. z o.o. was signed on 15 November 2018.

On 8 July 2019, the Extraordinary Shareholders' Meeting of Vasco Polska sp. z o.o. resolved to increase the Company's share capital by PLN 5 thousand, i.e. from PLN 50.5 thousand to PLN 55.5 thousand through creation of 100 new, equal and indivisible shares with a nominal value of PLN 50 per share. The new shares were acquired by the current shareholder of the company, CIECH S.A., in exchange for a cash contribution of PLN 755 thousand, where the amount of PLN 750 thousand was credited to the supplementary capital as the share premium. The Extraordinary Shareholders' Meeting of Vasco Polska sp. z o.o. also resolved to change the Company's name to CIECH Żywiec Sp. z o.o. and to change the Company's registered office to Nowa Sarzyna.

On 31 July 2019, the Court registered the increase in the Company's share capital and its new registered office. The change of the company's name from Vasco Polska Sp. z o.o. to CIECH Żywiec Sp. o.o. was registered on 13 August 2019.

In connection with the adoption by CIECH Sarzyna S.A. on 31 October 2019 of the Demerger Plan of CIECH Sarzyna S.A. (filed with the District Court in Rzeszów, 12th Commercial Division of the National Court Register on 31 October 2019), as a result

of which an organised part of the enterprise of Sarzyna – the Resins Business Unit – is spun off to CIECH Żywiec Sp. z o.o. (organisationally, functionally and financially separated set of tangible and intangible assets, including liabilities, intended for the performance of specific economic tasks, i.e. for production, sale and distribution of unsaturated polyester resin products, saturated polyester resin products, epoxy resin products and a complementary products – on the Polish and foreign markets).

As a result of the Demerger Plan of CIECH Sarzyna S.A., on 16 December 2019 the Extraordinary Shareholders' Meeting of CIECH Żywiec Sp. z o.o. adopted a resolution on the demerger of CIECH Sarzyna S.A., by deciding to:

- ✓ participate in the demerger of CIECH Sarzyna S.A. effected through the spin-off of an organised part of the enterprise on the terms set forth in the Demerger Plan (demerger by spin-off),
- ✓ approve the Demerger Plan of CIECH Sarzyna S.A. as agreed by the Management Board of CIECH Sarzyna S.A. on 31 October 2019,
- ✓ increase the share capital of CIECH Żywiec Sp. z o.o. from PLN 55.5 thousand by PLN 3,678.35 thousand, i.e. to PLN 3,733.85 thousand, through the creation of 73,567 new shares with a nominal value of PLN 50 per share and the total value of PLN 3,733.85 thousand. All newly created shares in the increased share capital of CIECH Żywiec Sp. z o.o. were allotted to the sole shareholder of CIECH Sarzyna S.A., i.e. CIECH S.A., in the following manner: 8,490,000 shares in CIECH Sarzyna S.A. entitle to the receipt of 73,567 shares in Żywiec. As a result of the increase, the share capital of CIECH Żywiec Sp. z o.o. amounts to PLN 3,733.85 thousand and is divided into 74,677 shares with a value of PLN 50 per share and a total value of PLN 3,733.85 thousand.

The Court registered the increase of the share capital of CIECH Żywiec Sp. z o.o. on 2 January 2020 and on this date CIECH S.A. became the holder of the newly created shares whilst remaining the sole shareholder of the Company.

- **Cerium Sp. z o.o.**

On 16 October 2019, the Extraordinary Shareholders' Meeting of Cerium Sp. z o.o. increased the Company's share capital by PLN 100 thousand, i.e. from PLN 5 thousand to PLN 105 thousand through creation of 2,000 new shares with a nominal value of PLN 50 per share and total value of PLN 100 thousand. The right to acquire new shares was conferred on the existing shareholder of the Company – CIECH Soda Polska S.A. who is the sole shareholder of the Company. Shares in the increased share capital were acquired by CIECH Soda Polska S.A. in exchange for a cash contribution.

2) dissolution of companies, dissolution/liquidation/suspension of companies

- **Cerium Sp. z o.o.**

On 16 October 2019, the Extraordinary Shareholders' Meeting of Cerium Sp. z o.o. resolved to dissolve the Company and open the liquidation proceedings. The court registered the decision to dissolve the Company and open its liquidation on 18 November 2019.

3) acquisition of shares in new companies

- **CIECH Salz Deutschland GmbH**

Under an Agreement of 6 September 2019, CIECH S.A. purchased 25,000 shares in Blitz 19-213 GmbH from Blizstart Holding Ag with a value of EUR 1 per share and a total value of EUR 25 thousand. The price for the shares amounted to EUR 28.5 thousand. The shares acquired account for 100% of the share capital of Blitz 19-213 GmbH. Subsequently, on 6 September 2019, the General Shareholders' Meeting of Blitz 19-213 GmbH changed the company's name from Blitz 19-213 GmbH to CIECH Salz Deutschland GmbH and the company's registered office from Munich to Staßfurt. On 11 December 2019, the next Shareholders' Meeting of CIECH Salz Deutschland GmbH increased the share capital from EUR 25 thousand to EUR 3,025 thousand, by creating 100 new shares with a value of EUR 30 thousand per share and a total value of EUR 3 million. New shares from the increase of the share capital of CIECH Salz were acquired by CIECH S.A. in exchange for cash. The increase of the share capital was registered on 5 March 2020.

Moreover, CIECH S.A. as the sole shareholder of: (i) SDC GmbH, the (indirect) parent of CIECH Soda Deutschland GmbH & Co. KG ("CSD"), and (ii) CIECH Salz Deutschland GmbH ("C. Salz") authorised CSD to dispose of its rights (and obligations) by way of two agreements: agreement on the assignment of rights and obligations related to the production of salt in Strassfurt,

Germany, and agreement on the sale of ownership rights to real property related to the Salt Business to C. Salz. The subject matter of the Agreement on Assignment from CSD to C. Salz is the sale and transfer of all assets related to the salt business and belonging exclusively to the salt segment together with all liabilities and agreements. The subject matter of the Sale Agreement is the land of CSD intended for a salt project.

5.5 EMPLOYMENT STRUCTURE AND HUMAN RESOURCES

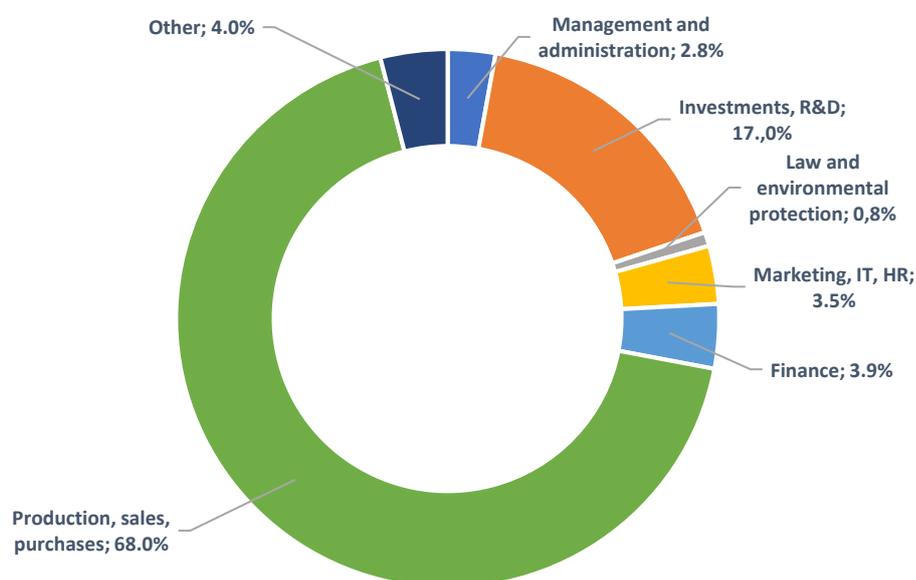
Employment structure

As at the end of 2019, the CIECH Group (the parent company, CIECH S.A., and fully consolidated subsidiaries) employed 3,705 people (of which 474 employees in CIECH S.A.). As at the end of the comparable period, i.e. 2018, the Group employed 3,871 people (including 493 in CIECH S.A.). About 72% employees work in Poland, the majority of which is employed by the production department.

TABLE 38: EMPLOYMENT IN THE CIECH GROUP – WHITE COLLAR WORKERS AND BLUE COLLAR WORKERS

	31.12.2019/2019	31.12.2018/2018
Headcount	3,705	3,871
White-collar workers	1,446	1,422
Blue-collar workers	2,259	2,449
Average headcount	3,826	3,876
White-collar workers	1,497	1,392
Blue-collar workers	2,329	2,484

FIGURE 41: EMPLOYMENT IN THE CIECH GROUP – BUSINESS AREAS



The CIECH Group is a responsible employer and undertakes a number of actions aimed at improving the efficiency of communication with employees and enhancing their satisfaction and involvement.

Change of the remuneration system

One of the key projects carried out in the HR Department was a project to change the remuneration system (evaluation of jobs, development of the basic remuneration system and the bonus system, together with a benchmark analysis of employee remuneration against market rates) and a project to evaluate and develop competencies in the CIECH Group.

In total, nearly 450 jobs in Polish companies of the Group were evaluated – each of them was assessed, among others, in terms of the scope of responsibility, role in the company or qualifications required. In the process of analysing and harmonizing positions, we reduced the number of job names by about 25%. We have also revised all job descriptions across the Group.

The factor and scoring method was used to determine the hierarchy of positions. The positions have been divided into grades, depending on the score.

Based on the analysis of market payroll rates, payroll tables were prepared for positions in the CIECH Group. The target positioning and starting point for the payroll table was the market median. The tables will be updated as part of the regular payroll reviews.

The structure of positions and tariffs were consulted with the social partners and subsequently introduced into the Remuneration Rules.

The general structure of positions is a factor combining further elements of the integrated system of remuneration and development of employees in the CIECH Group, including: bonuses, evaluation systems, competence models.

We have also prepared a concept of changes in the integrated evaluation system and the goals and KPI management system, to be implemented in 2020.



SHARES AND SHAREHOLDERS

6 SHARES AND SHAREHOLDERS

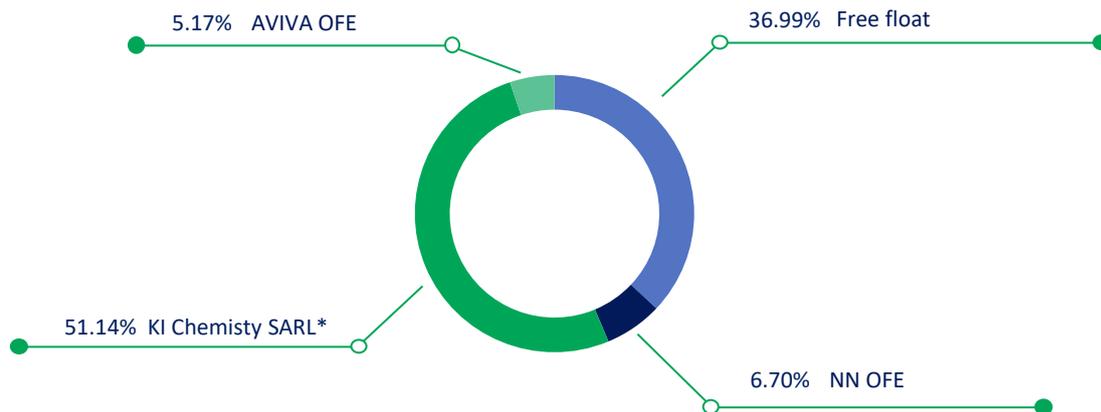
6.1 SHAREHOLDER STRUCTURE OF CIECH S.A.

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.

To the best knowledge of CIECH S.A., entities holding significant blocks of shares (at least 5%) are the entities listed below:

FIGURE 42: SHAREHOLDER STRUCTURE AS AT THE DATE OF APPROVAL OF THIS REPORT



*KI Chemistry s.à.r.l. is a subsidiary of Kulczyk Investments.



Since 2014, the major shareholder of CIECH S.A. is a long-term strategic investor – **Kulczyk Investments**. It is an international investment company focused on business opportunities in high growth markets.

6.2 CIECH S.A. ON THE STOCK EXCHANGE

6.2.1 CIECH S.A. ON THE WARSAW STOCK EXCHANGE

Shares of CIECH S.A. debuted on the Warsaw Stock Exchange on 10 February 2005. In February 2011, the company completed the process of issuing shares with pre-emptive rights, and as a result, it issued ordinary bearer shares, which were first quoted on 30 March 2011. Shares of CIECH S.A. are quoted on the primary market of the Warsaw Stock Exchange in the continuous trading system.

TABLE 39: BASIC INFORMATION ON THE SHARES

Name	CIECH S.A.
Abbreviated name	CIECH
Ticker	CIE
ISIN	PLCIECH00018
Bloomberg ticker	CIE PW
Reuters ticker	CIEP.WA
Listed from	10.02.2005
Number of shares	52,699,909
Free float	36.99%
Segment	Large company (capitalisation of over EUR 250 million)
Sector groups	chemicals, fertilisers and nitrogen compounds
Indices	WIG, WIG-Poland, mWIG40, mWIG40TR, WIG-CHEMIA, WIG.MS-PET, WIG-ESG, CEEplus, InvestorMS, MSCI Emerging Markets Index, FTSE Developed Small Cap Index

TABLE 40: INDICES CONTAINING CIECH S.A.'S SHARES

Index	Description	Share of CIECH S.A.'s shares in the index
WIG	WIG – an index comprised of all companies listed on the WSE Main Market which satisfy the basic eligibility criteria. The index follows the diversification principle, aimed at the limiting the share of a single company and a single exchange sector.	0.36%
WIG Poland	WIG-Poland – an index comprised only of shares of domestic companies listed on the WSE Main Market which satisfy the basic eligibility criteria. Both values as well as WIG-PL and WIG index participants are different.	0.36%
mWIG40	mWIG40 – an index comprising 40 medium size companies listed on the WSE Main Market; it is a price index which means that it is calculated taking into account prices of underlying shares, excluding dividend income.	1.77%
mWIG40TR	mWIG40TR – an index calculated since 18 September 2017, based on the value of a portfolio of 40 medium size companies on the WSE Main Market. Unlike mWIG40, mWIG40TR is the total return index, which means that it is calculated taking into account prices of underlying shares and dividend income. All other index construction rules are consistent with the mWIG40 index methodology.	1.77%
WIGchemia	WIG-CHEMIA – a sectoral index, which is comprised of companies which participate in the WIG index and are at the same time categorized as “chemistry” companies.	37.66%
WIG.MS-PET	The WIG-ESG index is published on the basis of the value of portfolio of 5 most liquid companies covering following sectors: fuels, gas and chemicals.	4.09%

Index	Description	Share of CIECH S.A.'s shares in the index
WIG-ESG	The WIG-ESG index is published based on the value of portfolio of companies recognized as socially responsible, i.e. those that comply with the principles of socially responsible business, in particular in the field of environmental, social, economic and corporate governance issues.	0.36%
CEEplus	The CEEplus index is published based on the value of the portfolio of the largest and most liquid companies listed on stock exchanges from the Central Europe region of Croatia, the Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary.	0.19%
 InvestorMS	InvestorMS – a third-party index calculated by the WSE at the request of Investors TFI S.A. The index tracks the performance of the stock of small and mid-cap companies in the investment focus of the fund Investor Top 25 Małych Spółek FIO. The InvestorMS index is the fund's investment performance benchmark. The methodology of the Investor MS index was developed jointly by the Warsaw Stock Exchange and Investors TFI S.A.	1.40%
 MSCI	MSCI Emerging Markets Index – one of the indices calculated by MSCI ESG Research. Index created for investors looking for companies whose business profile is focused on emerging markets.	<0.04%
 FTSE Russell	FTSE Developed Small Cap Index – the index includes shares of low-capitalisation companies from developed markets. The Index is part of the FTSE Global Equity Index Series (GEIS), which covers approximately 98% of the world's market capitalisation.	<0.005%

Data: WSE, MSCI, FTSE Russell

Share prices

FIGURE 43: CHANGES IN PRICES OF CIECH S.A.'S SHARES IN 2019 IN COMPARISON WITH CHANGES IN INDICES



Source: infostrefa.com, finance.yahoo.com.

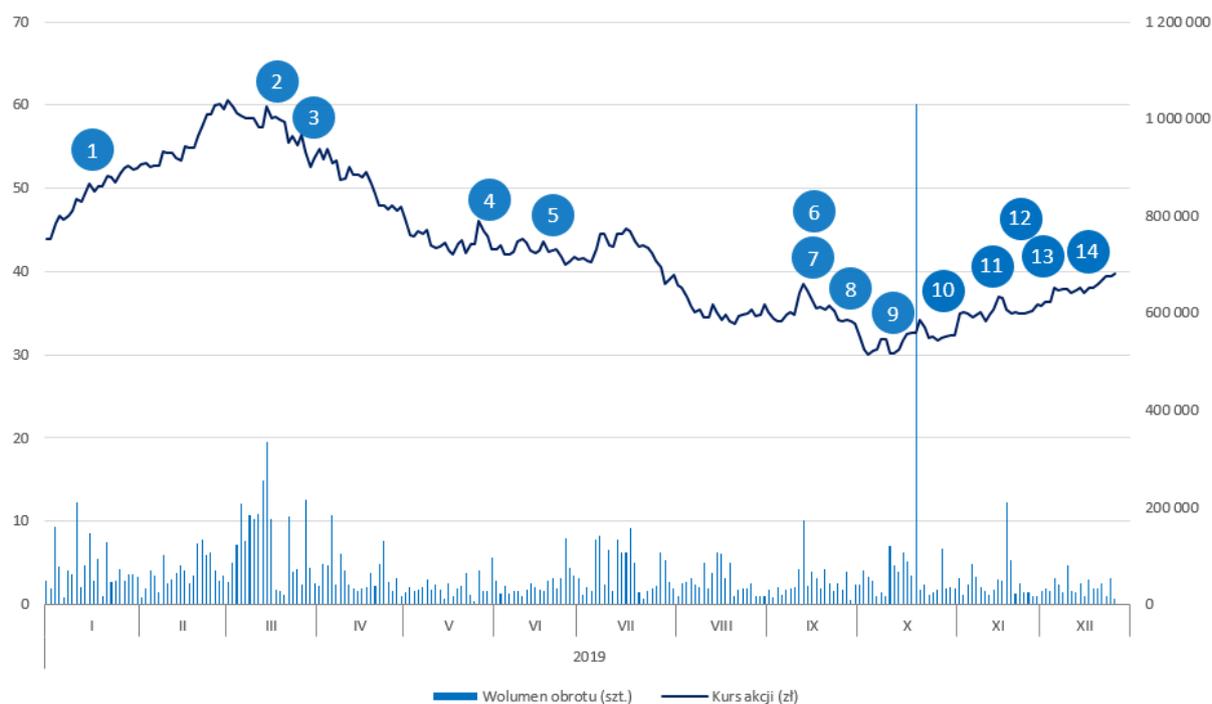
In 2019, the main WSE index, WIG, decreased by 0.8% over the previous year, to 57,832.88 points. WIG20, i.e. the index that groups twenty largest companies, fell by 6.6% and stood at 2,150.09 points at the end of 2019. Over the past year, mWIG40, an index of mid-cap companies, declined slightly from 3,947.26 points to 3,908.20 points. The industry index, WIG-Chemia, dropped by 11.7% to the level of 8,390.97 points at the close of the last session in the year. The DAX index, the most important index of Börse Frankfurt, the German Stock Exchange, increased by 25.2% and stood at 13,290.00 points at the end of 2019.

PLN 2.3 billion

- average capitalisation of
CIECH S.A. in 2019

In the first quarter of 2019, the price of CIECH SA's shares increased strongly by approximately 35.0%, setting the maximum price in 2019 at PLN 60.55 (at closing prices) on 1 March 2019. The following months saw a downward trend lasting until early October. The price bottom of PLN 30.00 was reported on 3 October 2019. Next, the price started to follow an upward trend. The closing price during the last 2019 session amounted to PLN 39.70, which is a 9.7% decline as compared to the closing price at the end of 2018.

FIGURE 44: PRICE OF CIECH S.A.'S SHARES AND TRADING VOLUME IN 2019



Source: infostrefa.com.

- | | | | |
|---|--|----|--|
| 1 | 24.01.: Creation of provisions for tax liabilities and interest | 8 | 18.09.: Temporary suspension of production by CIECH Soda Romania |
| 2 | 19.03.: Beginning of the review of options for changes in the corporate and organizational structure and in the structure of assets of the CIECH Group | 9 | 11.10.: Begin review of strategic options of the Resins business |
| 3 | 26.03.: Publication of annual report for 2018 | 10 | 31.10.: Adoption of the CIECH Sarzyna division plan |
| 4 | 28.05.: Publication of the report for the first quarter of 2019 | 11 | 14.11.: Creating an additional write-down on the assets of CIECH Soda Romania |
| 5 | 18.06.: Receipt of termination of the contract for the supply of process steam to CIECH Soda Romania | 12 | 19.11.: Publication of the report for the third quarter of 2019 |
| 6 | 09.09 Creation of impairment losses on assets Ciech Soda Romania | 13 | 25.11.: Adoption of the concept of the CIECH Group Reorganization Plan |
| 7 | 10.09.: Publication of the report for the first half of 2019 | 14 | 05.12.: Signing of a letter of intent regarding the investment involving the construction of a salt mine and underground gas storage as well as brine supplies to the production plants of the CIECH Group |

Key data concerning shares of CIECH S.A.

CIECH S.A.'s shares listed on the Warsaw Stock Exchange are characterised by high liquidity. In 2019, the average number of the company's shares changing hands in a trading session was 63.9 thousand, and the average volume of trading per session was PLN 2.9 million

TABLE 41: DATA CONCERNING SHARES OF CIECH S.A. AT THE WSE

CIECH S.A.'s shares – statistics	2019	2018	2017
Number of shares	52,699,909	52,699,909	52,699,909
Closing share price as at the last quotation day in the year (PLN)	39.70	44.30	57.50
Capitalisation of the company as at the end of the year (PLN million)	2,092	2,335	3,030
Maximum price in the year (PLN)	60.55	64.50	88.68
Minimum price in the year (PLN)	30.00	40.30	50.52
Average trading volume per session (number of shares)	63,900	92,817	80,995
Average trading value per session (PLN)	2,859	4,913	5,399
Capital market ratios for CIECH S.A. shares	2019/ 31 December 2019	2018/ 31 December 2018	2017/ 31 December 2017
EPS (PLN)	2.23	2.13	7.47
Net profit/(loss) attributable to owners / number of shares			
P/E (x)	17.8	20.8	7.7
Price / earnings per share (P/E)			
P/BV (x)	1.43	1.66	1.96
Market price per share / book value per share (P/BV)			
EV/EBITDA (x)	6.34	5.86	4.76

Source: CIECH S.A., WSE data.

6.2.2 CIECH S.A. ON THE FRANKFURT STOCK EXCHANGE

On 23 August 2016, CIECH S.A.'s shares were admitted to trading in the Frankfurt Stock Exchange and are listed on the regulated market, in the General Standard sub-segment. The decision of the Management Board of the company was another step in the implementation of a strategy of expansion of the leading Polish chemical company in international markets.

TABLE 42: KEY INFORMATION ABOUT SHARES LISTED ON THE FRANKFURT STOCK EXCHANGE

Ticker	CHX
Listed from	23.08.2016
Number of shares	52,699,909
Market	General Standard sub-segment

6.2.3 INVESTOR RELATIONS

In order to pursue the highest standards of corporate governance and communication, ensure continuous and equal access to information about the Group to all stakeholders, and to meet their needs, CIECH S.A. makes various efforts in the area of investor relations. Effective communication with the equity market and the transparency thereof are among the key priorities of CIECH S.A. that contribute to its shareholder value. 2019 was another year of intense efforts of CIECH S.A. in the area of investor communication.

CIECH S.A.'s key investor relations activities:

- **Direct meetings** – the company organises group meetings with the Management Board to discuss financial performance (dedicated to the Polish sell-side and buy-side) and to discuss other significant Group events, e.g. publication of the Group's strategy. Representatives of CIECH S.A. are also available for individual meetings where required.

In 2019, **111 meetings*** were held and CIECH S.A.'s representatives spent a total of **119 hours** at such meetings.

** individual meetings, conference calls, investor conferences, performance meetings, chats*

- **Investor conferences in Poland and abroad** – the company also actively meets with investors in Poland and abroad during conferences organised by brokers; in 2019 the company took part in three investor conferences.
- **Non-deal roadshows** – the company meets with investors abroad, during non-deal roadshows – in 2019 it held meetings with investors in Frankfurt, Tallinn and Stockholm.
- **Investor Chats** – since the beginning of 2017, CIECH S.A.'s representatives have been available for individual investors via chat sessions. They are organised every quarter immediately after the publication of financial results by the company. In 2019, 4 investor chats were held.
- **Teleconferences** – in 2019, after the publication of financial results, the company was also available to investors in Poland and abroad via a telephone line, and on an ad-hoc basis, depending on the investors' needs.
- **WallStreet Conference** – in 2019, CIECH S.A.'s representatives for the sixth time took an active part in the WallStreet Conference – it is the largest meeting in the region organized for individual investors and one of the largest events focusing on the capital market in Poland. Individual investors had the opportunity to meet with the company's representatives during the Shareholder Forum (presentation in the form of a lecture) and the "Twoje Inwestycje" trade fair (information stand).
- **Active "Investor relations" tab on the company's website** – the company posts information on, among others, key events and new recommendations on its website. The tab is also systematically updated with new content and information (videos, presentations, infographics, one-pagers and spreadsheets).



Awards and distinctions received in 2019 for efforts related to communication with investors and presence in the equity market:



The jury of the prestigious "The Best Annual Report 2018" competition recognised CIECH S.A.'s report as one of the three best annual reports for 2018 on the Polish market. The objective of the competition is to promote reports that are most useful to shareholders and investors.

TABLE 43: REPORTING CALENDAR OF THE CIECH GROUP AND CIECH S.A.

Date	Interim report
31.03.2020	Consolidated and separate annual report for 2019
27.05.2020	Consolidated report for the first quarter of 2020
08.09.2020	Consolidated report for the first half of 2020
18.11.2020	Consolidated report for the three quarters of 2020

TABLE 44: RECOMMENDATIONS FOR CIECH S.A.'S SHARES

20	Buy
6	Hold
1	Accumulate

CIECH S.A., as one of the largest companies from the chemical sector listed on the WSE whose shares are included in the mWIG40 index, is regularly assessed and rated by reputable institutions of the capital market.



TABLE 45: SUMMARY OF RECOMMENDATIONS AND REPORTS OF BROKERAGE HOUSES IN 2019

Highest target price	PLN 75.82
Median	PLN 48.00
Lowest target price	PLN 38.90

TABLE 46: DETAILED INFORMATION ABOUT RECOMMENDATIONS FOR CIECH S.A. ISSUED IN 2019

Date	Institution	Recommendation	Target price
17.12.2019	DM BOŚ	BUY	PLN 43.00
12.12.2019	mBank DM	BUY	PLN 44.41
09.12.2019	Trigon DM	BUY	PLN 42.80
06.12.2019	IPOPEMA Securities	BUY	PLN 40.90
05.12.2019	Raiffeisen Centrobank	BUY	PLN 48.00
21.10.2019	Trigon DM	BUY	PLN 38.90
18.10.2019	DM BOŚ	BUY	PLN 43.00
17.09.2019	Raiffeisen Centrobank	BUY	PLN 50.00
06.09.2019	mBank DM	BUY	PLN 42.03
02.08.2019	Wood & Company	HOLD	PLN 43.60
26.07.2019	DM BOŚ	HOLD	PLN 46.40
23.07.2019	Trigon DM	HOLD	PLN 46.80
19.07.2019	DM PKO BP	BUY	PLN 59.80
04.07.2019	Trigon DM	BUY	PLN 46.80
03.07.2019	mBank DM	HOLD	PLN 41.72
12.06.2019	DM BDM	ACCUMULATE	PLN 46.70
03.06.2019	mBank DM	BUY	PLN 55.00
21.05.2019	Santander	BUY	PLN 58.23
09.05.2019	mBank DM	BUY	PLN 68.11
23.04.2019	DM BOŚ	HOLD	PLN 59.00
18.04.2019	Trigon DM	HOLD	PLN 55.90
02.04.2019	DM mBank	BUY	PLN 68.66
25.02.2019	WOOD & Company	BUY	PLN 70.00
22.02.2019	DM PKO BP	BUY	PLN 69.00
07.02.2019	Erste Securities	BUY	PLN 69.20
04.02.2019	DM mBank	BUY	PLN 75.82
11.01.2019	IPOPEMA Securities	BUY	PLN 56.40

Disclaimer: This consensus estimates does not constitute or form part of and should not be constructed as, an offer to sell, or the solicitation or invitation of any offer to buy or subscribe for Company's securities. This summary has been prepared for information purposes only and is not intended to constitute investment advice. CIECH S.A. is not responsible for the consequences of decisions taken based on information contained in this consensus.

TABLE 47: INSTITUTIONS SUBMITTING RECOMMENDATIONS FOR CIECH S.A.'S SHARES IN 2019

Institution	Analyst	Address details
BDM	Krystian Brymora	brymora@bdm.com.pl
IPOPEMA Securities	Piotr Jusiński	piotr.jusinski@ipopema.pl
PKO BP BM	Tomasz Kasowicz	tomasz.kasowicz@pkobp.pl
Trigon DM	Michał Kozak	michal.kozak@trigon.pl
Raiffeisen Centrobank	Dominik Niszczyński	dominik.niszczy@rcb.at
Erste Securities	Emil Popławski	emil.poplawski@erstegroup.com
DM BOŚ	Łukasz Prokopiuk	l.prokopiuk@bossa.pl
Santander BM	Michał Sopieli	michal.sopiel@santander.pl
mBank BM	Jakub Szkopek	jakub.szkopek@mbank.pl
WOOD & Company	Paweł Wieprzowski	pawel.wieprzowski@wood.com

Dividend

The Management Board of CIECH S.A. has adopted a resolution with a proposal to allocate the net profit of CIECH S.A. for 2019 for supplementary capital.

On 22 August 2019, the Ordinary General Meeting resolved to distribute CIECH S.A.'s net profit for the financial year 2018, amounting to PLN 270,612 thousand, in the following manner:

- the amount of PLN 17,182 thousand was allocated to cover the loss recognized as an adjustment to the opening balance resulting from the application of IFRS 9 Financial Instruments,
- the amount of PLN 253,430 thousand was allocated to the supplementary capital of CIECH S.A.

TABLE 48: DIVIDENDS PAID

	2019	2018	2017
Dividend paid	-	395,249,000	-
Number of shares	52,699,909	52,699,909	52,699,909
Dividend per share – DPS (PLN) (*)	-	7.50	-
Dividend yield – DY (%) (**)	-	14.10	-

(*) DPS: Dividend per share

(**) DY: (DPS/ share price on the last day enabling the acquisition of shares with the right to dividend***)

(***) Share price two business days before the date of establishing the right to dividend

6.3 OTHER INFORMATION CONCERNING SHARES AND SHAREHOLDERS

Issue of securities and utilisation of proceeds from issue of shares

In 2005 and 2011, CIECH S.A. issued securities. Proceeds from these issued were used for investments, debt reduction and restructuring efforts.

In 2019, the CIECH Group used no proceeds from the issue of shares.

Purchase of treasury shares

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

Agreements on potential changes in the shareholder structure

In 2019, after the reporting date and prior to the date of publication of this report, no agreements were signed that could influence the changes in the proportions of shares held by current shareholders.



Employee share schemes

In 2019, there were no employee share schemes offered in the CIECH Group.

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

Mr Dawid Jakubowicz – President of the Management Board of CIECH S.A. holds 5,713 shares of CIECH S.A.

Mr Mirosław Skowron – Member of the Management Board of CIECH S.A., holds 1,930 shares of CIECH S.A.

Mr Sebastian Kulczyk – President of the Supervisory Board of CIECH S.A., holds indirectly 26,952,052 shares of CIECH S.A., representing 51.14% of the company's share capital.

In addition, Mr Rafał Czubiński – Managing Director of CIECH S.A. holds 1,950 shares of CIECH S.A.

Other Management Board Members of CIECH S.A. and Supervisory Board Members of CIECH S.A. did not hold any shares of the Company.



CORPORATE GOVERNANCE



7 CORPORATE GOVERNANCE

7.1 SET OF CORPORATE GOVERNANCE PRINCIPLES APPLIED BY CIECH S.A.

This representation is a separate part of the Director's Report of the CIECH Group and CIECH S.A. for 2019.

In 2019, CIECH S.A. was subject corporate governance principles contained in the document adopted by the Resolution No 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) of 13 October 2015. This set is available at the website of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) at:

<https://www.gpw.pl/dobre-praktyki>

The Management Board of CIECH S.A. represents that in the financial year ended 31 December 2019, CIECH S.A. and its authorities complied with the corporate governance rules contained in the document "Best Practice of GPW Listed Companies 2016", with exceptions described in item 7.2 below.

7.2 CORPORATE GOVERNANCE PRINCIPLES WHICH WERE NOT APPLIED BY THE ISSUER IN 2019

The Management Board of CIECH S.A. takes efforts to ensure the highest compliance with principles contained in the set "Best Practice of WSE Listed Companies 2016". In 2019, the Company departed from the application of 4 recommendations: IV.R.2., VI.R.1., VI.R.2., VI.R.3. and 15 detailed principles: I.Z.1.15., I.Z.1.16., I.Z.1.17., I.Z.1.20., II.Z.7., II.Z.10.1., II.Z.10.4., IV.Z.2., IV.Z.7., IV.Z.8., IV.Z.9., IV.Z.12., IV.Z.13., V.Z.6., VI.Z.4.

The reasons for departing from the aforementioned recommendations and detailed principles are indicated below:

TABLE 49: CORPORATE GOVERNANCE PRINCIPLES NOT APPLIED BY CIECH S.A.

Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
I. Information policy and communication with investors		
	A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:	
I.Z.1.15.	<ul style="list-style-type: none"> information about the company's diversity policy applicable to the company's authorities and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website; 	CIECH S.A. does not find it necessary to develop and apply the diversity policy with regard to the authorities of the Company and its key managers. The fact that particular persons serve management, supervisory and key functions in the Company's structure depends mainly on their competences and experience. In the opinion of CIECH S.A., these criteria allow to select candidates who guarantee the effective implementation of the strategy and, as a result, the Company's growth and benefits for shareholders.
I.Z.1.16.	<ul style="list-style-type: none"> information on the planned broadcast of the General Meeting of Shareholders – no later than 7 days before the date of the meeting, 	CIECH S.A. does not post information on the planned broadcasts of general meetings of shareholders on its website, because such broadcasts are not made by the Company.
I.Z.1.17.	<ul style="list-style-type: none"> grounds for draft resolutions of the General Meeting of Shareholders concerning the vital issues and decisions or issues and decision which may raise doubts of shareholders – on the date enabling the participants of 	Such grounds will be published, if they are prepared in accordance with provisions of the law.



Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
I.Z.1.20.	<p>the General Meeting of Shareholders to read them and pass the resolution having sufficient background,</p> <ul style="list-style-type: none"> an audio or video recording of a general meeting. 	<p>CIECH S.A. does not publish audio or video recordings of a general meeting on its website, because it does not record the proceedings in such form. The Company prepares and immediately publishes information required by the law on its website, among others, the contents of the resolutions taken at the General Meeting of Shareholders, enabling the investors to read the minutes.</p>
II. The Management Board and the Supervisory Board		
II.Z.7.	<p>Provisions of Annexe I to the Commission Recommendation, referred to in the principle II.Z.4 shall apply with regard to tasks and operations of committees of the Supervisory Board. If the function of the Audit Committee is performed by the Supervisory Board, the above principles shall apply respectively.</p>	<p>The Supervisory Board comprises, among others, the Remuneration Committee composed of two members who do not meet the independence criterion. Both Members are highly qualified, thus the Remuneration Committee operates effectively. The independence criterion does not have an impact on the reliability of the actions implemented by the Committee.</p>
II.Z.10.1.	<p>In addition to its responsibilities laid down in the legislation, the supervisory board should prepare and present to the ordinary general meeting once per year the following:</p> <ul style="list-style-type: none"> an assessment of the company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function; such assessment should cover all significant controls, in particular financial reporting and operational controls; 	<p>The assessment of the Supervisory Board refers to operations of control systems, risk management, compliance (policy accepted for application on 1 February 2018) and operations of the internal audit function in CIECH S.A., but not in the company itself. The standing of CIECH S.A. is presented in the financial statements, assessed by the supervisory board.</p>
II.Z.10.4.	<ul style="list-style-type: none"> an assessment of the rationality of the company's policy referred to in recommendation I.R.2 or information about the absence of such policy. 	<p>The sponsorship and charity activities performed by CIECH have no significant effect on the operational and financial situation of the Company. In the Company's opinion, the Supervisory Board does not have to prepare and present the assessment of the rationality of the policy, referred to in the recommendation I.R.2.</p>
IV. General Meeting of Shareholders and relations with shareholders		
IV.R.2.	<p>If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:</p> <ol style="list-style-type: none"> real-life broadcast of the general meeting; real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting; exercise of the right to vote during a general meeting either in person or through a plenipotentiary. 	<p>In the opinion of CIECH S.A., the shareholder structure is dispersed, but this does not justify holding general meetings using electronic communication means. In the opinion of CIECH S.A., the benefits of holding the meetings in such manner do not outweigh the risks it entails (e.g. no guarantee of complete security using IT systems). The Company will cyclically verify the ability to adapt to the above recommendations and does not exclude a change in this respect.</p>
IV.Z.2.	<p>If this is justified by the shareholder structure of the Company, the Company ensures a generally available real-time broadcast of the proceedings of the general meeting of shareholders.</p>	<p>In the opinion of CIECH S.A., the shareholder structure is dispersed, but this does not justify the necessity to ensure the generally available real-time broadcast of the proceedings of the general meeting of shareholders.</p>
IV.Z.7.	<p>A break in the general meeting of shareholders may take place only in specific situations, each time indicated in the grounds for the resolution on the break order, prepared on</p>	<p>In accordance with the applicable law, the break in the proceedings is decided by the vote of shareholders and this is their only instruction. Thus CIECH S.A. may not</p>



Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
	the basis of reasons presented by the shareholder applying for the break.	guarantee the application of the above principle each time.
IV.Z.8.	The resolution of the general meeting of shareholders on the order of a break explicitly indicates the date of resuming the proceedings, whereas this date may not form an obstacle for most shareholders, including the minority shareholders, to participate in the proceedings.	In accordance with the applicable law, the date of resuming the proceedings of the general meeting of shareholders is decided by vote of shareholders. Thus CIECH S.A. may not guarantee the application of the above principle each time.
IV.Z.9.	The Company is committed to assure that draft resolutions of the general meeting of shareholders contained the grounds, if it helps the shareholders to pass the resolution having sufficient background. If a particular item is listed on the agenda of the general meeting of shareholders on demand of the shareholder or shareholders, the Management Board or the chairman of the general meeting of shareholders asks for the grounds of the proposed resolution. In vital cases or in cases which may raise doubts of shareholders, the Company will submit the grounds, unless it will otherwise provide the shareholders with information which allow passing the resolution having sufficient background.	CIECH S.A. is committed to guarantee that in justified cases draft resolutions of the general meeting of shareholders will comprise the grounds. However, this may not be possible, for example, if the item is put on the agenda of the general meeting of shareholders by a shareholder who submitted the draft resolution without grounds, the Management Board of CIECH S.A. may not be able to submit the justification unknown to it. Therefore, the Management Board of CIECH S.A. may not guarantee that this principle will always be applied.
IV.Z.12.	The Management Board should provide the participants of the general meeting of shareholders with the financial performance of the Company and other significant information contained in the financial statements to be approved by the general meeting.	Pursuant to the applicable law, CIECH S.A. prepares the financial statements comprising information material in the opinion of the Management Board. Documents are public (available, among others, at www.ciechgroup.com) and the participants of the general meeting may read them. Additionally, the concept of "other material information" is too vague to declare the application of this principle.
IV.Z.13.	In the case of a demand by the shareholder for information about the Company, the Management Board of the Company is required to reply to the shareholder's demand or inform it about the refusal to give this information no later than within 30 days, if the Management Board took such decision pursuant to Article 428 §2 or §3 of the Code of Commercial Partnerships and Companies.	In accordance with the applicable law, in the course of proceedings of the general meeting of shareholders, the Management Board provides the shareholder, on its demand, with information about the Company, but only if it is justified for the purposes of the assessment of the item on the agenda, pursuant to Article 428 of the Code of Commercial Partnerships and Companies. In the opinion of CIECH S.A., if the Company undertakes to apply the aforementioned principle, it could lead to numerous frauds on the part of shareholders.

V. Conflict of interest and transactions with related parties

IV.Z.6.	In its internal regulations, the Company determines criteria and circumstances, which may lead to the conflict of interest in the Company, and the rules of conduct, if the conflict of interest occurs or is likely to occur. The internal regulations of the Company comprise, among others, the methods of preventing, identifying and solving conflicts of interest, and rules for excluding a member of the Management Board or the Supervisory Board from the participation in solving the issue subject to conflict of interest or at risk of such conflict.	Internal regulations of CIECH S.A. have not governed the above issues before. The Company is analysing the matter with regard to possible introduction of relevant provisions to the Regulations of the Supervisory Board and the Regulations of the Management Board, reflecting the provisions of the Law.
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VI. Remunerations

VI.R.1.	The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.	CIECH S.A. does not have a remuneration policy in the form of an official document. The remuneration of members of the company's governing bodies and key managers result from the applicable laws in conjunction with the company's Articles of Association and Supervisory Board Regulations. In the opinion of CIECH S.A., these regulations are sufficient.
VI.R.2.	The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term	CIECH S.A. does not have the remuneration policy, thus the principle may not applied.

Recommendation / detailed principle number	Content	Reasons for departing from the recommendation / detailed principle
VI.R.3.	interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.	As at 31 December 2019, the Remuneration Committee was composed of Mr. Tomasz Mikołajczak and Mr Mariusz Nowak who did not meet the independence criterion. Owing to high qualifications and long experience of these two members, the Remuneration Committee operates in an efficient manner. The independence criterion does not have an impact on the reliability of the actions implemented by the Committee.
VI.Z.4.	The Director's Report of the Company comprises the report on the remuneration policy, including, at least: 1) general information about the remuneration system established in the Company, 2) information on the conditions and the remuneration level of each Management Board Member by fixed and variable components of remuneration, indicating key parameters for determining variable components of remuneration and rules for severance payments and other payments related to the termination of the employment contract, commission contract or another relationship of similar nature – separately for the Company and for each entity of the Capital Group, 3) information on non-financial components of remuneration due to particular Management Board members and key managers, 4) indication of significant changes, which were introduced in the remuneration policy in the last financial year, or information about their lack, 5) assessment of operation of the remuneration policy with regard to the implementation of its goals, in particular the long-term increase in the value for shareholders and the stability of enterprise operations.	CIECH S.A. does not have the remuneration policy, thus the principle may not applied. However, in accordance with the applicable law, CIECH S.A. presents information on the remuneration of Management Board members and Supervisory Board members in its Director's Report.

7.3 INTERNAL CONTROL SYSTEM WITH REGARD TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS

The Management Board of CIECH S.A. is responsible for the internal control system in the Company and its efficiency in the process of preparing financial statements and periodical reports developed and published in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State. The Company's effective internal control and risk management system in the financial reporting process operates through:

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

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

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

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

The Supervisory Board selects the statutory auditor from a group of reputable auditing firms, guaranteeing high standard of services and the required independence.

On 16 April 2018, the Supervisory Board of CIECH S.A. resolved to extend the agreement with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyty Sp.k. for the audit of the statutory financial statements of CIECH S.A. and the consolidated financial statements of the Ciech Group for the years 2018–2019. In previous years, PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyty Sp.k. performed the half-year review and audited of the separate financial statements of CIECH S.A. and the consolidated financial statements of the CIECH Group for 2015, 2016 and 2017.

Procedures for authorisation of financial statements prior are specified in the Company. Reports for 1st and 3rd quarter are not verified by the auditor, and prior to their publication, they are analysed by the Audit Committee of the Supervisory Board and approved by the Management Board. Semi-annual and annual periodical reports are submitted to the Supervisory Board and Company Shareholders after the conclusion of the appropriate review or audit by the auditor. Annual reports adopted by the Management Board of the Company, after being opined by the Audit Committee and assessed by the Supervisory Board, are approved by the General Meeting of Shareholders.

Prior to the publication of annual or half-year financial statements, conclusions from the audit or review of the financial statements are presented to the Audit Committee. Representatives of the Audit Committee analyse the results of the audit and review at closed meetings with the Company auditor. The statutory auditor also presents a Letter to the Management Board, which contains recommendations for the Management Boards of Group Companies based on results of the audit or review of the financial statements in a given year. The recommendations from the auditor are discussed by the Audit Committee along with the management of the Accounting Department for the purpose of their implementation.

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

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

The effectiveness of the control and risk management procedures in the process of preparing financial statements of CIECH S.A. and the CIECH Group may be seen in the form of the high quality of these statements, as confirmed by the opinions put forth by statutory auditors from their auditing of the financial statements and by the high evaluations of the recipients of these statements. In 2019, the CIECH Group's Annual Report was ranked third in The Best Annual Report 2018 competition. The selection of the entity authorised to audit the financial statements of CIECH S.A. and the CIECH Group is the responsibility of the Company's Supervisory Board (after prior recommendation of the Audit Committee to the Supervisory Board), which has specified the following principles of Auditor selection for the purpose of ensuring the independence of the opinion:

- the entity authorised to audit financial statements may not conduct audits of the Company/Group for more than 5 subsequent years;
- the first agreement on the audit of financial statements is concluded for a period not shorter than 2 years;
- the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 3 years from the end of the last audit, unless the duration of the audit order is 5 years, in which case the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 4 years from the end of the last audit;

- a key statutory auditor may not perform financial audit activities in the Company/Group for a period of more than 5 subsequent years;
- a key statutory auditor may perform financial audit activities in the Company/Group again after at least 3 years from the end of the last audit.

7.4 SHAREHOLDERS OF CIECH S.A. HOLDING SIGNIFICANT BLOCKS OF SHARES

To the best knowledge of the Company, as at the day of approving this report, entities holding significant blocks of shares (at least 5%) are the entities listed below:

TABLE 50: SHAREHOLDERS OF CIECH S.A. HOLDING SIGNIFICANT BLOCKS OF SHARES

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%
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	Ordinary bearer	3,530,000	3,530,000	6.70%	6.70%
Aviva Otwarty Fundusz Emerytalny Aviva Santander ***	Ordinary bearer	2,723,672	2,723,672	5.17%	5.17%
Other	Ordinary bearer	19,494,185	19,494,185	36.99%	36.99%

* 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).

** on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of Shareholders of CIECH S.A. on 23 January 2020, CR 8/2020 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).

*** In accordance with information dated 31 January 2020 provided by Shareholder under Article 70(1) 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 9/2020).

7.5 SHAREHOLDERS WITH SPECIAL CONTROL RIGHTS

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

7.6 RESTRICTIONS CONCERNING THE EXERCISE OF THE VOTING RIGHTS

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

7.7 RESTRICTIONS CONCERNING THE TRANSFER OF OWNERSHIP RIGHTS TO THE ISSUER'S SECURITIES

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

7.8 DESCRIPTION OF RIGHTS FOR MAKING DECISIONS ON THE ISSUE OR REDEMPTION OF SHARES

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

7.9 PRINCIPLES OF AMENDING THE ISSUER'S ARTICLES OF ASSOCIATION

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

7.10 CORPORATE BODIES OF CIECH S.A. AND PRINCIPLES GOVERNING THEIR OPERATION

General Meeting of Shareholders of CIECH S.A.

The operations of the General Meeting of Shareholders of CIECH S.A. and its rights are governed by the Company's Articles of Association and the Regulations of the General Meeting of Shareholders of CIECH S.A. These documents are available on the corporate website of CIECH S.A.: <http://ciechgroup.com/relacje-inwestorskie/tad-korporacyjny/>.

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

- the Management Board,
- the Supervisory Board if it deems its convening as necessary,
- Shareholders representing at least half of the share capital or at least half of the total number of votes in the Company.

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

- demand the inclusion of specific items in the agenda of the next General Meeting – such demand should be reported to the Management Board in writing or in electronic form to the e-mail address indicated on the Company's website, no later than twenty one days before the fixed date of the Meeting and is to contain substantiation or a draft of the resolution concerning the proposed item on the meeting agenda;

- submit drafts of resolutions concerning the items put on the agenda of the General Meeting or items that are to be included to the meeting agenda to the Company in writing or by means of electronic communication to the e-mail address indicated on the Company website before the date of the General Meeting.

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

- consideration and approval of the Management Board's report on Company's activities, the financial statements for the previous year, the consolidated financial statements and the report on the capital group's activities, in which the parent company is the Company, as long as the Company prepares them, and the annual written statement of the Supervisory Board, as well as acknowledging the fulfilment of duties by Company's bodies;
- taking resolutions on the distribution of profit or covering the losses;
- adoption of Regulations of the General Meeting;
- amending the Articles of Association of the Company;
- changing the Company's business profile;
- purchase, sale or lease of, or creation of limited property rights in, the Company's enterprise or its organised part;
- appointing and dismissing the Supervisory Board members and determining the amount of remuneration for the Supervisory Board Members;
- increasing or reducing the share capital;
- passing resolutions concerning the bonds issue, including bonds exchangeable for shares;
- merger, demerger and transformation of the Company;
- dissolution of the Company;
- expressing the consent for the acquisition of shares by the Company for the purposes of their cancellation and determining the conditions of share cancellation;
- passing other resolutions provided for in the provisions of the law or in these Articles of Association.

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

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

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

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

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

The Chairman of the General Meeting may independently order breaks at the meeting other than the breaks ordered by the General Meeting pursuant to Article 408 § 2 of the Code of Commercial Partnerships and Companies. Breaks should be ordered by the Chairman in such a way, that the Meeting can be concluded on the day of its commencement.

Participants of the General Meeting may place substantive applications concerning the matters included in the meeting's agenda, ordinal applications and an application for convening an extraordinary general meeting.

1. Substantive motions, submitted in a written form to the Chairman of the General Meeting, may concern:

- amendments to draft resolutions,
- removal of a specific issue from the agenda,
- rearrangement of the agenda,

- appointment and removal of Supervisory Board members.

2. Procedural motions may be submitted to the Chairman of the General Meeting orally.

The Articles of Association do not provide for the possibility of participating and expressing opinion by means of electronic communication in the course of the Meeting.

Drafts of resolutions proposed for acceptance by the General Meeting are uploaded to the Company website. Resolutions of the General Meeting are adopted by an absolute majority of votes, unless the provisions of the Code of Commercial Partnerships and Companies or the Articles of Association provide for stricter terms of adoption.

The Regulations of the General Meeting of Shareholders do not provide for the possibility of voting by correspondence as referred to in Article 411 of the Code of Commercial Partnerships and Companies.

Voting is carried out by open ballot. A secret ballot is ordered in cases provided for in the Code of Commercial Partnerships and Companies and the Company's Articles of Association. A secret ballot is also ordered when a Participant in the General Meeting requests the adoption of a resolution by means of a secret ballot.

The results of the vote are announced by the Chairman of the General Meeting. Once the results of the vote are announced, the Chairman of the General Meeting allows the participants in the General Meeting to submit their objections with a brief justification to be included in the minutes on the General Meeting which are drawn-up by a notary in the form of a notarial deed.

A Participant of the General Meeting who is a member of the Company's governing authorities may take part in the vote on the acknowledgement of fulfilment of duties by other members of that authority of the Company that he/she is a member of.

Supervisory Board

Pursuant to § 20(1) of the Company's Articles of Association, the Supervisory Board consists of five to nine Members appointed by the General Meeting. The number of Supervisory Board members is determined by the General Meeting by way of a resolution. The joint term of the Supervisory Board Members lasts three years.

The Supervisory Board of CIECH S.A. operates on the basis of the regulations passed by the Supervisory Board and approved by the General Meeting. The Supervisory Board appoints the Chairman of the Supervisory Board from among its members and, if necessary, his deputy and secretary. The Supervisory Board supervises the Company's operations.

The competences of the Supervisory Board include:

- 1) the assessment of the Management Board's report on the Company's activity and financial statements for the previous financial year and the consolidated financial statements and the Board's report on the activity of the Group, in which the Company is a parent company as long as the Company develops them in respect of their compliance with ledgers and documents and the factual state and Management Board's motions, concerning the distribution of profit or covering of losses and the submission to the General Meeting of an annual written report on the results of these assessments;
- 2) giving opinions on the Company's activity programs developed by the Management Board;
- 3) considering and giving opinions on matters that are to be the subject of resolutions of the General Meeting;
- 4) adopting the Supervisory Board's regulations;
- 5) approving the Management Board's regulations;
- 6) appointing and dismissing the Management Board Members, including the President of the Management Board;
- 7) determining the rules for remuneration and their levels for the Management Board Members, including the President of the Management Board;
- 8) selecting the statutory auditor to carry out an audit of the Company's financial statements and of the consolidated financial statements of the Capital Group;
- 9) granting consent to purchase or dispose of real property, perpetual usufruct right to, or interest in real property;
- 10) granting consent to dispose of rights or assume liabilities exceeding the amount of PLN 20 million, excluding:
 - a. purchase and sales of raw materials, intermediate goods, and products related to the operations of the Company;
 - b. assuming liabilities related to the main operations of the Company in the amount not exceeding 10% of the Company's equity;
 - c. activities requiring the consent of the General Meeting.
- 11) giving opinions about the candidates for the members of supervisory boards of companies, in which the Company is a partner or a shareholder;
- 12) approving drafts of annual business plans and budget of the Company, Capital Group and their amendments;

- 13) granting consent to charge assets of the Company with the amount (sum of security) exceeding PLN 10 million, in the form of one-off transaction or a series of related transactions;
- 14) granting consent to the Company's granting sureties and guarantees to entities other than the subsidiaries within the meaning of the Code of Commercial Partnerships and Companies;
- 15) granting consent to make the payment of interim dividend;
- 16) granting consent to exercise by the Company of the ownership rights awarded to it as the partner and shareholder of the subsidiary, to the extent determined in item 10 above.

The Supervisory Board passes resolutions with an absolute majority of votes in the presence of at least half of the members of the Supervisory Board and in the event of a tied vote the Supervisory Board Chairman's vote is decisive. According to the Articles of Association of CIECH S.A., the Supervisory Board may pass resolutions without convening a meeting, by way of written vote or vote by means of direct communication at a distance, however in order for the adoption of a resolution to be effective in such a case, it is necessary to inform all Supervisory Board members of the content of the draft of the resolution. Supervisory Board Members may participate in the adoption of resolutions by the Supervisory Board by casting their vote in writing through another Supervisory Board Member. Casting of a vote in writing may not be concerned with matters introduced to the agenda during a meeting of the Supervisory Board. Supervisory Board meetings are held as needed, however, no less frequently than once per quarter.

Every year, the Supervisory Board of CIECH S.A. prepares and submits a report on the Activity of the Supervisory Board for the given financial year to the Annual General Meeting of the Company. The report contains a detailed discussion on the activity of the Supervisory Board, discussion on the implementation by the Company's Management Board of action plans, the assessment of the Company's Management Board report on the activity of the Company and the CIECH Group, financial statements of the Company and the CIECH Group and the motion of the Company's Management Board concerning division of profits or covering of losses.

Having in mind the highest standards and best practices and in order to provide the possibility for reliable assessment of the Company by shareholders, the Supervisory Board of CIECH S.A. makes a concise assessment of the situation of CIECH S.A. This assessment is presented annually during the Annual General Meeting of the Company, at a time allowing CIECH S.A.'s shareholders to become acquainted with the document.

As at 1 January 2019, the Supervisory Board consisted of the following members:

- Sebastian Kulczyk – Chairman of the Supervisory Board,
- Tomasz Mikołajczak – Vice Chairman of the Supervisory Board,
- Piotr Augustyniak,
- Mariusz Nowak,
- Artur Olech.

On 21 January 2019, the Extraordinary Shareholders' Meeting of CIECH S.A. appointed Mr Marek Kośnik as member of the Supervisory Board of CIECH S.A.

As at 31 December 2019, the Supervisory Board consisted of the following members:

- Sebastian Kulczyk – Chairman of the Supervisory Board,
- Tomasz Mikołajczak – Vice Chairman of the Supervisory Board,
- Piotr Augustyniak,
- Marek Kośnik,
- Mariusz Nowak,
- Artur Olech.

Following the resignation of Mr Mariusz Nowak from the Supervisory Board of CIECH SA as of 22 January 2020, on 23 January 2020 the Extraordinary General Meeting of Shareholders of CIECH S.A. appointed Mr Łukasz Rędziniak to the Supervisory Board of CIECH S.A.

The body responsible for establishing the levels of remuneration for the Supervisory Board members is the General Meeting. Detailed information on amounts of remuneration paid to particular Members of the Supervisory Board is provided in Note

9.3.4 to the Consolidated Financial Statements of the CIECH Group for 2019 and in Note 9.3.4 to the Financial Statements of CIECH S.A. for 2019.

Detailed information about CIECH S.A. Supervisory Board Members is presented below.

TABLE 51: CIECH S.A.'S SUPERVISORY BOARD AS AT 31 DECEMBER 2019

SEBASTIAN KULCZYK Chairman of the Supervisory Board of CIECH S.A. since 8 October 2015	<p>A graduate in management and marketing from the Faculty of Law of the Adam Mickiewicz University in Poznań. He studied at the London School of Economics.</p> <p>Since 2010 he has been associated with Kulczyk Investments Group, and since December 2013 he has been Chief Executive Officer of Kulczyk Investments S.A. For many years, he has been investing in and developing new-tech ventures.</p> <p>Sebastian Kulczyk does not conduct any activities that are competitive to the business of CIECH S.A.</p>
TOMASZ MIKOŁAJCZAK Deputy Chairman of the Supervisory Board of CIECH S.A. since 10 July 2014, Supervisory Board Member since 7 July 2014.	<p>Since 1980, a private investor, who has conducted his business activity mainly through a holding company Towarzystwo Inwestycji Kapitałowych S.A., through which short- and medium term investments of the private equity type are made. He mainly invests in the sectors of real estate, telephony and IT, construction and industrial automatics, as well as in companies dealing with infrastructure design and construction. Since the beginning of his activity, Tomasz Mikołajczak has implemented several privatization processes as a strategic investor, he also participated in acquisitions of many businesses and in restructuring processes. He is a mentor and promoter of many young entrepreneurs, who successfully operate in many areas of the Polish market. A member of Supervisory Boards of Kulczyk Investments S.A., Kulczyk Holding S.A., Polenergia S.A. and Polenergia Holding S.à.r.l., as well as the Chairman of the Audit Committee of the Polish Business Round table.</p> <p>Tomasz Mikołajczak does not conduct any activities that are competitive to the business of CIECH S.A.</p>
PIOTR AUGUSTYNIAK Supervisory Board Member of CIECH S.A. from 7 July 2014	<p>Graduate of Warsaw University, Faculty of English Philology and Faculty of Management. He is entered on the list of recommended candidates for professional members of Supervisory Boards by the Polish Institute of Directors.</p> <p>Piotr Augustyniak is an independent financial advisor. In 1994-2011, he was associated with Enterprise Investors (EI), a private equity fund operating in Poland as well as Central and Eastern Europe, as an analyst, investment director and vice-president. In 2006-2011, he collaborated with EI as a partner. During that period, he was responsible for monitoring and introducing companies to the WSE and for transactions of the sale of the significant blocks of shares of EI portfolio companies on the public and private markets. Piotr Augustyniak represented EI as the member of the supervisory boards of the following companies: Polfa Kutno S.A., Energoaparatura S.A., Elektrobudowa S.A., Wizów S.A., Sfinks S.A., CSS S.A., Bauma S.A., Comp Rzeszów S.A. (currently Asseco Poland S.A.), Agros Nova S.A., Teta S.A., Opoczno S.A., AB S.A., Siveco Romania S.A. (Romania), STD Donivo a.s. (Slovakia), AVG Technologies N.V. (the Netherlands).</p> <p>In the period from June to December 2001, he served the role of the President of the Management Board of Energoaparatura S.A. In 1993–1994, he was employed by the Ministry of Ownership Transformation, first as a project manager and then as a manager of the privatization team. In 1992-1993, he was employed as an assistant of the financial officer in the Ownership Transformation Foundation at the Ministry of Ownership Transformation. In 1991-1992, he worked at New York Times (Warsaw) as a translator.</p> <p>Piotr Augustyniak does not conduct any activities that are competitive to the business of CIECH S.A.</p>
MAREK KOŚNIK Supervisory Board Member of CIECH S.A. since 28 January 2019	<p>He is a graduate of the Faculty of Management at the University of Warsaw and MBA studies at Harvard Business School. He works in a private equity fund – CVC Capital Partners – as a Senior Managing Director with responsibility for assessing investment projects, supervising the portfolio and implementing digital strategies. In the past, he worked for such companies as Bain & Company, Terra Firma Capital Partners and McKinsey & Company. He has gained experience in building company strategies, investment processes, restructuring and digital transformations. An investor in new technologies projects.</p> <p>Marek Kośnik does not conduct any activities that are competitive to the business of CIECH S.A.</p>

MARIUSZ NOWAK
Supervisory Board Member
of CIECH S.A. from 7 July
2014 to 22 January 2020

A graduate from the University of Szczecin, the Faculty of Economy and the Faculty of Cybernetics and Computer Science. He holds an MBA from the Ecole Nationale des Ponts et Chaussées in Paris.

He is a specialist in finance, accounting and management. In 2012, he was hired by Kulczyk Investments and Kulczyk Holding. Previously, from March 2010, he served as Financial Director of Kulczyk Pon Investments and President of the Management Board of Magro International. In 1991-2010, he worked in various positions for Wavin Group, in which he was appointed Managing Director of Wavin Ekoplastik in 2007. Mariusz Nowak is member of several Supervisory Boards — PEKAES S.A., PEP S.A., Autostrada Wielkopolska S.A., Autostrada Wielkopolska II S.A., Autostrada Eksploatacja S.A., AWSA Holland II BV. and Polenergia S.A.

Mariusz Nowak does not conduct any activities that are competitive to the business of CIECH S.A.

ARTUR OLECH
Supervisory Board Member
of CIECH S.A. from 7 July
2014

A graduate from the Faculty of Law at the University of Warsaw and from the Faculty of Finance and Banking at the Warsaw School of Economics. He attended numerous training sessions for top management, including training at the Harvard Business School, Kellogg School of Management and Chicago GSB.

He is an expert in business process management. Founder and President of the Management Board of a technology and consulting company, hiPRO Sp. z o.o., since October 2016.

Until August 2016, he was the President of the Management Board of Pocztove Towarzystwo Ubezpieczeń Wzajemnych S.A. and Pocztove Towarzystwo Ubezpieczeń na Życie S.A.

President of the Management Board of Pocztove Życie Sp. z o.o. (currently: Centrum Rozliczania Ubezpieczeń Sp. z o.o.) between September 2014 and February 2015. From October 1998 to February 2014, he was a member of the Management Board of the Generali Group where, in 2008-2010, he served as the Vice President of the Management Board, responsible for life and pension insurance. In 1997-1998, he was the Director of Volkswagen Bank Polska/Volkswagen Leasing Polska-Warszawa. In 1996-1997, employed as an analyst by the Polish Institute of Management (PIM Sp. z o.o.). In 1994-1997, employed in the position of a Foundation Project Manager by CASE Consulting (Fundacja Centrum Analiz Społeczno-Ekonomicznych) in Warsaw. In 2012, he was granted the Personal Award for Top Manager in Insurance Industry (by Wprost magazine). Responsible for the project entitled: "Exit Processes in Transitional Economy" on behalf of the World Bank, implemented within CASE Consulting under the supervision of Prof. Leszek Balcerowicz.

Artur Olech does not conduct any activities that are competitive to the business of CIECH S.A.

The biographical note for Mr Łukasz Rędziniak, member of the Supervisory Board as of 23 January 2020, is presented below.

ŁUKASZ RĘDZINIAK
Supervisory Board Member
of CIECH S.A. since 23
January
2020

Attorney-at-law, graduate of the Faculty of Law and Administration of the Jagiellonian University. Since 1996, a member of the District Bar Association in Warsaw. Since 2013, Member of the Management Board of Kulczyk Investments S.A.

In 2004-2007 and 2013-2015, he was a Member and Secretary of the Supervisory Board of Firma Oponiarska Dębica S.A. He is the Chairman of the Board of Directors of Serinus Energy plc, and a member of the Supervisory Board of both Autostrada Wielkopolska S.A. and SCT Broker Sp. z o.o.

Independent Member of the Supervisory Board of Firma Oponiarska Dębica S.A., and a Member of the Audit Committee in this company.

In 2007-2009, Undersecretary of State in the Ministry of Justice of the Republic of Poland. Since 2009, the managing partner of the office of Studnicki Płeszka Cwiąkański Górski Sp. K. in Warsaw.

Attorney-at-law at Dewey & LeBoeuf LLP (1993 - 2007), and a partner of this law firm since 2001; attorney-at-law in an individual law firm cooperating with Dewey Ballantine Sp. z o.o. (1997 - 2000), Lawyer at Consoft Consulting Sp. z o.o. (1991 - 1992). In 1990-1991, a research assistant at the Faculty of Law and Administration of the Jagiellonian University.

Łukasz Rędziniak does not conduct any activities that are competitive to the business of CIECH S.A.

Committees of the Supervisory Board of CIECH S.A.

The following Committees operate within the framework of the Supervisory Board of CIECH S.A.: Audit Committee of the Supervisory Board of CIECH S.A. and Remuneration Committee of the Supervisory Board of CIECH S.A.

Audit Committee

The Audit Committee of the Supervisory Board of CIECH S.A. was appointed by Resolution No 57/IV/2005 from 16 February 2005. The Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting of the Company, financial results of the Company, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board.

The Audit Committee is composed of at least three Members of the Committee, including the Chairman of the Audit Committee. A majority of Members of the Audit Committee, including its Chairman, should meet the independence criteria set forth in Article 129(3) of the Act.

According to the Audit Committee Regulations the tasks of the Audit Committee include in particular:

- a) monitoring:
 - the financial reporting process;
 - effectiveness of the internal control system, as well as risk management and internal audit systems, also with regard to financial reporting;
 - performance of financial auditing activities, in particular auditing by the audit firm, taking into consideration any applications and determinations of the Audit Oversight Commission resulting from the control carried out in the audit firm;
- b) control and monitoring of independence of the statutory auditor and the audit firm, especially, if the audit firm provides to the public interest entity services other than auditing;
- c) informing the Supervisory Board about audit results and explanation of how this audit contributed to reliability of financial reporting in the Company, as well as what was the role of the Audit Committee in the audit process;
- d) assessment of independence of the statutory auditor and expressing consent to his/her provision of permitted services other than audits in the Company,
- e) developing a policy for selecting an audit firm to perform audits;
- f) preparation of the policy of providing acceptable services other than auditing by the audit firm conducting the audit, its affiliates and by a member of the audit firm's network;
- g) determination of the procedure of selecting the audit firm by the Company,
- h) presentation of a recommendation concerning the appointment of the audit firm to the Supervisory Board, in accordance with the policies referred to in items e) and f) above. In this recommendation, the Audit Committee:
 - i. suggests the audit firm to conduct the statutory audit;
 - ii. states that the recommendation is free of influences of third parties;
 - iii. states that the audited public interest entity did not conclude any contracts containing the clauses referred to in Article 66(5a) of the Accounting Act;
- i) in the case when the selection referred to in section 1h) not apply to extension of the contract for auditing the financial statements, the recommendation of the Audit Committee contains at least two selection options for selecting the audit firm, along with a substantiation, and indication of reasonable preference of the Audit Committee towards one of them;
- j) annual review of the internal audit schedule;
- k) assessment of the results of internal controls, including internal audits, and schedules of elimination of errors detected;
- l) reviews of material agreements concluded with related parties;
- m) preliminary assessment of the annual financial plan prepared by the Management Board as well as of the report on its implementation;
- n) submission of recommendations aimed at ensuring reliability of the financial reporting process in the Company.

The Audit Committee elects its Chairman from among its members in a secret ballot. The Chairman of the Audit Committee manages the Committee's work, supervises the preparation of agenda, organisation of document distribution and preparation of minutes of Audit Committee meetings. In 2019, the Audit Committee of CIECH S.A. held 10 meetings that were recorded in minutes.

The Audit Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity which is a part of the Report on the activity of the Supervisory Board of CIECH S.A. provided to Shareholders during the Annual General Meeting of CIECH S.A.

From 1 January 2019 to 31 December 2019, the composition of the Audit Committee did not change and was as follows:

- Piotr Augustyniak – Chairman of the Committee;
- Mariusz Nowak – Committee Member;
- Artur Olech – Committee Member.

Members of the Audit Committee who meet the independence criteria are Mr Piotr Augustyniak and Mr Artur Olech.

Members of the Audit Committee who are knowledgeable about and skilled in accounting or auditing of financial statements are Mr Piotr Augustyniak, Mr Mariusz Nowak and Mr Artur Olech. The professional experience of the Audit Committee Members which confirms their knowledge of and skills in the field is presented in table 51 of this report and on the CIECH S.A. website: <https://ciechgroup.com/grupa-ciech/rada-nadzorcza/>.

Members of the Audit Committee who are knowledgeable about and skilled in the filed in which CIECH S.A. operates are Mr Piotr Augustyniak, Mr Mariusz Nowak and Mr Artur Olech. The professional experience of the Audit Committee Members which confirms their knowledge of and skills in the field is presented in table 51 of this report and on the CIECH S.A. website: <https://ciechgroup.com/grupa-ciech/rada-nadzorcza/>.

Member of the Audit Committee, Mr Mariusz Nowak, resigned from the Supervisory Board of CIECH S.A. with effect as of 22 January 2020 and ceased to be a member of the Audit Committee as of that date.

On 24 February 2020. the Supervisory Board of CIECH S.A. supplemented the composition of the Audit Committee by appointing Mr Marek Kośnik as a member of the Audit Committee.

The following policies on cooperation with the audit firm are in force at CIECH S.A.:

- *"Policy for the provision of permitted non-audit services by the audit firm conducting the audit of the financial statements"*. In accordance with the Policy, the audit firm conducting the audit of the financial statements, its affiliates and a member of the audit firm's network may provide only permitted non-audit services specified in the Act of 11 May 2017 on statutory auditors, audit firms and public supervision that are not prohibited services within the meaning of the Act and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. The Policy also specifies the catalogue of permitted services.

Ordering a service requires an audit firm to confirm that ordered non-audit services are not prohibited services within the meaning of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision and within the meaning of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and that the audit firm is able to perform the services in an unobstructed manner.

The Audit Committee, having assessed the risks and safeguards of independence, consents to the provision of the permitted non-audit services.

Permitted services other than auditing of financial statements were provided to CIECH S.A. and CIECH Group companies in 2019. In each instance the Audit Committee assessed independence and consented to the provision of such services. The Audit Committee analyses reports on the audit firm's performance of permitted services.

- *"Policy and procedure of selecting the audit firm"*. The Policy defines formal conditions and criteria for the selection of the audit firm, the most important of which are:

- the selection is made by the Supervisory Board on the basis of the Audit Committee's recommendations;
- the selection is made with the rotation rules taken into account:
 - the entity authorised to audit financial statements may not conduct audits of the Company/Group for more than 5 subsequent years;
 - the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 3 years from the end of the last audit, unless the duration of the audit order is 5 years, in which case the entity authorised to audit financial statements may conduct the audit in the Company/Group again after at least 4 years from the end of the last audit;
 - a key statutory auditor may not perform financial audit activities in the Company/Group for a period of more than 5 subsequent years;
 - a key statutory auditor may perform financial audit activities in the Company/Group again after at least 3 years from the end of the last audit.
- the first agreement on the audit of financial statements is concluded for a period not shorter than 2 years;
- the selection is made on the basis of documented qualifications and professional experience, taking into consideration the specificity and locations of businesses conducted by companies in the CIECH group, required reporting deadlines and the price offered.

In 2018 the Audit Committee of CIECH S.A. issued a recommendation regarding the selection of an audit firm, in accordance with the Policy and procedure of selecting the audit firm, which fulfilled the binding conditions for renewing the agreement

with an audit firm, namely PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k., for 2018-2019.

Remuneration Committee of the Supervisory Board of CIECH S.A.

The Remuneration Committee was appointed by Resolution No 66/IV/2005 of the Supervisory Board of CIECH S.A. According to the Remuneration Committee Regulations, the primary task of the Committee is to advise the Supervisory Board on matters related to the establishment of the principles and amounts of remuneration of the CIECH S.A.'s Management Board members.

In particular the Committee's tasks include:

- presenting the Supervisory Board with proposals of the principles of remuneration of CIECH S.A.'s Management Board members, which should account for all forms of remuneration, in particular as regards: base remuneration, remuneration system based on results, retirement system and severance payments
- presenting the Supervisory Board with regarding the amounts of remuneration for each CIECH S.A.'s Management Board member,
- presenting the Supervisory Board with drafts of agreements, regulating the performance of responsibilities CIECH S.A.'s Management Board members
- discussion (with or without the involvement of the Management Board) of all problems or reservations that may arise in matters related to the remuneration of CIECH S.A.'s Management Board
- consideration of all other matters to which the Committee or Supervisory Board has paid attention
- informing the Supervisory Board of all significant matters in the general context of the Committee's activity.

The Remuneration Committee of the Supervisory Board of CIECH S.A. elects a Chairman from among its members to manage the Committee's work.

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits an annual report on its activity, which is a part of the Report on the activity of the Supervisory Board of CIECH S.A., provided to Shareholders during the Ordinary General Meeting of CIECH S.A.

From 1 January 2019 to 31 December 2019, the composition of the Remuneration Committee did not change and was as follows:

- Tomasz Mikołajczak – Chairman of the Committee,
- Mariusz Nowak – Committee Member.

Member of the Remuneration Committee, Mr Mariusz Nowak, resigned from the Supervisory Board of CIECH S.A. with effect as of 22 January 2020 and ceased to be a member of the Remuneration Committee as of that date.

Management Board

According to § 23(1) of the Company's Articles of Association, the Management Board consists of at least two members. The Supervisory Board appoints the Chairman of the Management Board and other Board members. The Supervisory Board determines the number of Board Members. The joint term of the Management Board members lasts three years.

The term of office of a Management Board Member expires at the close of the General Meeting approving the financial statements for the last full financial year in which the Management Board Member held his position in the Company's Management Board during the term of office for which this Member was appointed.

The Management Board's competences include all matters and economic decisions and other decisions not reserved by the regulations of the Code of Commercial Partnerships and Companies or the stipulations of the Company's Articles of Association as belonging solely to the General Meeting or Supervisory Board.

Two Board Members jointly or one Board member together with an proxy are authorized to make declarations of will and to sign them on behalf of the Company.

The current joint term of the Company's Management Board commenced on 22 June 2017. The Company applies the policy of internal distribution of powers among Board Members, in terms of managing the affairs of the Company. A detailed description of segregation of powers of individual Board Members has been specified in the resolution of the Management Board. Within the scope of ordinary activities of the Company, each Board Member is obliged and authorised to

independently manage the Company's affairs falling under his/her powers, in accordance with the distribution determined by the Management Board.

The Management Board of CIECH S.A. operates on the basis of the regulations passed by the Management Board and approved by the Supervisory Board. Resolutions of the Management Board are passed by an absolute majority of votes cast with a quorum of at least half of the Management Board members. In the case of a voting tie, the President of the Management Board has the casting vote. In accordance with the principles of best practices, Management Board Regulations state that in the event of a conflict of the Company's interest with the personal interests of a Board Member, his spouse, relatives or kinsman of the second degree or persons with whom he has a personal relationship, he should abstain from participation in the settlement of such matters, and request for this to be noted in the Board's meeting protocol.

Management Board's resolutions are required only in respect of matters exceeding the scope of ordinary Company's activities including in particular:

- a) the approval and amendment of the Management Board's Regulations;
- b) the approval and amendment of the Company's Organisational Regulations;
- c) adoption of motions addressed to the Supervisory Board or the General Meeting;
- d) convening General Meetings and determining their agendas;
- e) the acceptance of annual and long-term financial plans and development strategies for the Company;
- f) the grant of proxy or general power of attorney;
- g) taking out credit and loans;
- h) granting loans and donations;
- i) the disposal of a right or assumption of a liability exceeding the amount of PLN 500 thousand, excluding purchase and sales of raw materials, intermediate goods, and products related to the operations of the Company up to the value of PLN 6 million in a single transaction or series of related transactions;
- j) application for bank guarantees, assumption of liabilities under promissory notes, the grant of all types of guarantees and the establishment of other securities.

A Management Board's resolution is also required in matters not exceeding the scope of ordinary Company's activities if its passing is requested by any of the Management Board's Members.

As of 1 January 2019, the composition of the Company's Management Board was as follows:

- Dawid Jakubowicz — President of the Management Board;
- Artur Osuchowski — Member of the Management Board;
- Mirosław Skowron — Member of the Management Board.

Member of the Management Board of CIECH S.A., Mr Artur Osuchowski, resigned from the Management Board of CIECH S.A. with effect as of 25 October 2019.

As of 31 December 2019, the composition of the Company's Management Board was as follows:

- Dawid Jakubowicz — President of the Management Board;
- Mirosław Skowron — Member of the Management Board.

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

TABLE 52: CIECH S.A.'S MANAGEMENT BOARD AS AT 31 DECEMBER 2019

**DAWID JAKUBOWICZ**

President of the
Management Board of CIECH
S.A. since 10 September 2018

He has completed a Program for Leadership Development (PLD) at the Harvard Business School in Boston and holds the MBA title from the Georgia State University and the University of Economy in Poznań. A graduate of the Faculty of Economy at the University of Economy in Poznań.

Mr Dawid Jakubowicz is a member of the management board of Kulczyk Investments S.A. where, since 2010, he has been responsible for the supervision of the investment portfolio. He is an esteemed expert with the international operational experience in building the value of companies from the chemical, mining, energy, automotive and new technologies sectors. Enlisted as a qualified auditor by the National Chamber of Statutory Auditors since 2014. In the past, he worked for international company KPMG Audyt, where he was responsible for audit of separate and consolidated financial statements of entities from many sectors.

Scope of responsibilities in CIECH S.A. – supervision over organisational units:

- Strategy Department
- Legal Department
- Compliance Department
- Internal Audit Department
- Controlling Department
- Accounting Department
- Finance Management Department
- Logistics / S&OP Department
- HR and Administration Department
- IT Department
- Corporate Supervision Department
- Strategic Organisational Project Department
- CIECH S.A.'s Branches in Poland, Germany and Romania
- Independent position: Representative of the Management Board for Investor Relations, Public Relations Manager / Press Officer

**MIROŚLAW SKOWRON**

Member of the Management
Board of CIECH S.A.
since 10 September 2018.

Mr Mirosław Skowron graduated from the Wrocław University of Technology, holds the MBA diploma and completed a course of Strategic Leadership Academy at the ICAN Institute, organised by the Harvard Business Review.

In the past, Mr Mirosław Skowron, among other functions, served as the president of management boards of such companies as Przedsiębiorstwo Budowy Kopalń S.A. forming a part of the KGHM Group, Polimex-Energetyka Sp. z o.o., Energa Elektrownie Ostrołęka S.A. and Energa Invest S.A., as well as PGE Elektrownia Opole S.A.

Scope of responsibilities in CIECH S.A. – supervision over organisational units:

- Investment/PMO Department
- Power Engineering Department
- Purchasing Department
- Asset and Safety Management Department (including OHS)
- Environmental Department
- Quality Management Department
- Strategic Investment Project Department
- Operational Excellence
- Risk Department



7.11 REMUNERATION FOR THE MANAGEMENT AND SUPERVISORY BODIES

Information on the remuneration for the management and supervisory bodies is provided in Note 9.3.4 to the Consolidated Financial Statements of the CIECH Group for 2019 and Note 9.3.4 to the Financial Statements of CIECH S.A. for 2019.

7.12 INFORMATION ABOUT AGREEMENTS SIGNED BETWEEN THE ISSUER AND PERSONS IN MANAGEMENT POSITIONS

If the Employer terminates the employment contract with a member of the Management Board upon notice, the Member is entitled to compensation in the amount of six months' remuneration. The non-competition agreement with Board Members after the termination of the employment provides a compensation in the amount of up to 50% of monthly remuneration for a period that does not exceed 24 months. Apart from those listed above, no agreements were signed between the Company and Members of the Management Board of CIECH S.A.



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GLOSSARY OF ABBREVIATIONS AND TERMS

ASEAN	Association of South-East Asian Nations
CAGR	Compound Annual Growth Rate
CEE	Central and Eastern Europe
CIT	Corporate income tax
CO ₂	Carbon dioxide
CSR	Corporate Social Responsibility
Dual listing	Listing of a company's shares on two or more stock exchanges
COMFORT-type jars	Glass latch lid jars
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA (A)	EBITDA excluding one-off events
EPS	Earnings per share
ER (Epoxy Resin)	Epoxy resin
EURIBOR	Euro Interbank Offered Rate
EV/EBITDA	Ratio of enterprise value (EV) and earnings before interest, taxes, depreciation and amortization (EBITDA)
Free float	The free float of a public company. It is the ratio of the number of shares not held by large investors, holding 5% or more of the company's shares, to the total number of outstanding shares. In other words, all the publicly-traded shares that are freely available.
GMO	Genetically modified organism
WSE	Warsaw Stock Exchange
Greenfield	Investments on areas with no prior industry or service facilities (e.g. farmlands or woodlands).
GUS	Central Statistical Office
Currency hedging	Strategy used to mitigate foreign exchange risk
S&G	Silicates and Glass — one of key operating segments of the CIECH Group
IFRS	International Financial Reporting Standards
P/BV	Price/book value ratio — allows to compare a company's current market price to its book value, that is, the difference between balance sheet assets and total liabilities of a company listed on a stock exchange
P/E	Price-earnings ratio — indicates how attractive a share is relative to other shares. Calculated by dividing the market value per share by earnings per share
GDP	Gross Domestic Product
PUR	Polyurethane foams
Rating	Evaluation of the credit risk of a securities issuer
ROA	Return on assets
ROE	Return on equity
ROS	Return on sales
REACH Regulation	Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)
COMFORT-type jars	Glass latch lid jars
SO ₂	Sulphur dioxide
CPC	Crop protection products
Ticker	Three-letter abbreviation used on a stock exchange to uniquely identify each company
EU	European Union
WIBOR	Warsaw Interbank Offered Rate
CIS	Commonwealth of Independent States



RATIO CALCULATION METHODOLOGY

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

EBITDA (%)	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
Adjusted EBITDA (%)	EBITDA excluding one-off events, the more important of which were described in item 4.2.1 / net revenues from sales of products, services, goods and materials for a given period
gross return on sales	gross profit on sales for a given period / net revenues from sales of products, services, goods and materials for a given period
return on sales	profit for a given period / net revenues from sales of products, services, goods and materials for a given period
EBIT margin	operating profit for a given period / net revenues from sales of products, services, goods and materials for a given period
EBITDA margin	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
adjusted EBIT margin	operating profit for a given period excluding one-off events, the more important of which were described in section 4.2.1 / net revenues from sales of products, services, goods and materials for a given period
adjusted EBITDA margin	EBITDA excluding one-off events, the more important of which were described in section 4.2.1 / net revenues from sales of products, services, goods and materials for a given period
net return on sales (ROS)	net profit for a given period / net revenues from sales of products, services, goods and materials for a given period
return on assets (ROA)	net profit for a given period/total assets at the end of a given period
return on equity (ROE)	net profit for a given period/total equity at the end of a given period
debt ratio	the ratio of current and non-current liabilities to total assets; measures the share of external funds in financing of a company's activity
long-term debt ratio	the ratio of non-current liabilities to total assets; measures the share of non-current liabilities in financing of company's activity
debt to equity ratio	the ratio of total liabilities to equity
equity to assets ratio	the ratio of equity to total assets; measures the share of equity in financing of a company's activity
net financial liabilities	liabilities from loans, bonds, borrowings (plus overdraft) and other debt instruments (lease + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities) less cash and cash equivalents
gross financial liabilities	liabilities from loans, bonds, borrowings (plus overdraft) and other debt instruments (lease + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities)



REPRESENTATION BY THE MANAGEMENT BOARD

This Management Board Report on activities of the CIECH Group and CIECH S.A. in 2019 was approved by the Management Board of the Company on 31 March 2020.

Warsaw, 31 March 2020

(signed on the polish original)

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Dawid Jakubowicz — President of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Mirosław Skowron — Member of the Management Board of CIECH Spółka Akcyjna