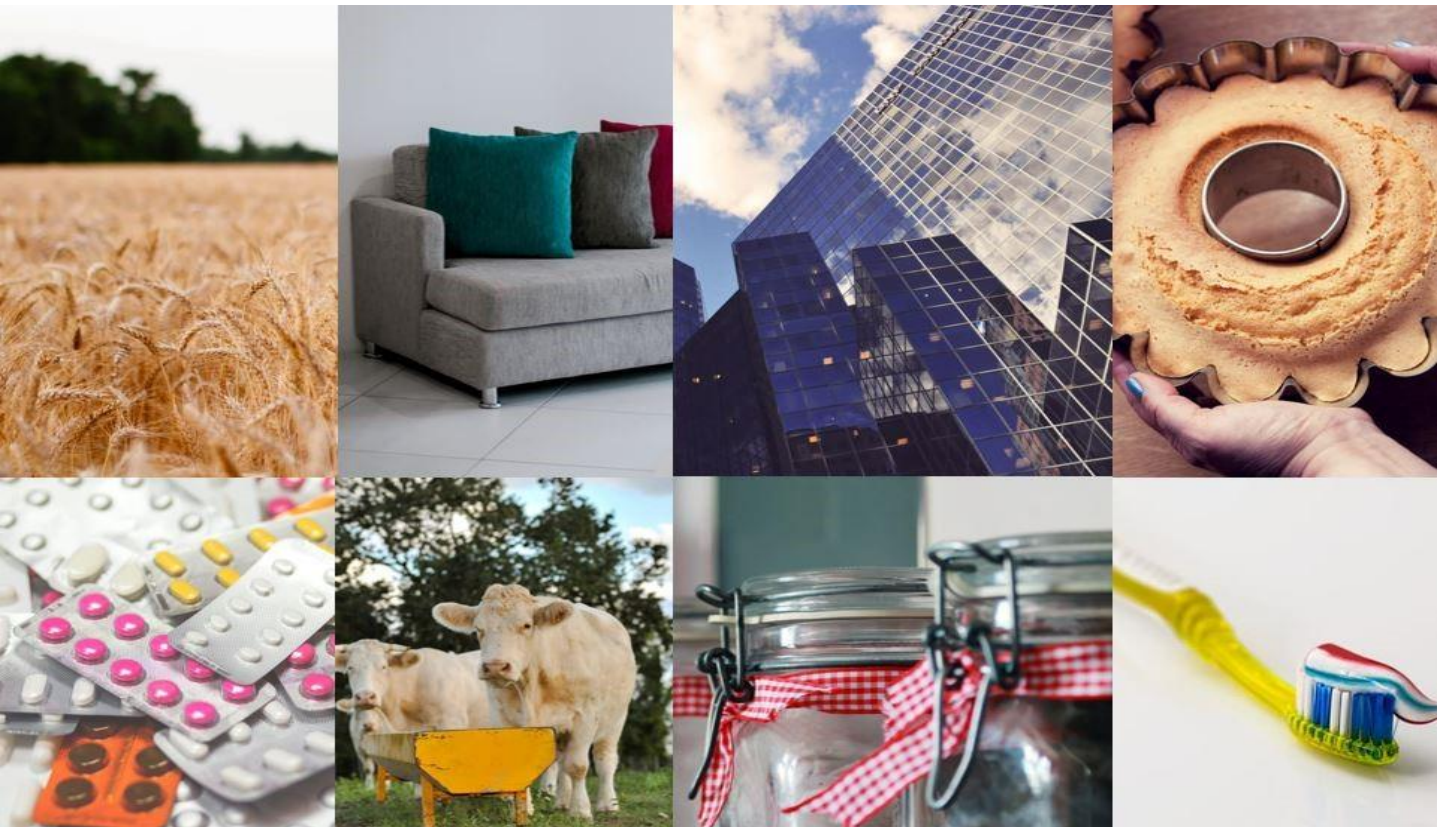




EXTENDED CONSOLIDATED  
QUARTERLY REPORT  
of the CIECH Group  
for the three quarters of 2019



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



## CIECH GROUP — SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	9 months ended 30.09.2019	9 months ended 30.09.2018	9 months ended 30.09.2019	9 months ended 30.09.2018
Sales revenues	2,745,488	2,701,906	637,211	635,219
Operating profit/(loss)	170,607	286,608	39,597	67,382
Profit/(loss) before tax	129,438	262,736	30,042	61,769
Net profit / (loss) for the period	81,271	199,724	18,862	46,955
Net profit/(loss) attributable to shareholders of the parent company	82,063	199,335	19,046	46,864
Net profit/(loss) attributed to non-controlling interest	(792)	389	(184)	91
Other comprehensive income net of tax	(24,225)	16,634	(5,622)	3,911
Total comprehensive income	57,046	216,358	13,240	50,866
Cash flows from operating activities	239,419	352,769	55,568	82,936
Cash flows from investment activities	(256,881)	(468,070)	(59,621)	(110,043)
Cash flows from financial activities	(8,380)	(207,606)	(1,945)	(48,808)
Total net cash flows	(25,842)	(322,907)	(5,998)	(75,915)
Earnings (loss) per ordinary share (in PLN/EUR)	1.56	3.78	0.36	0.89
	<b>as at 30.09.2019</b>	<b>as at 31.12.2018</b>	<b>as at 30.09.2019</b>	<b>as at 31.12.2018</b>
Total assets	4,894,788	4,822,132	1,119,167	1,121,426
Non-current liabilities	1,974,679	1,636,755	451,500	380,641
Current liabilities	963,936	1,286,250	220,399	299,128
Total equity	1,956,173	1,899,127	447,268	441,657
Equity attributable to shareholders of the parent	1,956,587	1,898,839	447,363	441,590
Non-controlling interest	(414)	288	(95)	67
Share capital	287,614	287,614	65,761	66,887

SELECTED FINANCIAL DATA	in PLN thousand		in EUR thousand	
	9 months ended 30.06.2019	9 months ended 30.06.2018	9 months ended 30.06.2019	9 months ended 30.06.2018
Sales revenues	1,796,779	1,787,413	417,022	420,222
Operating profit/(loss)	17,729	117,157	4,115	27,544
Profit/(loss) before tax	(3,316)	92,193	(770)	21,675
Net profit / (loss) for the period	(9,330)	72,449	(2,165)	17,033
Other comprehensive income net of tax	(2,927)	(3,248)	(679)	(764)
Total comprehensive income	(12,257)	69,201	(2,844)	16,269
Cash flows from operating activities	(5,434)	15,259	(1,261)	3,587
Cash flows from investment activities	(31,003)	(125,129)	(7,196)	(29,418)
Cash flows from financial activities	48,606	(196,605)	11,281	(46,222)
Total net cash flows	12,169	(306,475)	2,824	(72,053)
	<b>as at 30.09.2019</b>	<b>as at 31.12.2018</b>	<b>as at 30.09.2019</b>	<b>as at 31.12.2018</b>
Total assets	4,076,187	3,927,454	931,998	913,362
Non-current liabilities	1,669,334	1,393,685	381,684	324,113
Current liabilities	1,016,409	1,131,068	232,396	263,039
Total equity	1,390,444	1,402,701	317,918	326,210
Share capital	287,614	287,614	65,761	66,887

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

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

as at 30.09.2019	as at 31.12.2018	9 months ended 30.09.2019	9 months ended 30.09.2018
EUR 1 = PLN 4.3736	EUR 1 = PLN 4.3000	EUR 1 = PLN 4.3086	EUR 1 = PLN 4.2535



**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ENDORSED BY THE EUROPEAN UNION**



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## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ENDORSED BY THE EUROPEAN UNION

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	01.01.-30.09.2019	01.01.-30.09.2018	01.07.-30.09.2019	01.07.-30.09.2018
<b>CONTINUING OPERATIONS</b>				
Sales revenues	2,745,488	2,701,906	848,138	882,731
Cost of sales	(2,169,454)	(2,121,926)	(678,146)	(717,006)
<b>Gross profit/(loss) on sales</b>	<b>576,034</b>	<b>579,980</b>	<b>169,992</b>	<b>165,725</b>
Other operating income	71,261	57,036	31,456	9,891
Selling costs	(195,761)	(204,878)	(59,328)	(70,792)
General and administrative expenses	(152,814)	(113,720)	(48,922)	(34,371)
Other operating expenses	(128,113)	(31,810)	(67,217)	(10,122)
<b>Operating profit/(loss)</b>	<b>170,607</b>	<b>286,608</b>	<b>25,981</b>	<b>60,331</b>
Financial income	13,503	14,203	9,695	(7,113)
Financial expenses	(55,639)	(38,266)	(20,477)	(13,741)
<b>Net financial income/(expenses)</b>	<b>(42,136)</b>	<b>(24,063)</b>	<b>(10,782)</b>	<b>(20,854)</b>
Share of profit / (loss) of equity-accounted investees	967	191	204	178
<b>Profit/(loss) before tax</b>	<b>129,438</b>	<b>262,736</b>	<b>15,403</b>	<b>39,655</b>
Income tax	(48,167)	(63,012)	(14,993)	(12,740)
<b>Net profit/(loss) on continuing operations</b>	<b>81,271</b>	<b>199,724</b>	<b>410</b>	<b>26,915</b>
<b>DISCONTINUED OPERATIONS</b>				
Net profit/(loss) on discontinued operations	-	-	-	-
<b>Net profit / (loss) for the period</b>	<b>81,271</b>	<b>199,724</b>	<b>410</b>	<b>26,915</b>
including:				
Net profit/(loss) attributable to shareholders of the parent company	82,063	199,335	933	26,843
Net profit/(loss) attributed to non-controlling interest	(792)	389	(523)	72
<b>Earnings per share (in PLN):</b>				
Basic	1.56	3.78	0.02	0.51
Diluted	1.56	3.78	0.02	0.51
<b>Earnings/(loss) per share (in PLN) from continuing operations:</b>				
Basic	1.56	3.78	0.02	0.51
Diluted	1.56	3.78	0.02	0.51

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



## CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	01.01.-30.09.2019	01.01.-30.09.2018	01.07.-30.09.2019	01.07.-30.09.2018
<b>Net profit / (loss) for the period</b>	<b>81,271</b>	<b>199,724</b>	<b>410</b>	<b>26,915</b>
<b>Other comprehensive income before tax that may be reclassified to the statement of profit or loss</b>	<b>(30,231)</b>	<b>13,761</b>	<b>(25,046)</b>	<b>35,971</b>
Currency translation differences (foreign companies)	7,115	4,966	18,172	(12,133)
Cash flow hedge reserve	(41,279)	9,601	(43,792)	48,095
Costs of hedging reserve	3,933	(806)	574	9
<b>Other comprehensive income before tax that may not be reclassified to the statement of profit or loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income tax attributable to other comprehensive income</b>	<b>6,006</b>	<b>2,873</b>	<b>8,974</b>	<b>(7,258)</b>
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	6,006	2,873	8,974	(7,258)
<b>Other comprehensive income net of tax</b>	<b>(24,225)</b>	<b>16,634</b>	<b>(16,072)</b>	<b>28,713</b>
<b>Comprehensive income including attributable to:</b>	<b>57,046</b>	<b>216,358</b>	<b>(15,662)</b>	<b>55,628</b>
Shareholders of the parent company	57,748	215,850	(15,229)	55,639
Non-controlling interest	(702)	508	(433)	(11)

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





## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	30.09.2019	31.12.2018
<b>ASSETS</b>		
Property, plant and equipment	2,773,395	2,857,199
Right of perpetual usufruct	-	29,646
Rights to use an asset	178,675	-
Intangible assets, including:	455,232	458,158
- <i>goodwill</i>	142,828	140,713
Investment property	36,367	37,766
Non-current receivables	58,858	64,603
Investments in associates and jointly-controlled entities measured under the equity method	5,977	5,556
Long-term financial assets	16,538	28,774
Deferred income tax assets	65,031	67,872
<b>Total non-current assets</b>	<b>3,590,073</b>	<b>3,549,574</b>
Inventory	457,865	438,518
Short-term financial assets	22,855	29,832
Income tax receivables	5,896	16,116
Trade and other receivables	640,344	595,163
Cash and cash equivalents	176,965	192,139
Non-current assets held for sale	790	790
<b>Total current assets</b>	<b>1,304,715</b>	<b>1,272,558</b>
<b>Total assets</b>	<b>4,894,788</b>	<b>4,822,132</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	287,614	287,614
Share premium	470,846	470,846
Cash flow hedge reserve	(32,578)	3,115
Costs of hedging reserve	(692)	(4,625)
Actuarial gains	119	119
Other reserve capitals	78,521	78,521
Currency translation reserve	(55,797)	(63,242)
Retained earnings	1,208,554	1,126,491
<b>Equity attributable to shareholders of the parent</b>	<b>1,956,587</b>	<b>1,898,839</b>
Non-controlling interest	(414)	288
<b>Total equity</b>	<b>1,956,173</b>	<b>1,899,127</b>
Loans, borrowings and other debt instruments	1,590,398	1,340,742
Lease liabilities	118,186	17,623
Other non-current liabilities	107,616	112,631
Employee benefits reserve	11,936	11,851
Other provisions	78,880	79,080
Deferred income tax liability	67,663	74,828
<b>Total non-current liabilities</b>	<b>1,974,679</b>	<b>1,636,755</b>
Loans, borrowings and other debt instruments	72,489	291,924
Lease liabilities	23,134	5,917
Trade and other liabilities	713,809	761,467
Income tax liabilities	49,358	53,041
Employee benefits reserve	1,930	877
Other provisions	103,216	173,024
<b>Total current liabilities</b>	<b>963,936</b>	<b>1,286,250</b>
<b>Total liabilities</b>	<b>2,938,615</b>	<b>2,923,005</b>
<b>Total equity and liabilities</b>	<b>4,894,788</b>	<b>4,822,132</b>

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





## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	01.01.-30.09.2019	01.01.-30.09.2018
<b>Cash flows from operating activities</b>		
<b>Net profit/(loss) for the period</b>	<b>81,271</b>	<b>199,724</b>
<i>Adjustments</i>		
Amortisation/depreciation	231,517	198,002
Recognition of impairment allowances	73,287	2,973
Foreign exchange (profit) /loss	(14,863)	(519)
Investment property revaluation	(311)	-
(Profit) / loss on investment activities	-	(14,281)
(Profit) / loss on disposal of property, plant and equipment	(201)	(165)
Dividends and interest	33,204	37,808
Interest from lease liabilities	1,950	-
Income tax	48,167	63,012
(Profit) / loss on the settlement of construction contracts (caverns)	(2,495)	(2,322)
Share of (profit) / loss on equity accounted investees	(969)	(191)
Change in liabilities due to loan arrangement fee	167	(2,538)
Valuation of derivatives	8,712	57,323
Ineffective portion of hedge accounting	230	989
Other adjustments	4,404	(4,776)
<b>Cash from operating activities before changes in working capital and provisions</b>	<b>464,070</b>	<b>535,039</b>
Change in receivables	(49,623)	(67,895)
Change in inventory	(11,541)	(16,327)
Change in current liabilities	(50,263)	(63,265)
Change in provisions and employee benefits	(2,024)	2,208
<b>Cash generated from operating activities</b>	<b>350,619</b>	<b>389,760</b>
Interest paid	(48,626)	(20,063)
(Profit) / loss on the settlement of construction contracts (caverns)	9,156	19,349
Income tax (paid)/returned	(69,637)	(31,056)
Expenses for reserch	(2,093)	(5,221)
<b>Net cash from operating activities</b>	<b>239,419</b>	<b>352,769</b>
<b>Cash flows from investment activities</b>		
Disposal of intangible assets and property, plant and equipment	2,247	2,595
Disposal of investment property	-	14,380
Dividends received	781	593
Interest received	2,711	4,630
Interest received from lease	11	-
Subsidies received	2,201	1,619
Acquisition of a subsidiary (after deduction of acquired cash)	(4,758)	(159,721)
Acquisition of intangible assets and property, plant and equipment	(222,506)	(287,455)
Acquisition of financial assets	-	(120)
Acquisition of investment property	-	(153)
Development expenditures	(9,418)	(23,154)
Expenditure on the purchase of emission rights	(28,150)	(21,242)
Other outflows	-	(42)
<b>Net cash from investment activities</b>	<b>(256,881)</b>	<b>(468,070)</b>
<b>Cash flows from financial activities</b>		
Proceeds from loans and borrowings	272,523	454,394
Dividends paid to parent company	-	(395,249)
Repayment of loans and borrowings	(263,296)	(262,117)
Payments of finance lease liabilities	(17,607)	(4,575)
Other financial outflows	-	(59)
<b>Net cash from financial activities</b>	<b>(8,380)</b>	<b>(207,606)</b>
<b>Total net cash flows</b>	<b>(25,842)</b>	<b>(322,907)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	<b>192,139</b>	<b>489,754</b>
<i>Impact of foreign exchange differences</i>	<i>10,668</i>	<i>1,464</i>
<b>Cash and cash equivalents as at the end of the period</b>	<b>176,965</b>	<b>168,311</b>

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



## CONDENSED STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company							Equity attributable to shareholders of the parent	Non-controlling interest	Total equity	
	Share capital	Share premium	Cash flow hedge reserve	Costs of hedging reserve	Other reserve capitals	Actuarial gains	Currency translation reserve				Retained earnings
<b>01.01.2019</b>	<b>287,614</b>	<b>470,846</b>	<b>3,115</b>	<b>(4,625)</b>	<b>78,521</b>	<b>119</b>	<b>(63,242)</b>	<b>1,126,491</b>	<b>1,898,839</b>	<b>288</b>	<b>1,899,127</b>
<b>Total comprehensive income for the period</b>	-	-	<b>(35,693)</b>	<b>3,933</b>	-	-	<b>7,445</b>	<b>82,063</b>	<b>57,748</b>	<b>(702)</b>	<b>57,046</b>
Net profit / (loss) for the period	-	-	-	-	-	-	-	82,063	82,063	(792)	81,271
Other comprehensive income	-	-	(35,693)	3,933	-	-	7,445	-	(24,315)	90	(24,225)
<b>30.09.2019</b>	<b>287,614</b>	<b>470,846</b>	<b>(32,578)</b>	<b>(692)</b>	<b>78,521</b>	<b>119</b>	<b>(55,797)</b>	<b>1,208,554</b>	<b>1,956,587</b>	<b>(414)</b>	<b>1,956,173</b>
<b>31.12.2017</b>	<b>287,614</b>	<b>470,846</b>	<b>10,021</b>	-	<b>78,521</b>	<b>311</b>	<b>(73,630)</b>	<b>1,413,913</b>	<b>2,187,596</b>	<b>(2,951)</b>	<b>2,184,645</b>
Changes in accounting policies – implementation of IFRS 9 and IFRS 15	-	-	2,408	(5,240)	-	-	-	(1,356)	<b>(4,188)</b>	-	<b>(4,188)</b>
<b>01.01.2018</b>	<b>287,614</b>	<b>470,846</b>	<b>12,429</b>	<b>(5,240)</b>	<b>78,521</b>	<b>311</b>	<b>(73,630)</b>	<b>1,412,557</b>	<b>2,183,408</b>	<b>(2,951)</b>	<b>2,180,457</b>
<b>Transactions with the owners</b>	-	-	-	-	-	-	-	<b>(395,249)</b>	<b>(395,249)</b>	-	<b>(395,249)</b>
Dividend	-	-	-	-	-	-	-	(395,249)	<b>(395,249)</b>	-	(395,249)
<b>Total comprehensive income for the period</b>	-	-	<b>11,695</b>	<b>(806)</b>	-	-	<b>5,626</b>	<b>199,335</b>	<b>215,850</b>	<b>508</b>	<b>216,358</b>
Net profit / (loss) for the period	-	-	-	-	-	-	-	199,335	199,335	389	199,724
Other comprehensive income	-	-	11,695	(806)	-	-	5,626	-	16,515	119	16,634
<b>30.09.2018</b>	<b>287,614</b>	<b>470,846</b>	<b>24,124</b>	<b>(6,046)</b>	<b>78,521</b>	<b>311</b>	<b>(68,004)</b>	<b>1,216,643</b>	<b>2,004,009</b>	<b>(2,443)</b>	<b>2,001,566</b>

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



## 2

## EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

### 2.1. BASIS FOR PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

These interim consolidated financial statements were prepared in compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” as approved by the European Union and the Regulation of the Minister of Finance dated 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 (Journal of Laws 2018.757 of 29 March 2018). These financial statements present the financial position of the CIECH Group as at 30 September 2019 and as at 31 December 2018, results of the Group’s operations and cash flows for the period of 9 months ended 30 September 2019 and 30 September 2018, and were approved by the Management Board of CIECH S.A. on 19 November 2019.

These interim condensed consolidated financial statements cover the financial statements of the parent company, CIECH S.A., and its significant subsidiaries, as well as interests in significant associates.

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

The Management Board of CIECH S.A. represents that to the best of its knowledge these interim condensed consolidated financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group’s financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the Directors’ Report for the period of 9 months ended 30 September 2019 contains a true image of the Group’s developments, achievements, and condition, including the description of major risks and threats.

Preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”) requires the Management Board to make professional judgements, estimates and assumptions which affect the adopted principles and presented values of assets, equity and liabilities, income and expenses. The estimates and assumptions associated with them are based on historical accuracy and various other factors that are considered to be reasonable under the specific circumstances, and their results provide a basis for professional judgement about the value of assets and liabilities that are not directly apparent from other sources. Actual value may differ from the estimated value. The estimates and the underlying assumptions are reviewed on a continuous basis. Revisions of accounting estimates are recognised in the period in which the changes were made, only if it affects that period or the present and future in case they concern both the current and future periods. The Management Board’s professional judgements which have a significant impact on the consolidated financial statements, and the estimates bearing a risk of significant changes in future years have been presented in items 2.2.1, 2.6, 2.7, 2.8 and 2.13 hereof. During the current semi-annual period there were no significant revisions to the estimates presented in previous reporting periods.

### 2.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH Group’s accounting principles are described in the Consolidated Financial Statements of the CIECH Group for the year 2018, published on 25 July 2019. The aforementioned Financial Statement include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data presented, except for IFRS 16 Leases and change in the manner of accounting for the disposal of inventories – from the FIFO method to the weighted average method.



### 2.2.1. CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 1 January 2019, the CIECH Group adopted a new financial reporting standard, IFRS 16 Leases.

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. The CIECH Group had not elected to early adopt the standard and implemented the standard as of 1 January 2019. In accordance with the transitional provisions of IFRS 16, the new policies were adopted retrospectively: the cumulative impact of applying the new standard was accounted for as an adjustment to equity as at 1 January 2019. Accordingly, the comparative data for the financial year 2018 have not been restated (modified retrospective approach).

The standard has introduced a new definition of lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a given period if, throughout the period of use, the customer has the right to both direct the use of the identified asset and obtain substantially all of the economic benefits from directing the use of the identified asset. As a practical expedient, entities are not required to reassess whether a contract is a lease at the date of initial application of the standard. Instead, the new definition may not be applied to contracts that were previously assessed as to whether they classified as leases in accordance with IAS 17 and IFRIC 4. If entities choose to apply the aforementioned expedient for the identification of contracts as leases, the new lease definition would apply only to contracts executed after 1 January 2019.

For lessees, IFRS 16 departs from the classification of leases into operating and finance leases and introduces a single model of accounting treatment, broadly equivalent to the existing accounting model used for finance leases. The lessees are required to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and (b) amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance leases, with each of them subject to different accounting treatment.

After the application of the new standard at the CIECH Group, previous operating leases and other contracts that contain a lease in accordance with the definition contained in IFRS 16 were recognised in the statement of financial position, which resulted in an increase in the balance sheet total (by reporting the right-of-use assets under fixed assets in the statement of financial position (as a separate item) with corresponding lease liabilities) and changed the classification of expenses in the statement of profit or loss (where lease expenses were replaced by depreciation and interest expense). Right-of-use assets are depreciated using the straight-line method, while the lease liabilities are settled using the appropriate interest rate.

The Group recognises lease liabilities related to agreements previously classified as operating leases in accordance with the requirements of IAS 17 Leases. These liabilities have been measured at the present value of lease payments outstanding at the start of application of IFRS 16, discounted using the Group's incremental borrowing rate as at 1 January 2019.

On initial recognition, lease payments included in the measurement of the lease liability include the following types of payments for the right to use the underlying asset during the lease term:

- fixed lease payments net of any lease incentives,
- variable lease payments that depend on market indices,
- amounts expected to be payable under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- lease termination penalties if the lessee is entitled to exercise the option to terminate the lease.

To calculate discount rates for the purposes of IFRS 16, the Group assumes that the discount rate should reflect the cost that it would have to pay to borrow the funds necessary to purchase the leased asset. The calculation of interest rates took account of credit risk (reflected in the margin assumed), economic conditions in which the transactions took place (country, currency of the contract) and the duration of the contract (preparation of calculations for the relevant periods within which the Group holds lease contracts). Interest rates range from 0.81% to 7.69% (for PLN 3.39%-5.74%; for EUR 0.81%-5.73% for USD 4.92%-7.12%; for RON 5.37%-7.69%). A single discount rate was applied to the entire contract portfolio.

In addition, the period of the lease payment projections applied referred previously only to the irrevocable lease term, whereas under IFRS 16, the lease term over which the lease liability is recognised also includes any periods resulting from an extension or early termination if any of the above scenarios is sufficiently certain in the entity's judgement. In the case of contracts with an extension option, the lease liability would be respectively higher, while termination options resulted in a reduction in the liability amount.



Moreover, the Group companies recognised the land perpetual usufruct right received free of charge on the basis of an administrative decision as an operating lease. Under IFRS 16, land perpetual usufruct right was treated as a lease, and the recognition of the assets held by the Group on this account would had, first and foremost, a significant impact on total assets.

The Group applies the simplifications for short-term leases and low-value asset leases provided for in the standard. It is assumed that assets whose unit value does not exceed approximately PLN 20 thousand, which corresponds to approximately USD 5 thousand, are low-value assets. Short-term leases are those whose term is shorter than 12 months.

#### IFRS 16 – Estimates and judgements

Adoption of IFRS 16 entailed also the need to make estimates and judgments which are reflected in the measurement of lease liabilities and right-of-use assets, including:

- assessing whether a contract contains a lease in accordance with IFRS 16,
- determining the duration of contracts (including contracts with an indefinite term or with an extension option),
- assessing lease payments as either fixed or variable,
- determining the interest rate to be used in discounting future cash flows,
- determining depreciation and amortisation rates.

With respect to contracts for an indefinite term, the Group, when estimating the irrevocable lease term, assumed the period in which it intends to use the underlying assets.

The effect of the implementation of IFRS 16 on the CIECH Group's consolidated financial statements as at 1 January 2019 is as follows (the amounts relate to newly recognized assets):

CIECH Group	01.01.2019
Right-of-use assets recognised	119,089
Lease liabilities recognised	119,089

In addition, the value of right-of-use assets was increased as a result of reclassification of perpetual usufruct rights to land in the amount of PLN 29,646 thousand and property, plant and equipment used under finance lease contracts in the amount of PLN 34,192 thousand.

CIECH Group Right-of-use assets	Adjustment to opening balance	Reclassification of perpetual usufruct rights and property, plant and equipment
Land	32,919	29,646
Buildings, premises, civil and marine engineering structures	47,032	-
Machinery and equipment	-	869
Vehicles	38,574	32,984
Other fixed assets	564	339
<b>Value as at the beginning of the period</b>	<b>119,089</b>	<b>63,838</b>

The effect of the implementation of IFRS 16 on the CIECH S.A.'s separate financial statements as at 1 January 2019 is as follows (the amounts relate to newly recognized assets):

CIECH S.A.	01.01.2019
Right-of-use assets recognised	32,518
Lease liabilities recognised	32,518
CIECH S.A. Right-of-use assets	Adjustment to opening balance
Buildings, premises, civil and marine engineering structures	31,616
Vehicles	902
<b>Value as at the beginning of the period</b>	<b>32,518</b>

A reconciliation of operating lease liabilities presented as at 31 December 2018 to lease liabilities recognised as at 1 January 2019 is presented below.

**CIECH Group**

<b>Operating lease liabilities as at 31 December 2018</b>	<b>246,554</b>
Short-term leases	(2,040)
Low-value leases	(216)
Extension and termination options that are likely to be exercised by the Company	1,645
Buy-back option for long-term contracts	(235)
Change due to discount	(126,619)
<b>Amount of adjustment to lease liabilities as at 1 January 2019, following the implementation of IFRS 16</b>	<b>119,089</b>

**CIECH S.A.**

<b>Operating lease liabilities as at 31 December 2018</b>	<b>38,491</b>
Short-term leases	(47)
Low-value leases	(216)
Change due to discount	(5,710)
<b>Amount of adjustment to lease liabilities as at 1 January 2019, following the implementation of IFRS 16</b>	<b>32,518</b>

Lease periods used to estimate the value of lease liabilities, broken down by underlying asset classes, were as follows:

- land	up to 96 years
- buildings, premises, civil and marine engineering structures	1-77 years
- vehicles	1-6 years
- other fixed assets	1-3 years

The effects of the implementation of IFRS 16 *Leases* on the CIECH Group's net profit or loss for the three quarters of 2019 are presented below.

**CIECH Group****01.01.-30.09.2019 IFRS 16**

Decrease in costs of taxes, charges and services	15,213
Increase in interest costs (unwinding of discount)	(2,984)
Increase in amortisation and depreciation costs	(12,889)

**CIECH S.A.****01.01.-30.09.2019 IFRS 16**

Decrease in costs of taxes, charges and services	4,068
Increase in interest costs (unwinding of discount)	(870)
Increase in amortisation and depreciation costs	(3,473)

The following table presents lease costs not included in the calculation of carrying amounts in accordance with IFRS 16 for the period:

	<b>01.01.-30.09.2019</b>
Costs of short-term leases (concluded for a period of up to 12 months),	4,863
Costs of lease of low-value assets, including:	748
<i>CIECH S.A.</i>	637
Costs related to variable lease payments not included in the measurement of lease liabilities	5,227

The CIECH Group intends to adopt amendments to the IFRS that are published but not effective as at the date of publication of this report in accordance with their effective date. The estimated impact of amendments and impact of new IFRSs on the consolidated financial statements of the CIECH Group was presented in the Consolidated Financial Statements of the CIECH Group for the year 2018, published on 25 July 2019.

**2.3. FUNCTIONAL AND REPORTING CURRENCY**

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

The functional currencies for the significant foreign subsidiaries are as follows: SDC Group, Ciech Group Financing AB and Proplan Plant Protection Company S.L. – EUR, CIECH Soda Romania S.A. – RON. For the purpose of conversion into PLN, the



following foreign exchange rates determined on the basis of quotations announced by the National Bank of Poland ("NBP") have been applied for consolidation purposes:

NBP exchange rate as at the end day of the reporting period	30.09.2019 <sup>1</sup>	31.12.2018 <sup>2</sup>
EUR	4.3736	4.3000
RON	0.9207	0.9229
Average NBP rate for the reporting period	9 months ended 30.09.2019 <sup>3</sup>	9 months ended 30.09.2018 <sup>4</sup>
EUR	4.3086	4.2535
RON	0.9081	0.9141

<sup>1</sup> NBP's average foreign exchange rates table applicable as at 30 September 2019.

<sup>2</sup> NBP's average foreign exchange rates table applicable as at 31 December 2018.

<sup>3</sup> According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2019 to 30 September 2019.

<sup>4</sup> According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2018 to 30 September 2018.

## 2.4. SEASONALITY AND CYCLICALITY 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 4<sup>th</sup> 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.

## 2.5. SEGMENT REPORTING

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance. Information for a given operating segment may include sales of products and goods also included in the core product range of other divisions. Such items, however, are not significant for those divisions' management accounting.

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

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

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

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

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





	01.01.-30.09.2019	01.01.-30.09.2018
Net profit/(loss) on continuing operations	81,271	199,724
Income tax	48,167	63,012
Share of profit / (loss) of equity-accounted investees	(967)	(191)
Financial expenses	55,639	38,266
Financial income	(13,503)	(14,203)
Amortisation/depreciation	231,517	198,002
<b>EBITDA on continued operations</b>	<b>402,124</b>	<b>484,610</b>

	01.01.-30.09.2019	01.01.-30.09.2018
<b>EBITDA on continued operations</b>	<b>402,124</b>	<b>484,610</b>
One-offs including:	75,750	(12,744)
Impairment (a)	73,179	(429)
Cash items (b)	2,330	(15,341)
Non-cash items (without impairment) (c)	241	3,026
<b>Adjusted EBITDA from continuing operations</b>	<b>477,874</b>	<b>471,866</b>

(a) Impairment losses are associated with the recognition/reversal of impairment losses on assets.

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

(c) Non-cash items include: fair value measurement of investment properties, costs of liquidation of inventories and property, plant and equipment, the costs of suspended investments, environmental provisions, provisions for liabilities and compensation, costs of unused production capacity and other items (including extraordinary costs and other provisions).

Additional information on adjustments has been presented under tables presenting the consolidated statement of profit or loss by operating segments.



## OPERATING SEGMENTS OF THE CIECH GROUP

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

OPERATING SEGMENTS 01.01.-30.09.2019	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	1,827,501	647,684	186,879	9,087	74,337	-	-	2,745,488
Revenue from inter-segment transactions	48,569	235	146	96,254	29,341	-	(174,545)	-
<b>Total sales revenues</b>	<b>1,876,070</b>	<b>647,919</b>	<b>187,025</b>	<b>105,341</b>	<b>103,678</b>	-	<b>(174,545)</b>	<b>2,745,488</b>
Cost of sales	(1,412,442)	(529,045)	(139,174)	(100,458)	(79,830)	-	91,495	(2,169,454)
<b>Gross profit /(loss) on sales</b>	<b>463,628</b>	<b>118,874</b>	<b>47,851</b>	<b>4,883</b>	<b>23,848</b>	-	<b>(83,050)</b>	<b>576,034</b>
Selling costs	(175,816)	(65,656)	(24,637)	(3,483)	(8,334)	(531)	82,696	(195,761)
General and administrative expenses	(52,802)	(25,962)	(4,560)	(3,017)	(4,306)	(65,078)	2,911	(152,814)
Result on management of receivables	(374)	(11)	12	(40)	360	-	-	(53)
Result on other operating activities	(29,299)	(15,563)	(900)	432	(7,276)	(491)	(3,702)	(56,799)
<b>Operating profit /(loss)</b>	<b>205,337</b>	<b>11,682</b>	<b>17,766</b>	<b>(1,225)</b>	<b>4,292</b>	<b>(66,100)</b>	<b>(1,145)</b>	<b>170,607</b>
Exchange differences and interest on trade settlements	(8,126)	(564)	221	(144)	(264)	-	-	(8,877)
Group borrowing costs	-	-	-	-	-	(37,952)	-	(37,952)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	4,693	-	4,693
Share of profit / (loss) of equity-accounted investees	967	-	-	-	-	-	-	967
<b>Profit /(loss) before tax</b>	<b>198,178</b>	<b>11,118</b>	<b>17,987</b>	<b>(1,369)</b>	<b>4,028</b>	<b>(99,359)</b>	<b>(1,145)</b>	<b>129,438</b>
Income tax	-	-	-	-	-	-	-	(48,167)
<b>Net profit /(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,271</b>
Amortization/depreciation	165,515	30,905	15,659	11,730	987	6,721	-	231,517
EBITDA	370,852	42,587	33,425	10,505	5,279	(59,379)	(1,145)	402,124
Adjusted EBITDA*	444,761	43,191	34,818	10,136	3,454	(58,539)	53	477,874

\*Adjusted EBITDA for the 9-month period ended 30 September 2019 is calculated as EBITDA adjusted for untypical one-off events: fortuitous events: PLN -2.0 million; impairment losses: PLN -73.2 million; other: PLN -0.5 million.



OPERATING SEGMENTS 01.01.-30.09.2018	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	1,760,648	629,385	184,013	11,349	116,511	-	-	2,701,906
Revenue from inter-segment transactions	40,762	297	81	97,031	26,903	-	(165,074)	-
<b>Total sales revenues</b>	<b>1,801,410</b>	<b>629,682</b>	<b>184,094</b>	<b>108,380</b>	<b>143,414</b>	-	<b>(165,074)</b>	<b>2,701,906</b>
Cost of sales	(1,332,597)	(530,015)	(142,310)	(97,619)	(116,926)	-	97,541	(2,121,926)
<b>Gross profit /(loss) on sales</b>	<b>468,813</b>	<b>99,667</b>	<b>41,784</b>	<b>10,761</b>	<b>26,488</b>	-	<b>(67,533)</b>	<b>579,980</b>
Selling costs	(185,298)	(52,637)	(23,829)	(2,996)	(8,597)	(374)	68,853	(204,878)
General and administrative expenses	(41,564)	(16,872)	(3,459)	(3,225)	(3,859)	(47,087)	2,346	(113,720)
Result on management of receivables	(187)	721	(38)	(123)	163	-	-	536
Result on other operating activities	21,009	(8,684)	(1,274)	(267)	15,227	1,493	(2,814)	24,690
<b>Operating profit /(loss)</b>	<b>262,773</b>	<b>22,195</b>	<b>13,184</b>	<b>4,150</b>	<b>29,422</b>	<b>(45,968)</b>	<b>852</b>	<b>286,608</b>
Exchange differences and interest on trade settlements	(3,451)	(14,255)	169	(281)	(1,130)	-	-	(18,948)
Group borrowing costs	-	-	-	-	-	(22,290)	-	(22,290)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	17,175	-	17,175
Share of profit / (loss) of equity-accounted investees	191	-	-	-	-	-	-	191
<b>Profit /(loss) before tax</b>	<b>259,513</b>	<b>7,940</b>	<b>13,353</b>	<b>3,869</b>	<b>28,292</b>	<b>(51,083)</b>	<b>852</b>	<b>262,736</b>
Income tax	-	-	-	-	-	-	-	(63,012)
<b>Net profit /(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>199,724</b>
Amortization/depreciation	149,626	23,176	14,876	4,328	2,166	3,830	-	198,002
EBITDA	412,399	45,371	28,060	8,478	31,588	(42,138)	852	484,610
Adjusted EBITDA*	415,116	45,554	28,231	8,668	18,051	(44,604)	850	471,866

\* Adjusted EBITDA for the 9-month period ended 30 September 2018 is calculated as EBITDA adjusted for untypical one-off events: disposal of non-financial assets – PLN 14.5 million; fines and compensations: PLN 2.1 million; liquidation of fixed assets – PLN -1 million; change in impairment losses on assets – PLN 0.4 million; change in provisions: PLN -1.8 million; other: PLN -1.5 million.



## ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Soda segment	2,957,325	2,952,682	195,878	279,805
Organic segment	958,082	906,909	108,252	145,097
Silicates and glass segment	146,144	154,512	23,914	25,211
Transport segment	108,043	69,314	12,917	12,319
Other operations segment	73,443	50,298	27,052	30,272
Corporate functions - reconciliation item	707,118	732,298	2,625,370	2,475,134
Eliminations (consolidation adjustments)	(55,367)	(43,881)	(54,768)	(44,833)
<b>TOTAL</b>	<b>4,894,788</b>	<b>4,822,132</b>	<b>2,938,615</b>	<b>2,923,005</b>

## INFORMATION ON GEOGRAPHICAL AREAS

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
<b>30.09.2019</b>				
Poland	2,276,767	65,031	1,013,227	3,355,025
European Union (excluding Poland)	1,244,646	-	242,399	1,487,045
Other European countries	-	-	2,054	2,054
Africa	-	-	12,324	12,324
Asia	-	-	38,106	38,106
Other regions	-	-	234	234
<b>TOTAL</b>	<b>3,521,413</b>	<b>65,031</b>	<b>1,308,344</b>	<b>4,894,788</b>
<b>31.12.2018</b>				
Poland	2,221,115	67,872	829,814	3,118,801
European Union (excluding Poland)	1,244,721	-	338,863	1,583,584
Other European countries	-	-	44,549	44,549
Africa	-	-	12,699	12,699
Asia	-	-	62,142	62,142
Other regions	-	-	357	357
<b>TOTAL</b>	<b>3,465,836</b>	<b>67,872</b>	<b>1,288,424</b>	<b>4,822,132</b>

## SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-30.09.2019	01.01.-30.09.2018	Dynamics 2019/2018
<b>Poland</b>	<b>1,155,299</b>	<b>1,057,468</b>	<b>9.3%</b>
<b>European Union (excluding Poland)</b>	<b>1,237,859</b>	<b>1,166,779</b>	<b>6.1%</b>
Germany	507,987	496,053	2.4%
Romania	107,254	98,234	9.2%
Czech Republic	118,478	110,000	7.7%
Italy	63,815	59,866	6.6%
The Netherlands	80,997	85,391	(5.1%)
Finland	44,413	48,507	(8.4%)
Sweden	30,769	50,022	(38.5%)
Belgium	22,671	22,816	(0.6%)
United Kingdom	30,574	34,713	(11.9%)
Denmark	30,345	18,440	64.6%
Spain	56,926	16,378	247.6%
Austria	23,858	21,489	11.0%



	01.01.-30.09.2019	01.01.-30.09.2018	Dynamics 2019/2018
France	14,444	8,031	79.9%
Luxembourg	18,023	16,431	9.7%
Lithuania	11,277	11,939	(5.5%)
Other EU countries	76,028	68,469	11.0%
<b>Other European Countries</b>	<b>115,179</b>	<b>215,664</b>	<b>(46.6%)</b>
Switzerland	13,943	95,831	(85.5%)
Norway	33,790	25,870	30.6%
Russia	4,570	31,099	(85.3%)
Other European countries	62,876	62,864	0.0%
<b>Africa</b>	<b>71,496</b>	<b>42,907</b>	<b>66.6%</b>
<b>Asia</b>	<b>129,973</b>	<b>179,454</b>	<b>(27.6%)</b>
India	59,203	97,725	(39.4%)
Singapore	723	9,752	(92.6%)
Bangladesh	29,154	11,945	144.1%
Hong Kong	14,857	14,110	5.3%
Turkey	11,900	8,630	37.9%
Other Asian countries	14,136	37,292	(62.1%)
<b>Other regions</b>	<b>28,211</b>	<b>24,823</b>	<b>13.6%</b>
Cash flow hedge adjustment	7,471	14,811	(49.6%)
<b>TOTAL</b>	<b>2,745,488</b>	<b>2,701,906</b>	<b>1.6%</b>

At the CIECH Group, sales revenues are recognized upon the provision of services or delivery of products or goods.

## 2.6. PROVISIONS AND IMPAIRMENT LOSSES ON ASSETS

During the first three quarters and in the third quarter of 2019, the following changes in provisions and impairment losses on assets were recognised in the consolidated financial statements of the CIECH Group.

PROVISIONS FOR EMPLOYEE BENEFITS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2019</b>					
Long-term	11,851	222	(198)	61	11,936
Short-term	877	1,432	(377)	(2)	1,930
<b>01.01.-30.09.2018</b>					
Long-term	10,789	247	(111)	103	11,028
Short-term	968	258	(615)	-	611
<b>01.07.-30.09.2019</b>					
Long-term	11,839	129	(99)	67	11,936
Short-term	748	1,411	(246)	17	1,930
<b>01.07.-30.09.2018</b>					
Long-term	11,156	30	(62)	(96)	11,028
Short-term	670	174	(233)	-	611

In addition, other long-term liabilities also include the estimated value of the three-year Long-term Incentive Plan of the CIECH Group for 2019-2021 for the key management personnel of the CIECH Group. The intention of the Plan introduction is to harmonise activities of the key managers of the CIECH Group with the achievement of objectives contained in the CIECH Group Strategy for 2019-2021.

The main criterion for the Plan implementation will be the achievement of a value growth by the CIECH Group in 2019-2021 at a level of at least 11% of the reference year, i.e. 2018. The Generated Value will be calculated as the difference in value of the CIECH Group generated at the end of 2021, compared with the same value at the end of 2018. The CIECH Group Value will be measured using the so-called TSR (Total Shareholder Return) ratio, taking into account among others: adjusted EBITDA of the CIECH Group, assumed multiplier for the adjusted EBITDA of the CIECH Group, consolidated net debt of the



CIECH Group, the value of dividends paid, and cash inflows from/outflows for the issue/cancellation of shares of the Company. The CIECH Group Value will be calculated on the basis of financial data disclosed in the audited consolidated financial statements of the CIECH Group. If the Generated Value is at a minimum level of 11% of the reference year (2018), the bonus pool will be equal to 12% of the Generated Value. The bonus pool will be paid out in 2022-2024, in equal parts each year.

As at 30 September 2019, 519 units were granted out of 1000 units issued, and the discounted value of the programme for the three quarters of 2019 amounted to PLN 15,266 thousand (including PLN 13,906 thousand attributable to CIECH S.A.). The liabilities were measured by the Group using a discount rate of 3.53%.

CHANGE IN OTHER LONG-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2019</b>					
Provision for liabilities and expected losses	3,286	-	(2,013)	-	1,273
Provision for environmental protection	75,794	-	-	1,813	77,607
<b>TOTAL</b>	<b>79,080</b>	<b>-</b>	<b>(2,013)</b>	<b>1,813</b>	<b>78,880</b>
<b>01.01.-30.09.2018</b>					
Provision for liabilities and expected losses	1,047	-	-	6,500	7,547
Provision for environmental protection	70,765	-	(91)	1,911	72,585
<b>TOTAL</b>	<b>71,812</b>	<b>-</b>	<b>(91)</b>	<b>8,411</b>	<b>80,132</b>
<b>01.07.-30.09.2019</b>					
Provision for liabilities and expected losses	1,273	-	-	-	1,273
Provision for environmental protection	75,482	-	-	2,125	77,607
<b>TOTAL</b>	<b>76,755</b>	<b>-</b>	<b>-</b>	<b>2,125</b>	<b>78,880</b>
<b>01.07.-30.09.2018</b>					
Provision for liabilities and expected losses	7,547	-	-	-	7,547
Provision for environmental protection	73,854	-	182	(1,451)	72,585
<b>TOTAL</b>	<b>81,401</b>	<b>-</b>	<b>182</b>	<b>(1,451)</b>	<b>80,132</b>

CHANGE IN OTHER SHORT-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2019</b>					
Provision for liabilities and expected losses	170,495	8,792	(77,936)	196	101,547
Provision for environmental protection	2,311	-	(1,195)	-	1,116
Provision for restructuring	218	-	(107)	-	111
Other provisions	-	-	-	442	442
<b>TOTAL</b>	<b>173,024</b>	<b>8,792</b>	<b>(79,238)</b>	<b>638</b>	<b>103,216</b>
<b>01.01.-30.09.2018</b>					
Provision for liabilities and expected losses	76,307	3,884	(934)	(5,775)	73,482
Provision for environmental protection	951	116	(1,122)	172	117
Provision for bonuses	610	136	(449)	2	299
Provision for restructuring	-	265	-	-	265
Other provisions	28	-	-	2	30
<b>TOTAL</b>	<b>77,896</b>	<b>4,401</b>	<b>(2,505)</b>	<b>(5,599)</b>	<b>74,193</b>
<b>01.07.-30.09.2019</b>					
Provision for liabilities and expected losses	108,880	2,283	(9,936)	320	101,547
Provision for environmental protection	1,476	-	(363)	3	1,116
Provision for restructuring	185	-	(74)	-	111
Other provisions	613	-	-	(171)	442
<b>TOTAL</b>	<b>111,154</b>	<b>2,283</b>	<b>(10,373)</b>	<b>152</b>	<b>103,216</b>
<b>01.07.-30.09.2018</b>					
Provision for liabilities and expected losses	72,792	1,469	(104)	(675)	73,482
Provision for environmental protection	132	-	(184)	169	117
Provision for bonuses	270	136	(114)	7	299



CHANGE IN OTHER SHORT-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
Provision for restructuring	-	265	-	-	265
Other provisions	350	-	-	(320)	30
<b>TOTAL</b>	<b>73,544</b>	<b>1,870</b>	<b>(402)</b>	<b>(819)</b>	<b>74,193</b>

The utilisation of the provision in the amount of PLN 77,936 thousand relates mainly to the payment of a tax liability together with overdue interest on CIT for 2012 in the amount of PLN 66,400 thousand (for more information on the tax audit, see Note 3.12 hereto).

CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2019</b>						
Property, plant and equipment	3,390	-	73,661	1	582	77,634
Intangible assets, including:	460,216	-	-	-	6,119	466,335
<i>Goodwill</i>	414,383	-	-	-	5,410	419,793
Long-term receivables	1,441	-	-	(112)	23	1,351
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	40,695	-	5,001	(14,146)	(22)	31,528
Short-term financial assets	27,953	-	-	-	-	27,953
Trade and other receivables	58,991	-	3,402	(5,404)	506	57,495
Cash and cash equivalents	142	-	20	(29)	0	134
<b>TOTAL</b>	<b>594,171</b>	<b>-</b>	<b>82,084</b>	<b>(19,690)</b>	<b>7,208</b>	<b>663,773</b>
<b>01.01.-30.09.2018</b>						
Property, plant and equipment	6,981	-	2	-	(375)	6,608
Intangible assets, including:	445,791	-	-	-	10,198	455,989
<i>Goodwill</i>	402,416	-	-	-	9,229	411,645
Long-term receivables	-	1,531	-	(38)	36	1,529
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	37,987	-	1,956	(5,937)	1,017	35,023
Short-term financial assets	24,532	-	3,420	-	-	27,952
Trade and other receivables	44,613	5,143	21,649	(2,438)	1,705	70,672
Cash and cash equivalents	-	571	14	(358)	2	229
<b>TOTAL</b>	<b>561,247</b>	<b>7,245</b>	<b>27,041</b>	<b>(8,771)</b>	<b>12,583</b>	<b>599,345</b>
<b>01.07.-30.09.2019</b>						
Property, plant and equipment	39,520	-	36,831	1	1,282	77,634
Intangible assets, including:	454,122	-	-	-	12,213	466,335
<i>Goodwill</i>	408,748	-	-	-	11,045	419,793
Long-term receivables	1,314	-	-	(1)	39	1,352
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	33,499	-	765	(2,888)	152	31,528
Short-term financial assets	27,953	-	-	-	-	27,953
Trade and other receivables	56,293	-	1,615	(346)	(67)	57,495
Cash and cash equivalents	140	-	(7)	-	1	134
<b>TOTAL</b>	<b>614,184</b>	<b>-</b>	<b>39,204</b>	<b>(3,234)</b>	<b>13,619</b>	<b>663,773</b>
<b>01.07.-30.09.2018</b>						
Property, plant and equipment	6,801	-	-	-	(193)	6,608
Intangible assets, including:	465,306	-	-	-	(9,317)	455,989
<i>Goodwill</i>	420,095	-	-	-	(8,450)	411,645
Long-term receivables	1,535	-	-	26	(32)	1,529



CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	36,107	-	323	(1,489)	82	35,023
Short-term financial assets	26,619	-	1,333	-	-	27,952
Trade and other receivables	65,464	-	5,346	(842)	704	70,672
Cash and cash equivalents	272	-	(41)	-	(2)	229
<b>TOTAL</b>	<b>603,447</b>	<b>-</b>	<b>6,961</b>	<b>(2,306)</b>	<b>(8,758)</b>	<b>599,345</b>

\*IFRS 9 implementation adjustment.

#### Detailed information on impairment losses

In connection with the suspension of production by the subsidiary CIECH Soda Romania S.A., which is the result of the cessation of supply of process steam by its supplier, S.C. CET Govora S.A., the CIECH Group assessed the premises indicating impairment of assets based on possible scenarios of operation. The result of the analysis was the creation of a write-down for property, plant and equipment in the total value of PLN 73,661 thousand (of which, in the first half of 2019, a write-down of PLN 36,655 thousand was created).

The decision to create the additional write-down in the third quarter 2019 was made as a result of:

1. failure to reach agreement between the CIECH Soda Romania S.A. and the sole provider of steam – S.C. CET Govora S.A. based in Romania in composition bankruptcy (“CET”), as to the level of the price of process steam, as confirmed by CET in its letter with information on the inability to supply the steam at the price agreed in the terminated contract (realization of scenario 2 described in note 2.6 of Extended consolidated report of the CIECH Group for the first half of 2019, published on 10 September 2019),
2. analysis of possible steam delivery options from a new source, the probability of which, as at the date of decision making, was assessed as insufficiently high.

The amount of the impairment loss on property, plant and equipment was determined in accordance with IAS 36 “Impairment of assets”. The following assumptions were adopted to determine the value of particular groups of fixed assets:

- for land – the value from market valuations was used as the selling price,
- for fixed assets and fixed assets under construction that could potentially be used by other CIECH Group companies and relocated there – the book value was used,
- for vehicles and other fixed assets – it was assumed that the book value reflected the market value,
- for other fixed assets not included above – the price of scrap less the costs of disassembly was used as the selling price.

The impairment loss (recognised as other operating expenses in the period from 1 January to 30 September 2019), calculated on the basis of the above assumptions, was PLN 73,661 thousand.

The amount of the impairment loss was allocated to the profit or loss of the industry segments in which CIECH Soda Romania S.A. conducts its operations. The impact on the operating profit or loss of particular segments was as follows:

1. Soda segment: PLN 71,153 thousand;
2. Silicates and Glass segment: PLN 2,508 thousand.

At the same time, analyses are continued with regard to the possibility of obtaining a new source of steam at a reasonable cost and long-term cooperation in the supply of other raw materials necessary for production (guaranteeing cost predictability in subsequent years). The result of these analyses may affect the amount of write-downs to be recognised in the consolidated financial statements of the CIECH Group for subsequent reporting periods.

## 2.7. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-30.09.2019	01.01.-30.09.2018
Current income tax	(47,297)	(25,064)
Deferred tax	(870)	(37,948)
<b>INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS</b>	<b>(48,167)</b>	<b>(63,012)</b>



Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	30.09.2019			31.12.2018		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	1,739	153,568	(151,829)	1,664	151,728	(150,064)
Intangible assets	6,619	24,195	(17,576)	8,005	25,334	(17,329)
Right of perpetual usufruct	-	4,968	(4,968)	-	5,003	(5,003)
Investment property	1,043	1,558	(515)	1,043	1,555	(512)
Financial assets	812	8,798	(7,986)	646	13,899	(13,253)
Inventory	1,432	2,921	(1,489)	2,645	1,916	729
Trade and other receivables	4,733	2,311	2,422	4,869	23,445	(18,576)
Provisions for employee benefits	2,320	-	2,320	2,455	3	2,452
Other provisions	15,120	-	15,120	17,067	-	17,067
Tax losses carried forward	41,806	-	41,806	43,521	-	43,521
Foreign exchange differences	1,901	543	1,358	2,492	281	2,211
Liabilities	53,552	-	53,552	52,921	62	52,859
Special economic zone	105,157	-	105,157	131,278	-	131,278
Other	162	36	126	161	12,003	(11,842)
Cash and cash equivalents	102	-	102	103	-	103
<b>Deferred tax assets/liability</b>	<b>236,498</b>	<b>198,898</b>	<b>37,600</b>	<b>268,870</b>	<b>235,229</b>	<b>33,641</b>
Set - off of deferred tax assets/ liability	(131,235)	(131,235)	-	(160,401)	(160,401)	-
Unrecognized deferred tax assets	(40,232)	-	(40,232)	(40,597)	-	(40,597)
<b>Deferred tax assets/liability recognised in the statement of financial position</b>	<b>65,031</b>	<b>67,663</b>	<b>(2,632)</b>	<b>67,872</b>	<b>74,828</b>	<b>(6,956)</b>

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

## 2.8. INFORMATION ON FAIR VALUE OF FINANCIAL INSTRUMENTS

### 2.8.1. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 September 2019, the CIECH Group held the following types of financial instruments measured at fair value:

- futures contracts for the purchase of CO<sub>2</sub> certificates concluded by CIECH Soda Polska S.A., hedging the cost of purchase of CO<sub>2</sub> units in 2019 — Level 1, according to the fair value hierarchy,
- concluded by the parent company, CIECH S.A.: interest rate swap contracts, CIRS (currency and interest rate swap) contract EUR/PLN — Level 2, according to the fair value hierarchy,
- isolated option instruments (acquired call options) embedded in the gas supply contract concluded by CIECH Energy Deutschland GmbH on 1 August 2016, hedging the cost of gas purchased in 2016–2020 — Level 2, according to the fair value hierarchy,
- currency forwards EUR/PLN, USD/RON and RON/PLN concluded by CIECH S.A. — Level 2, according to the fair value hierarchy.



During three quarters of 2019, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

However, as at 30 September 2019, due to the discontinuation of production at CIECH Soda Romania S.A. and the absence of any further USD/RON exposure, part of the transaction was closed with a negative valuation, which was reflected in both the separate and consolidated financial statements.

As compared to the previous reporting period, the CIECH Group has not made any changes in methods of measurement of financial instruments held. The descriptions of methods of measurement to fair value was presented in item 8.4 of the Consolidated Financial Statements of the CIECH Group for 2018, published on 25 July 2019.

In the consolidated financial statements, all financial instruments concluded – except for two currency forwards, EUR/PLN and RON/PLN (concluded in the first half of 2019), and one of the CIRS contracts – were designated for hedge accounting, and details of the designation were presented in item 8.2 of the Consolidated Financial Statements of the CIECH Group for 2018, published on 25 July 2019.

In the separate financial statements, all financial instruments, except for CIRS contracts and two currency forwards: EUR/PLN and RON/PLN (concluded in the first half of 2019), were designated for hedge accounting, and details of the designation were presented in item 8.2 of the CIECH S.A.'s Financial Statements for 2018, published on 26 March 2019.

#### Fair value of derivative instruments and embedded instruments

Fair value of derivative instruments and embedded instruments	Cash and cash equivalents	Long-term financial assets	Short-term financial assets	Other long-term liabilities	Trade and other liabilities	TOTAL
<b>30.09.2019</b>						
IRS EUR	-	-	-	(597)	(804)	(1,401)
IRS PLN	-	579	51	(3,444)	(58)	(2,872)
CIRS	-	3,051	17,945	(31,989)	(16,418)	(27,411)
Forward EUR/PLN	-	-	3	-	(354)	(351)
Forward USD /RON	-	-	-	-	(4,388)	(4,388)
Embedded derivatives	-	-	3,055	-	-	3,055
Futures	10,631	-	-	-	-	10,631
<b>TOTAL</b>	<b>10,631</b>	<b>3,630</b>	<b>21,054</b>	<b>(36,030)</b>	<b>(22,022)</b>	<b>(22,737)</b>
<b>31.12.2018</b>						
IRS EUR	-	-	-	(282)	(474)	(756)
CIRS	-	11,859	15,517	(37,899)	(5,047)	(15,570)
Forward EUR/PLN	-	-	543	-	(218)	325
Forward USD /RON	-	-	-	-	(848)	(848)
Embedded derivatives	-	4,007	11,972	-	-	15,979
Futures	22,756	-	-	-	-	22,756
<b>TOTAL</b>	<b>22,756</b>	<b>15,866</b>	<b>28,032</b>	<b>(38,181)</b>	<b>(6,587)</b>	<b>21,886</b>

#### 2.8.2. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The CIECH Group has taken out term and revolving credit facilities whose book value, as at 30 September 2019, was PLN 1,662,887 thousand, and whose fair value amounted to PLN 1,654,020 thousand (Level 2 of fair value hierarchy). The Group concluded that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates. In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash and cash equivalents, loans and receivables, financial liabilities measured at amortised cost other than loans and bonds and financial liabilities excluded from the scope of IFRS 9), the fair value is close to the book value.



## 2.9. INFORMATION ON PURCHASE AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

In the period from 1 January to 30 September 2019, the CIECH Group carried out the following transactions increasing and decreasing the gross value of property, plant and equipment:

01.01.-30.09.2019	Land	Buildings, premises, civil and marine engineering structures	Machinery and equipment	Vehicles	Other fixed assets	Property, plant and equipment under construction	TOTAL
<b>Gross value of property, plant and equipment at the beginning of the period</b>	<b>82,164</b>	<b>1,258,088</b>	<b>3,131,875</b>	<b>115,384</b>	<b>53,975</b>	<b>400,455</b>	<b>5,041,941</b>
Purchase	1,025	751	8,265	2,302	1,951	205,339	219,633
Reclassifications	-	23,210	33,782	(36,125)	1,027	(76,655)	(54,761)
Capitalised borrowing costs	-	-	-	-	-	7,643	7,643
Foreign exchange differences	1,108	2,825	11,905	47	128	5,670	21,683
Sale	-	-	(274)	(1,705)	(102)	-	(2,081)
Liquidation	-	(128)	(5,385)	(199)	(156)	-	(5,868)
Other	-	(2,305)	(3,054)	-	-	(38)	(5,397)
<b>Gross value of property, plant and equipment at the end of the period</b>	<b>84,297</b>	<b>1,282,441</b>	<b>3,177,114</b>	<b>79,704</b>	<b>56,823</b>	<b>542,414</b>	<b>5,222,793</b>
<b>01.01.-30.09.2018</b>							
<b>Gross value of property, plant and equipment at the beginning of the period</b>	<b>79,737</b>	<b>1,154,203</b>	<b>2,919,663</b>	<b>107,552</b>	<b>46,055</b>	<b>342,673</b>	<b>4,649,883</b>
Purchase	-	12,383	16,212	1,676	3,689	248,119	282,079
Reclassifications	-	48,188	60,694	(936)	4,720	(146,238)	(33,572)
Capitalised borrowing costs	-	-	-	-	-	4,619	4,619
Foreign exchange differences	1,872	5,503	22,058	411	264	2,719	32,827
Sale	-	-	(1,680)	(238)	-	-	(1,918)
Liquidation	-	(1,413)	(8,899)	(124)	(1,321)	-	(11,757)
Other	-	-	(2,299)	-	-	-	(2,299)
<b>Gross value of property, plant and equipment at the end of the period</b>	<b>81,609</b>	<b>1,218,864</b>	<b>3,006,070</b>	<b>108,679</b>	<b>53,441</b>	<b>451,892</b>	<b>4,920,555</b>

Purchases of property, plant and equipment were made with own financial resources. As at 30 September 2019, commitments to purchase property, plant and equipment amounted to PLN 173,088 thousand (PLN 76,173 thousand as at 31 December 2018). The increase in the value of property, plant and equipment is related to investment projects carried out in the CIECH Group, mainly in the production companies of the Group. The most significant item under "reclassifications" is the transfer of leased vehicles to the group of right-of-use assets in connection with the implementation of IFRS 16.

## 2.10. INFORMATION ON LOAN AGREEMENTS, INCLUDING OVERDUE DEBTS OR OTHER VIOLATIONS OF DEBT-RELATED AGREEMENTS

During the period covered by these financial statements, no loan agreement was called to maturity and there were no violations of payment terms for repayment of principal or interest due in relation to financial liabilities recognised in the statement of financial position.

All information concerning the financing conditions, which results from the agreements and arrangements with the banks, has been presented in the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.



## 2.11. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

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

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

TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED PARTIES	01.01.-30.09.2019	01.01.-30.09.2018
Revenues from sales of products and services, including:	3,115	3,653
<i>KI One S.A.</i>	-	8
Revenues from sales of goods and materials	61,097	77,062
Other operating income	11	-
Financial income	149	750
Purchase of services, including:	29,077	30,183
<i>KI One S.A.</i>	110	2,565
Other operating expenses, including:	-	1,463
<i>KI One S.A.</i>	-	406
Financial expenses	308	1,074
	<b>30.09.2019</b>	<b>31.12.2018</b>
Receivables	11,230	14,695
Impairment losses on receivables and loans	-	2
Liabilities, including:	3,126	5,370
<i>KI One S.A.</i>	-	1,071

### Terms of transactions with related parties

Material sales to and purchases from related entities are carried out on terms which do not differ from arm's length terms. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. No material non-standard or non-routine transactions were concluded with related entities in the first three quarters of 2019, except for transactions described in item 3.3 hereof.

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

## 2.12. ISSUE, REDEMPTION AND REPAYMENT OF DEBT SECURITIES AND EQUITY SECURITIES IN THE CIECH GROUP

In the presented period, the CIECH Group companies did not issue, redeem or repay any debt or equity securities.

## 2.13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES INCLUDING GUARANTEES AND SURETIES

	30.09.2019	31.12.2018
<b>Contingent assets</b>	<b>37,746</b>	<b>22,060</b>
Other contingent receivables*	37,746	22,060
<b>Contingent liabilities</b>	<b>644,604</b>	<b>522,544</b>
Guarantees and sureties granted**	547,398	421,130
Other***	97,206	101,414

\* Including:

- Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFOR" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFOR" Sp. z o.o. to CIECH S.A. about the condition of Agrochem Człuchów Sp. z o.o. with its registered office in Człuchów.
- As at 30 September 2019, a contingent asset recognised by CIECH Soda Polska S.A. amounted to PLN 18,882 thousand – it is the value of energy efficiency certificates received from the President of the Energy Regulatory Office in 2017 and 2019 that have not been recorded yet in the account kept by the Polish Power Exchange.

\*\* Including:

- guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 365,630 thousand,



- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand – contingent liability in the amount of PLN 32,802 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of PLN 50,000 thousand – contingent liability in the amount of PLN 12,500 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of EUR 10,000 thousand – contingent liability in the amount of PLN 10,934 thousand,*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of EUR 25,000 thousand – contingent liability in the amount of PLN 27,335 thousand,*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 300,000 thousand – contingent liability in the amount of PLN 75,000 thousand,*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 92,788 thousand – contingent liability in the amount of PLN 23,197 thousand.*

\*\*\* Including mainly:

- *contingent liability in the SDC Group relating to environmental protection in the amount of PLN 15,929 thousand (EUR 3,642 thousand),*
- *contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 36,320 thousand,*
- *contingent liabilities in CIECH Soda Polska S.A. resulting from blank promissory notes for the National Fund for Environmental Protection and Water Management relating to grants received in the amount of PLN 16,927 thousand,*
- *contingent liabilities in CIECH Sarzyna S.A. resulting from a grant received for developing and testing a group of agro-chemical preparations in the amount of PLN 14,645 thousand,*
- *contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for investment projects aimed at developing and optimising production processes in the amount of PLN 13,385 thousand.*

As at 30 September 2019, contingent liabilities amounted to PLN 644,604 thousand and increased as compared to 31 December 2018 by PLN 122,060 thousand. The change resulted mainly from an increase in liabilities on account of loans covered by guarantees.

Other guarantees and sureties granted are described in item 9.2 of the Consolidated financial statements of the CIECH Group for 2018, published on 25 July 2019.

## 2.14. INFORMATION ON DIVIDENDS PAID (OR DECLARED), IN TOTAL AND PER SHARE, BROKEN DOWN INTO ORDINARY SHARES AND PREFERENCE SHARES

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.

On 22 June 2018, the Ordinary General Meeting adopted a resolution to allocate the following to the payout of dividend in the amount of PLN 395,249 thousand:

- the entire net profit earned by CIECH S.A. in 2017, amounting to PLN 243,907 thousand;
- a part of profits included in the supplementary capital, amounting to PLN 151,342 thousand.

The dividend record and payment dates were set respectively for 2 July 2018 and 31 August 2018.

## 2.15. INFORMATION ON POST-BALANCE-SHEET EVENTS

On 25 October 2019, Mr Artur Osuchowski, a Member of the Management Board of CIECH S.A., submitted his resignation from the Management Board of CIECH S.A. with immediate effect.

On 11 October 2019, the Management Board of CIECH S.A. adopted a resolution to initiate a review of strategic options to support further development of the CIECH Group in relation to the Resins business area, currently operating as part of a direct subsidiary of CIECH S.A., i.e. CIECH Sarzyna S.A. The initiation of the review of strategic options in relation to the Resins business area is aimed at achieving the strategic goals. These goals are also to be achieved by building value through reorganisation of the asset portfolio and focusing on areas of key importance for the CIECH Group's operations.

CIECH Sarzyna S.A. is currently operating in two business areas: the Agro business area and the Resins business area, and there are plans, with analyses underway, concerning the spin-off of the Resins business area to a separate company –



CIECH Żywiec sp. z o.o., a direct subsidiary of CIECH S.A, as a result of which CIECH Sarzyna S.A. would conduct operations as part of the Agro business area, while CIECH Żywiec sp. z o.o. would operate in the Resins business area.

On 31 October 2019, CIECH Sarzyna S.A. and CIECH Żywiec Sp. z o.o. adopted the plan for the division of CIECH Sarzyna S.A. by transferring the Resins business area to CIECH Żywiec Sp. z o.o. As part of the Division Plan, it was agreed that CIECH Sarzyna S.A. would be divided by a spin-off of the Resins area to CIECH Żywiec Sp. z o.o., as a result of which CIECH Sarzyna S.A. will become a sub-holding company within the Agro business area, while CIECH Żywiec Sp. z o.o. will become a separate company within the Resins area. The Division Plan is subject to approval by the General Meeting of Shareholders of CIECH Sarzyna S.A. and the General Meeting of Shareholders of CIECH Żywiec Sp. z o.o. respectively. The exact date of the division (spin-off) depends on the relevant entries in the Register of Entrepreneurs of the National Court Register, which is beyond control of the Company and the companies participating in the division. The Division Plan is available on the websites: [www.ciechzywiec.pl](http://www.ciechzywiec.pl) and [www.ciechagro.pl](http://www.ciechagro.pl).





## OTHER NOTES TO THE CONSOLIDATED QUARTERLY REPORT

## 3.1. DESCRIPTION OF THE CIECH GROUP'S ORGANISATION

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	<b>CIECH Spółka Akcyjna</b>
Registered office	Warsaw
Address	ul. Wspólna 62, 00-684 Warsaw
KRS (National Court Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 12 <sup>th</sup> Commercial Division of the National Court Register)
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
BDO Registry Number	000015168
Website	<a href="http://www.ciechgroup.com">www.ciechgroup.com</a>
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Ultimate parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

As at 30 September 2019, the CIECH Group comprised 38 business entities, including:

- the 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 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 manufactured 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). Currently, production at the plant in Romania has been suspended and details are provided in items 2.6 and 3.4 hereof.

The other 4 plants are dedicated to the organic segment, and to silicates and glass segment, and are located in Poland. In 2018, a Spanish company, Proplan Plant Protection Company, S.L., engaged in the production and sale of crop protection chemicals, became a member of the CIECH Group. The company specialises in registering, manufacturing and distributing fungicides, herbicides, insecticides, growth regulators. It operates in the European market, mostly in Spain, and on other continents – mainly in Australia and Africa.



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

Company name	Registered office	Segment	Business	Share in equity as at 30.09.2019 / % of votes at the GMS	Share in equity as at 30.09.2018 / % of votes at the GMS
<b>Parent company</b>					
CIECH S.A.	Warsaw	Soda, Organic, Silicates and Glass, Transport, Other	Sales of chemical products manufactured within the CIECH Group, sales of chemical products purchased from third-party producers, holding activities, managing a portfolio of subsidiaries, provision of support services (in the area of sales, manufacturing, purchases, finance, IT, HR and in the legal area) for selected companies in the Group, financial activities in the form of direct lending to the companies in the Group.	-	-
<b>Fully consolidated direct and indirect subsidiaries</b>					
CIECH Trading S.A.	Warsaw	Soda, Other operations	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of feed additives and fodder, wholesale and distribution of acids, bases and other liquid chemicals.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, Silicates and Glass	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	98.74%	98.74%
CIECH Vitrosilicon S.A.*	Itowa	Silicates and Glass	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.	100%	100%
CIECH Transclean Sp. z o.o.	Bydgoszcz	Other	Since 2017, the Company has been dormant.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Organic	Manufacture of organic and other inorganic chemicals.	100%	100%
Ciech Group Financing AB	Stockholm, Sweden	Other	Financing activities.	100%	100%
Verbis ETA Sp. z o.o.	Warsaw	Other	General partner of Verbis ETA Sp. z o.o. SKA.	100%	100%
Verbis ETA Sp. z o.o. SKA	Warsaw	Other	Financing activities, direct lending to the CIECH Group companies.	100%	100%
CIECH Żywiec Sp. z o.o. (formerly: Vasco Polska Sp. z o.o.)	Nowa Sarzyna	Other	Manufacture of resins.	100%	90%
CIECH Cerium Sp. z o.o. SK	Warsaw	Other	Financing activities. The company was liquidated in the fourth quarter of 2018.	-	100%
Beta Cerium Sp. z o.o.	Warsaw	Other	Financing activities, leasing of non-current assets to the CIECH Group companies. The company was merged with CIECH Soda Polska S.A. and Cerium Finance Sp. z o.o. in the fourth quarter of 2018.	-	100%
Bosten S.A.	Warsaw	Other	Research and developments activities.	100%	100%
CIECH Nieruchomości S.A.**	Warsaw	Other	Real property agency, real property management.	100%	100%
Proplan Plant Protection Company S.L.	Madrid, Spain	Organic	Production of crop protection chemicals	100%	100%
CIECH Salz Deutschland GmbH	Stassfurt, Germany	Soda	Production and sales of salt products.	100%	-



Company name	Registered office	Segment	Business	Share in equity as at 30.09.2019 / % of votes at the GMS	Share in equity as at 30.09.2018 / % of votes at the GMS
<b>CIECH R&amp;D Group</b>					
CIECH R&D Sp. z o.o.	Warsaw	Other	Research and developments activities, granting licenses to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta".	100%	100%
Smart Fluid Sp. z o.o.	Warsaw	Other	Research & Development	52.83%	-
<b>CIECH Finance Group</b>					
CIECH Finance Sp. z o.o.	Warsaw	Other	Implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies), carrying out purchases of selected raw materials.	100%	100%
JANIKOSODA S.A.	Warsaw	Other	Since March 2017, the Company has been dormant.	100%	100%
<b>CIECH Soda Polska Group</b>					
CIECH Soda Polska S.A.	Inowrocław	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Cargo Sp. z o.o.	Inowrocław	Transport	Freight transport services.	100%	100%
Cerium Sp. z o.o.	Warsaw	Other	Dormant.	100%	100%
Cerium Finance Sp. z o.o.	Warsaw	Other	Conducting financial activities, in particular comprising direct granting of loans and leasing of non-current assets to the CIECH Group companies. The company was merged with CIECH Soda Polska S.A. and Beta Cerium Sp. z o.o. in the fourth quarter of 2018.	-	100%
Gamma Finanse Sp. z o.o.***	Warsaw	Other	Financing activities.	100%	100%
<b>CIECH Sarzyna Group</b>					
CIECH Sarzyna S.A.	Nowa Sarzyna	Organic	Manufacture of resins, manufacture of pesticides and other chemical products.	100%	100%
Verbis KAPPA Sp. z o.o.	Nowa Sarzyna	Organic	General partner of Verbis KAPPA Sp. z o.o. SKA, other financial intermediation.	100%	100%
Verbis KAPPA Sp. z o.o. SKA	Nowa Sarzyna	Organic	Other financial intermediation.	100%	100%
Algete Sp. z o.o.	Nowa Sarzyna	Organic	Granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business.	100%	100%
<b>SDC Group</b>					
SDC GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda		100%	100%
Kaverngesellschaft Stassfurt GbmH****	Stassfurt, Germany	Soda		50%	50%

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

\*\*Shares in the share capital acquired by CIECH S.A. — 99.18% and CIECH Soda Polska S.A. — 0.82%.

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

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



### 3.2. INFORMATION ON NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATES

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

The total share of data of subsidiaries not covered by consolidation under the full method, due to their irrelevance, in relation to the total values of the CIECH Group for the period from 1 January 2019 to 30 September 2019 does not exceed 1% of total consolidated assets of the Group and 1% of consolidated net revenues from sales of goods and products and financial operations.

Aggregated data of associates and jointly-controlled which were not measured under the equity method for the period from 1 January 2019 to 30 September 2019 did not exceed 2% of the total consolidated equity of the CIECH Group.

### 3.3. SIGNIFICANT EFFECTS OF CHANGES TO THE ORGANISATIONAL STRUCTURE OF THE CIECH GROUP DURING THREE QUARTERS OF 2019

#### **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 14 November 2018, the Extraordinary Shareholders' Meeting of Vasco Polska Sp. z o.o. increased the Company's share capital 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 pre-emptive right of existing shareholders to acquire new shares in the increased share capital pro rata to their respective holdings in the share capital was waived. 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 represents the share premium and was allocated to the supplementary capital. By way of a representation of 15 November 2018, CIECH S.A. acquired the new shares. The Court registered the increase of the Company's share capital on 11 January 2019.

On 15 November 2018, CIECH S.A. and a minority shareholder signed an agreement on the sale of 100 shares in Vasco Polska sp. z o.o. with a nominal value of PLN 50 per share, representing 10% of the Company's share capital in total. Following the aforementioned operations, CIECH S.A. was registered by the Court as the sole shareholder of the Company on 11 January 2019.

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 will be credited to the supplementary capital as the share premium. On 8 July 2019, the Extraordinary Shareholders' Meeting of Vasco Polska sp. z o.o. also resolved to change the Company's name to CIECH Żywiec S.A. and to change the Company's registered office from Warsaw to Nowa Sarzyna. On 31 July 2019, the Court registered the increase in the Company's share capital and its new registered office. On 13 August 2019, the Court registered the change of the Company's name.

#### **Bosten S.A.**

On 29 April 2019, the Extraordinary Shareholders' Meeting of BOSTEN S.A. increased the Company's share capital by PLN 100, i.e. from PLN 100 thousand to PLN 100.1 thousand. The share capital was increased through the issue of 10 new, equal and indivisible series C bearer shares numbered from 001 to 010, with a nominal value of PLN 10 each and a total nominal value of PLN 100. The issue price of series C shares was PLN 17.1 per share. The series C shares of the new issue were acquired by CIECH S.A., the sole shareholder of the Company, in exchange for a cash contribution of PLN 171 thousand. The share premium was transferred to the Company's supplementary capital. Until the publication of this report, the court has not registered the described increase of the share capital.



### **CIECH Salz Deutschland GmbH**

On 6 September 2019, CIECH SA purchased 25 thousand shares in Blitz 19-213 GmbH from Blizstart Holding Ag, with its registered office in Munich, 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 accounted 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.

## **3.4. THE MOST IMPORTANT EVENTS IN THE CIECH GROUP DURING THREE QUARTERS OF 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. will carry 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.

### **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 item 2.6 hereof and 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 CO<sub>2</sub> 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.

### 3.5. REVIEW OF KEY ECONOMIC AND FINANCIAL FIGURES CONCERNING THE CIECH GROUP

#### 3.5.1. BASIC FINANCIAL DATA

During three quarters of 2019, the CIECH Group earned net profit from continuing operations of PLN 81,271 thousand, net cash decreased by PLN 25,842 thousand and the balance sheet total as at the end of the third quarter of 2019 amounted to PLN 4,894,788 thousand. The table below presents selected financial data and basic financial ratios for the three quarters of 2019 and 2018.

##### Selected financial data

	01.01.-30.09.2019	01.01.-30.09.2018	Change 2019/2018
<b>CONTINUING OPERATIONS</b>			
<b>Sales revenues</b>	<b>2,745,488</b>	<b>2,701,906</b>	<b>1.6%</b>
Cost of sales	(2,169,454)	(2,121,926)	(2.2%)
<b>Gross profit/(loss) on sales</b>	<b>576,034</b>	<b>579,980</b>	<b>(0.7%)</b>
Selling costs	(195,761)	(204,878)	4.4%
General and administrative expenses	(152,814)	(113,720)	(34.4%)
Other operating income/expense	(56,852)	25,226	-
<b>Operating profit/(loss)</b>	<b>170,607</b>	<b>286,608</b>	<b>(40.5%)</b>
Net financial income/expenses	(42,136)	(24,063)	(75.1%)
Share of profit of equity-accounted investees	967	191	406.3%
Income tax	(48,167)	(63,012)	23.6%
<b>Net profit/(loss) on continuing operations</b>	<b>81,271</b>	<b>199,724</b>	<b>(59.3%)</b>
<b>DISCONTINUED OPERATIONS</b>			
Net profit/(loss) on discontinued operations	-	-	-
<b>Net profit / (loss) for the period</b>	<b>81,271</b>	<b>199,724</b>	<b>(59.3%)</b>
including:			
Net profit/(loss) attributed to non-controlling interest	(792)	389	-
Net profit/(loss) attributable to shareholders of the parent company	82,063	199,335	(58.8%)
EBITDA from continuing operations	402,124	484,610	(17.0%)
Adjusted EBITDA from continuing operations*	477,874	471,866	1.3%

\*Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology". EBITDA and adjusted EBITDA are presented in other sections, and are taken into account when calculating selected financial ratios.

#### 3.5.2. SALES REVENUES

Consolidated net sales revenues from continued operations of the CIECH Group for three quarters of 2019 amounted to PLN 2,745,488 thousand. Compared to the corresponding period of the previous year, revenues increased by PLN 43,582 thousand.

This increase was driven both by market factors such as an increase in the prices of soda on both the European and the so-called overseas markets (USD prices), an increase in salt prices, as well as by internal factors such as higher sales of silicate as a result of conversion of one of the furnaces for production of packaging into a furnace for production of silicates in 2018. The year-on-year increase in sales was also driven by the consolidation of figures reported by Proplan, a company acquired in the third quarter of 2018.



During three quarters of 2019, the CIECH Group's activities were focused on four business segments: soda, organic, silicates and glass, and on the transport segment. These segments generate in total more than 90% of the Group's sales revenues. 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, i.e. 68.3%.

#### Sales revenues — business segments

	01.01.-30.09.2019	01.01.-30.09.2018	Change 2019/2018	Change %
<b>Soda segment, including:</b>	<b>1,876,070</b>	<b>1,801,410</b>	<b>74,660</b>	<b>4.1%</b>
Dense soda ash	1,016,623	965,817	50,806	5.3%
Light soda ash	368,381	373,555	(5,174)	(1.4%)
Salt	150,149	135,060	15,089	11.2%
Sodium bicarbonate	126,494	120,676	5,818	4.8%
Energy	110,811	111,259	(448)	(0.4%)
Gas*	86	2,382	(2,296)	(96.4%)
Calcium chloride	18,237	18,552	(315)	(1.7%)
Other products	36,720	33,347	3,373	10.1%
Revenues from inter-segment transactions	48,569	40,762	7,807	19.2%
<b>Organic segment, including:</b>	<b>647,919</b>	<b>629,682</b>	<b>18,237</b>	<b>2.9%</b>
Resins	235,137	251,986	(16,849)	(6.7%)
Polyurethane foams	191,972	237,015	(45,043)	(19.0%)
Crop protection chemicals	213,396	121,672	91,724	75.4%
Other	7,179	18,712	(11,533)	(61.6%)
Revenues from inter-segment transactions	235	297	(62)	(20.9%)
<b>Silicates and Glass segment, including:</b>	<b>187,025</b>	<b>184,094</b>	<b>2,931</b>	<b>1.6%</b>
Sodium silicates	123,880	119,729	4,151	3.5%
Potassium silicates	4,944	4,234	710	16.8%
Container glass	57,473	59,136	(1,663)	(2.8%)
Other	582	914	(332)	(36.3%)
Revenues from inter-segment transactions	146	81	65	80.2%
<b>Transport segment, including:</b>	<b>105,341</b>	<b>108,380</b>	<b>(3,039)</b>	<b>(2.8%)</b>
Transport services	9,087	11,349	(2,262)	(19.9%)
Revenues from inter-segment transactions	96,254	97,031	(777)	(0.8%)
<b>Other segment, including:</b>	<b>103,678</b>	<b>143,414</b>	<b>(39,736)</b>	<b>(27.7%)</b>
Revenues from third parties	74,337	116,511	(42,174)	(36.2%)
Revenues from inter-segment transactions	29,341	26,903	2,438	9.1%
<b>Consolidation adjustments</b>	<b>(174,545)</b>	<b>(165,074)</b>	<b>(9,471)</b>	<b>(5.7%)</b>
<b>TOTAL</b>	<b>2,745,488</b>	<b>2,701,906</b>	<b>43,582</b>	<b>1.6%</b>

\* Resale of surpluses of the gas purchased.

Source: CIECH S.A.

### 3.5.3. PROFIT/(LOSS) ON SALES AND OPERATING PROFIT/(LOSS)

After three quarters of 2019, gross profit on sales amounted to PLN 576,034 thousand, whereas in the same period of the previous year it amounted to PLN 579,980 thousand. The operating profit amounted to PLN 170,607 thousand, in the comparable period it amounted to PLN 286,608 thousand.

The following had a **positive** impact on the presented results:

- Favourable economic situation in the domestic economy and chemical industry confirmed by an increase in industrial output sold by 4.5% in the period from January to September 2019 (in constant prices as compared to the corresponding period of the previous year).
- Strong increase in domestic sales of construction and assembly production by 5.3% during nine months of 2019 in comparison to the same period of the previous year (the chemical industry produces many raw materials and semi-finished products used in this production).





- 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.
- A few percent increase in the prices of sodium carbonate on the European markets since the beginning of 2019 (compared to the previous year) reflecting the current and projected supply-demand relations.
- 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.
- Weakening of PLN during three quarters of 2019 against EUR and USD, as compared to the corresponding period of the previous year.
- Lower crude oil prices on the global markets (by more than ten percent in the third quarter of 2019 compared to the corresponding period of the previous year) and, consequently, lower prices of some raw materials for the organic industry – favourable for operations in the organic segment of the CIECH Group.
- Higher sales of silicates resulting from the conversion of one of the furnaces for production of packaging into a furnace for production of silicates in of 2018.

The following had a **negative** impact on the presented results:

- Continuing high prices of raw energy resources used in production of sodium carbonate and prices of CO<sub>2</sub> units, as well as electricity prices paid by the Group.
- A downward trend in prices of epoxy resins in Europe during three quarters of 2019, to levels that are significantly lower than those of the corresponding period of the previous year.
- 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.
- Impairment of property, plant and equipment in CIECH Soda Romania S.A. in connection with the production suspension in the plant - details are presented in items 2.6 and 3.4 hereof.

The EBIT margin for three quarters of 2019 amounted to 6.2% (10.6% in the prior year), and the EBITDA margin amounted to 14.6% (17.9% in the prior year). The EBIT margin (excluding one-off events) for three quarters of 2019 amounted to 9.0% (10.1% in the prior year), and the EBITDA margin (excluding one-off events) amounted to 17.4% (17.5% in the prior year).

In 2019, in connection with the early implementation of an investment project aimed at improving energy efficiency, CIECH Soda Polska S.A. received new energy efficiency certificates (white certificates), the value of which, due to the sharp increase in their exchange prices, exceeded the value of expenditures incurred on the implementation of the investment projects. The surplus amounted to PLN 13.8 million (the value of granted certificates was determined on the basis of market prices) and was recognized once in other operating income.

#### 3.5.4. FINANCING ACTIVITIES AND NET PROFIT/LOSS

Financial income for the three quarters of 2019 amounted to PLN 13,503 thousand and decreased compared to the corresponding period of the previous year, when it amounted to PLN 14,203 thousand.

Financial expenses for the first 9 months of 2019 amounted to PLN 55,639 thousand and increased compared to the corresponding period of the previous year, when it amounted to PLN 38,266 thousand. The area of financing activities was mainly affected by higher interest on loans and interest on newly identified leases, in accordance with IFRS 16.

The consolidated net profit for the three quarters of 2019 amounted to PLN 81,271 thousand (of which PLN 82,063 thousand was a net profit attributable to the shareholders of the parent company and PLN -792 thousand as the loss of non-controlling shares). The decrease in net profit as compared to the corresponding period of 2018 results from impairment losses on property, plant and equipment in CIECH Soda Romania S.A. and from lower results from primary activities.



### 3.5.5. ASSET POSITION OF THE CIECH GROUP

#### Basic consolidated balance sheet data

	30.09.2019	31.12.2018	Change 2019/2018
<b>Total assets</b>	<b>4,894,788</b>	<b>4,822,132</b>	<b>1.5%</b>
Total non-current assets	3,590,073	3,549,574	1.1%
Total current assets	1,304,715	1,272,558	2.5%
Inventory	457,865	438,518	4.4%
Current receivables	646,240	611,279	5.7%
Cash and cash equivalents	176,965	192,139	(7.9%)
Short-term financial assets	22,855	29,832	(23.4%)
Non-current assets held for sale	790	790	0.0%
<b>Total equity</b>	<b>1,956,173</b>	<b>1,899,127</b>	<b>3.0%</b>
Equity attributable to shareholders of the parent	1,956,587	1,898,839	3.0%
Non-controlling interest	(414)	288	-
Total non-current liabilities	1,974,679	1,636,755	20.6%
Total current liabilities	963,936	1,286,250	(25.1%)

#### Assets

As at the end of September 2019, the Group's non-current assets amounted to PLN 3,590,073 thousand. As compared to the balance as at 31 December 2018, the value of non-current assets increased by PLN 40,499 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 30 September 2019, the total effect on the Group's non-current assets was PLN 117,563 thousand.

In addition, the creation of an impairment loss on property, plant and equipment at CIECH Soda Romania S.A. had a significant negative impact on the level of non-current assets in connection with the suspension of production, in the total value of PLN 73 661 thousand n- details are presented in items 2.6 and 3.4 hereof.

The Group's current assets amounted to PLN 1,304,715 thousand as at 30 September 2019. The largest components of non-current assets included: short-term receivables accounting for 49.1%, inventory accounting for 35.1% as well as cash and cash equivalents accounting for 13.6% of total current assets. Compared to the end of December 2018, the value of current assets increased by PLN 32,157 thousand.

This change resulted from, among other factors:

- lower balance of cash accumulated in companies,
- higher balance of trade receivables,
- higher balance of inventories, mainly as an increase in inventories in 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 consortium facilities agreement, revolving credit facility agreement and overdraft. The Group also uses factoring agreements.

#### Liabilities

As at 30 September 2019, the CIECH Group's liabilities (total non-current and current) amounted to PLN 2,938,615 thousand, which is an increase compared to the end of December 2018 by PLN 15,610 thousand.

The debt ratio amounted to 60.0% as at 30 September 2019 (at the end of December 2018 to 60.6%). The consolidated net debt of the Group amounted to PLN 1,685,498 thousand as at 30 September 2019 and increased in comparison to the balance as at the end of December 2018 by PLN 183,730 thousand.



### Debt instruments currently used

The Group's sources of debt financing include: term loan, revolving credit, overdrafts as well as lease liabilities. Additional information about the management of financial resources is provided in item 4.6. of the Management Board Report on Activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.

### 3.5.6. CASH POSITION OF THE CIECH GROUP

	01.01.-30.09.2019	01.01.-30.09.2018	Change 2019/2018
Net cash from operating activities	239,419	352,769	(32.1%)
Net cash from investment activities	(256,881)	(468,070)	45.1%
Net cash from financial activities	(8,380)	(207,606)	96.0%
<b>Total net cash flows</b>	<b>(25,842)</b>	<b>(322,907)</b>	<b>92.0%</b>
Free cash flow	(17,462)	(115,301)	84.9%

Total net cash flows in the three quarters of 2019 was negative and amounted to PLN 25,842 thousand. Compared to the same period of the previous year, the cash flows generated by the Group were higher by PLN 297,065 thousand. Cash flows from operating activities were positive and amounted to PLN 239,419 thousand. They decreased as compared to the same period in 2018 by PLN 113,350 thousand.

During the three quarters of 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 8,380 thousand.

	01.01.-30.09.2019	01.01.-30.09.2018
Financial surplus (net profit/(loss) on continuing operations + depreciation)	312,788	397,726
Other adjustments to net profit/(loss) on continuing operations	38,058	102,530
<b>Adjusted financial surplus (1+2)</b>	<b>350,846</b>	<b>500,256</b>
Change in working capital	(111,427)	(147,487)
<b>Net cash from operating activities (3+4)</b>	<b>239,419</b>	<b>352,769</b>
Net cash from investing activities	(256,881)	(468,070)
<b>Free cash flow (5+6)</b>	<b>(17,462)</b>	<b>(115,301)</b>

During the three quarters of 2019, the CIECH Group generated negative free cash flows i.e. it was unable to finance its capital expenditure with cash flows from operating activities.

### 3.5.7. WORKING CAPITAL AND SELECTED FINANCIAL RATIOS OF THE CIECH GROUP

#### Liquidity of the CIECH Group

As at 30 September 2019, liquidity ratios increased relatively as compared to 31 December 2018. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.35 as at 30 September 2019, while the quick liquidity ratio amounted to 0.88.

	30.09.2019	31.12.2018
Current ratio	1.35	0.99
Quick ratio	0.88	0.65



### Working capital of the CIECH Group

As at the end of the third quarter 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 280,438 thousand, which is an increase by PLN 191,364 thousand compared to the end of 2018.

	30.09.2019	31.12.2018
1. Current assets, including:	1,304,715	1,272,558
Inventory	457,865	438,518
Trade receivables and services and advances for deliveries	397,490	377,072
2. Cash and cash equivalents and short-term investments	199,820	221,971
<b>3. Adjusted current assets (1-2)</b>	<b>1,104,895</b>	<b>1,050,587</b>
4. Current liabilities, including:	963,936	1,286,250
Trade liabilities and advances taken	313,246	447,871
5. Short-term credits and other current financial liabilities*	139,479	324,737
<b>6. Adjusted current liabilities (4-5)</b>	<b>824,457</b>	<b>961,513</b>
<b>7. Working capital including short-term credits(1-4)</b>	<b>340,779</b>	<b>(13,692)</b>
<b>8. Working capital (3-6)</b>	<b>280,438</b>	<b>89,074</b>

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

### The CIECH Group's profitability ratios

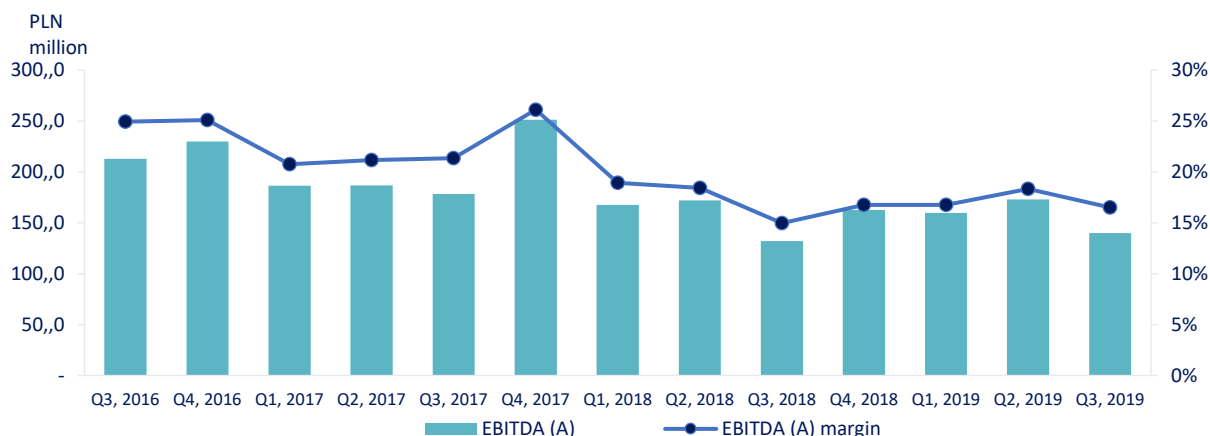
During the three quarters of 2019, profitability ratios of the CIECH Group in respect of the continuing operations were at a lower level than in the three quarters of 2018.

#### THE CIECH GROUP'S PROFITABILITY RATIOS

	01.01.-30.09.2019	01.01.-30.09.2018	Change 2019/2018
<b>CONTINUING OPERATIONS</b>			
Gross return on sales	21.0%	21.5%	(0.5) p.p.
Return on sales	8.3%	9.7%	(1.4) p.p.
EBIT margin	6.2%	10.6%	(4.4) p.p.
EBITDA margin	14.6%	17.9%	(3.3) p.p.
Adjusted EBIT margin	9.0%	10.1%	(1.1) p.p.
Adjusted EBITDA margin	17.4%	17.5%	(0.1) p.p.
Net return on sales (ROS)	3.0%	7.4%	(4.4) p.p.
Return on assets (ROA)	1.7%	4.1%	(2.4) p.p.
Return on equity (ROE)	4.2%	10.0%	(5.8) p.p.
Earnings/(loss) per share (in PLN) from continuing operations	1.56	3.78	(2.22)



## PROFITABILITY LEVELS OF THE CIECH GROUP



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

Source: CIECH S.A.

## Indebtedness

The debt ratio decreased slightly in comparison to December 2018 and amounts to 60.0%. On the other hand, the relative level of net debt (net financial liabilities in relation to EBITDA) increased as compared to the end of 2018. The increase in debt results from:

- utilisation of available credit limits by CIECH SA,
- measurement of lease liabilities in accordance with the guidelines of the new IFRS 16 Leases.

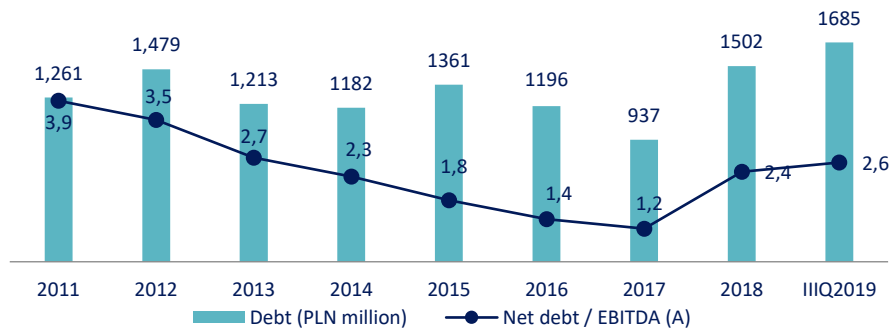
	30.09.2019	31.12.2018
Loans, borrowings and other debt instruments	1,662,887	1,632,666
Lease liabilities	141,320*	23,540
Factoring liabilities**	21,833	20,309
Negative net valuation of derivatives	36,423	17,392
<b>Gross debt</b>	<b>1,862,463</b>	<b>1,693,907</b>
Cash and cash equivalents	176,965	192,139
<b>Net debt</b>	<b>1,685,498</b>	<b>1,501,768</b>

\*Including the effect of IFRS 16.

\*\*From 8% to 10% of recourse factoring liabilities.

## The CIECH Group's debt ratios

	30.09.2019	31.12.2018	Change 2019/2018
Debt ratio	60.0%	60.6%	(0.6) p.p.
Long term debt ratio	40.3%	33.9%	6.4 p.p.
Debt to equity ratio	150.2%	153.9%	(3.7) p.p.
Equity to assets ratio	40.0%	39.4%	0.6 p.p.
Gross debt	1,862,463	1,693,907	10.0%
Net debt	1,685,498	1,501,768	12.2%
EBITDA annualized	571,921	654,403	(12.6%)
Adjusted EBITDA (annualised)	639,506	633,493	0.9%
Net debt / EBITDA annualized	2.9	2.3	26.0%
Net debt / Adjusted EBITDA (annualised)	2.6	2.4	8.3%
Gross debt / EBITDA annualised	3.3	2.6	26.9%
Gross debt / Adjusted EBITDA (annualised)	2.9	2.7	7.4%



### 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 dated 9 January 2018:
  - o term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 30 September 2019 was PLN 1,343,728 thousand),
  - o revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 30 September 2019 was PLN 140,000 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 30 June 2019, the amount used was PLN 43,839 thousand),
3. revolving credit facilities up to PLN 300,000 thousand, PLN 92,788 thousand and EUR 25,000 thousand, under three agreements dated 18 April 2019 (as at 30 September 2019, the amount used was PLN 249,340 thousand).

Detailed information about loan liabilities is disclosed in item 4.6.1 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.

### Factors and events that may affect future performance

In the opinion of the Management Board of CIECH S.A. in further months of 2019 the trends observed in the past few months will continue. Pursuant to the Strategy, the CIECH Group will focus on the following actions conducive to further development:

- further development of the soda business, including through a focus on the development of specialist products;
- further development of other business lines, both in the soda segment and in other segments, in particular increasing the efficiency of the Agro area in CIECH Sarzyna S.A., actions aimed at registering new products;
- further actions aimed at optimising the utilisation level of capacity in all production companies of the Group;
- continuous process of improving business and operational processes in all companies of the CIECH Group.
- further 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 CIECH group, as well as acquisition and divestment of selected assets (details are provided in item 3.4).

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

### 3.6. SIGNIFICANT RISK FACTORS

In connection with its operations, the CIECH Group is exposed to a number of risks, including financial risks. The most important risk factors are presented in details in item 3.4 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.

During the three quarters of 2019, no new risks occurred, and the previously identified factors have not changed significantly, except for the risk related to the availability of raw materials in connection with the termination of the contract for the supply of process steam on 18 June 2019. In the third quarter of 2019, production in CIECH Soda Romania S.A. was suspended and the details are provided in items 2.6 and 3.4 hereof.

There were no significant changes in relation to the Group's risk management policy.



### Exposure to currency risk

The table below presents the estimated currency exposure of the CIECH Group in EUR and USD as at 30 September 2019 due to financial instruments (for EUR – excluding figures of the SDC Group, Ciech Group Financing AB, Proplan Plant Protection Company, S.L. and CIECH Salz Deutschland GmbH, because EUR is their functional currency):

Exposure to currency risk	EUR ('000)	USD ('000)	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
<b>Assets</b>				
Loans granted sensitive to FX rate changes	98,900	-	x	
Trade and other receivables	22,780	15,694	x	
Cash including bank deposits	13,307	1,270	x	
<b>Liabilities</b>				
Trade and other liabilities	(20,601)	(2,907)	x	
Term loan liabilities	(30,000)	-		x
Working capital facility liabilities	(25,000)	-	x	
Other liabilities in respect of credits and loans	(4,769)	-	x	
Hedging instruments: Forward	(26,755)	(1,037)		x
Forward (not designated to hedge accounting)	(2,700)	(8,188)	x	
CIRS (not designated to hedge accounting)	(8,000)	-	x	
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(209,715)	-		x
<b>Total exposure</b>	<b>(192,552)</b>	<b>(4,832)</b>		

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

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 30 September 2019.

Analysis of sensitivity to currency risk – EUR	(PLN '000)*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
<b>EUR</b>			
Foreign-currency balance sheet items	439	739	(300)
Hedging instruments: Forward and CIRS	(2,365)	-	(2,365)
<b>USD</b>			
Foreign-currency balance sheet items	141	141	-
Hedging instruments: Forward	(92)	(82)	(10)

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

The CIECH Group applies hedge accounting.

### 3.7. FULFILMENT OF PROFIT FORECASTS PREVIOUSLY PUBLISHED FOR A GIVEN YEAR IN THE LIGHT OF THE RESULTS DISCLOSED IN THE REPORT AGAINST THE FORECAST RESULTS

The CIECH Group did not publish any forecasts for 2019.

### 3.8. FACTORS AFFECTING THE CIECH GROUP'S RESULTS WITH PARTICULAR FOCUS ON THE NEXT QUARTER

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 labor 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.



As a result, the volume and profitability of the CIECH Group companies' sales depend on these variables as well as on the economic situation in Poland, Europe, and worldwide.

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

Poland is the largest market of the CIECH Group. The direct, most important domestic recipients of the Group's products include: glass industry, chemical and plastic products industries, agriculture, furniture industry, food industry and construction 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 the 9 months of 2019 increased by 4.5% as compared with the corresponding period of the previous year (in 2018 — an increase by 6.0%). In the current year, 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 5.9%); rubber and plastic products (increase by 7.7%); manufacture of motor vehicles (increase by 4.5%); manufacture of furniture (increase by 3.8%; including furniture for sleeping – increase by 7%, in terms of volumes); manufacture of food (increase by 3.7%); construction and assembly production (increase by 5.3%).

After last year's continued high rate of the Polish economic growth (GDP growth rate of 5.1% according to the Central Statistical Office), a slight slowdown is recorded in Poland in 2019 (the European Commission projects that GDP growth will amount to 4.1%). An even lower GDP growth is expected next year - at 3.3% (although relatively high compared to the entire European Union). Similar trends should be expected in the chemical industry which usually develops similarly to the economy as a whole.

#### **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 assessed by the International Monetary Fund, the dynamics of global economic development is has weakened slightly in 2019 year on year (projected GDP growth by 3.0% vs. 3.6% in 2018 as a result of, among other factors, increased trade barriers between the USA and China and growing uncertainty about economic policy in some large economies). The largest Asian economies continue to grow relatively quickly (India, China, and ASEAN countries, for which the GDP growth indicators in 2019 should be, respectively: 6.1%, 6.1%, 4.8%). Among large economies, the relatively weaker conditions are observed in the current year in Japan, Russia and Brazil (expected GDP growth rates in 2019 of 0.9%, 1.1% and 0.9% respectively). A slight acceleration in the global economic growth can be expected in 2020. According to the IMF, global GDP is expected to grow by 3.4% next year, mainly due to growth in the EU and developing countries (excluding China).

In European Union, the previous relatively good economic situation has deteriorated significantly (GDP growth in EU 28 by 1.4% in 2019 vs. 2.0% in 2018, according to the European Commission's forecasts). For 2020, it is forecasted to maintain this year's economic growth rate.

The chemical sector in the European Union is expected to experience some stagnation in this year's performance. According to the European Chemical Industry Council (CEFIC), in 2019 the chemical industry output of the European Union will increase slightly by 0.5%, compared to a decrease by 0.7% in the previous year. However, projections for the largest market - Germany – indicate that in 2019 there may be a significant drop in output (by 4% according to VCI – German Chemical Industry Association).

For the European construction sector, a positive but declining growth rate of construction is expected to continue for the next 2-3 years. According to Euroconstruct, construction output in Western Europe and Central Europe will increase by 1.9% in 2019, compared to 3.1% in 2018. However, in Central European countries, including Poland, much higher growth rates can be expected. As projected by Euroconstruct, in 2019 construction output in our region of Europe should increase by approx. 7.4%, while in 2020 – by only 3.9% (compared to approx. 14% in 2018).





## 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><b>Hard coal</b> – 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 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 CIECH S.A. in a long term depends on the European and global situation in the area of demand and supply.</p> <p><b>Gas</b> – 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><b>Process steam</b> – 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 Sections 2.6 and 3.4 hereof for details.</p> <p><b>Furnace fuel (coke/anthracite)</b> – 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 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 the first quarter of 2019 the Group used anthracite to a large extent in the furnace mixture.</p> <p><b>Oil-derivative raw materials</b> – 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 soda ash 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. The Group estimates 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>Greater significant 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>



Factors	Description
Environmental requirements	<p><b>REACH system implementation</b></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><b>Emission trading system</b></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 CO<sub>2</sub> emission allowances in the 3<sup>rd</sup> 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 CO<sub>2</sub> 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>

### 3.9. CIECH S.A.'S SHAREHOLDERS HOLDING AT LEAST 5% OF SHARES/VOTES AT THE GENERAL SHAREHOLDERS' MEETING

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. The number of shares and their nominal value has not changed since the last reporting period.

#### SHAREHOLDERS

As of the date of publishing the previous financial statements (i.e. the date of publication of the Extended consolidated report of the CIECH Group for the first half of 2019, i.e. 10 September 2019), CIECH S.A. has not received any information about a change in interests held by shareholders in the total number of shares. Therefore, to the best knowledge of CIECH S.A., as at the day of approving this report, shareholders holding significant blocks of shares (at least 5%) include the following entities:

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

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. with its registered office in Luxembourg*	Ordinary bearer	26,952,052	26,952,052	51.14%	51.14%
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	Ordinary bearer	3,300,000	3,300,000	6.26%	6.26%
Other	Ordinary bearer	22,447,857	22,447,857	42.60%	42.60%

\* 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 Ordinary General Meeting of Shareholders of CIECH S.A. on 22 August 2019, CR 35/2019 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).



### 3.10. CHANGES IN THE NUMBER OF SHARES IN CIECH S.A. HELD BY MANAGEMENT AND SUPERVISORY BODIES OF CIECH S.A.

The following managers and supervisors held shares of CIECH S.A. as at 30 September 2019:

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

Mr Artur Osuchowski – Member of the Management Board of CIECH S.A., held 65,195 shares of CIECH S.A.

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

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

Mr Rafał Czubiński – Managing Director of CIECH S.A. held 1,950 shares of CIECH S.A.

On 25 October 2019, Mr Artur Osuchowski submitted his resignation from the Management Board of CIECH S.A. As at the date of approval of this report, other managers and supervisors continued to hold their functions, and the number of shares of CIECH S.A. held by them has not changed.

Managers and supervisors of CIECH S.A., as at 30 September 2019 and the date of approval hereof, did not hold any shares in other companies of the CIECH Group and this situation did not change in the period from the publication of the Extended consolidated report of the CIECH Group for the first half of 2019, i.e. from 10 September 2019.

### 3.11. LITIGATION PENDING BEFORE A COURT, COMPETENT ARBITRATION AUTHORITY OR PUBLIC ADMINISTRATION AUTHORITY

#### 3.11.1. SIGNIFICANT DISPUTED LIABILITIES OF THE CIECH GROUP

As at 30 September 2019, the CIECH Group did not have any significant disputed liabilities of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described in Section 3.12 below, in "Audits of tax settlements at the CIECH Group", and the case described below:

##### **Case brought by OOO GK ZEMLYAKOFF against CIECH Sarzyna S.A. for payment**

Subject of the claim: compensation for improper performance of the contract. Value of the dispute: USD 7,566 thousand. On 4 March 2019, CIECH Sarzyna S.A. received a counter-claim from OOO GK ZEMLYAKOFF for payment of USD 7,566 thousand with statutory interest for delay from the date of filing the lawsuit (30 November 2016). The amount claimed by OOO GK ZEMLYAKOFF constitutes compensation for improper performance of the contract consisting in the delivery of a defective crop protection product called Expert Trio OF KE. In order to demonstrate the damage suffered, witnesses and documents from Zemlyakoff were appointed, including agreements between Zemlyakoff and counterparties (Zemlyakoff claims that the damage is the loss of profit resulting from the termination of a commercial relationship due to a defective product, in particular with two main counterparties). Zemlyakoff presented the same evidence in response to the lawsuit brought by CIECH Sarzyna S.A. for payment. Given the evidence submitted, Zemlyakoff's claim for damages, disregarding its unfoundedness (CIECH Sarzyna S.A. consistently denies responsibility for the product's defectiveness), has not been demonstrated in terms of the existence of damage, its amount and adequate causation. According to CIECH Sarzyna S.A. and its representative, the claim should be dismissed. On 31 May 2019, the Regional Court in Rzeszów, acting as the court of the first instance, dismissed the counterclaim and awarded CIECH Sarzyna S.A. the requested amount plus interest. The judgment is not final.

#### 3.11.2. SIGNIFICANT DISPUTED RECEIVABLES OF THE CIECH GROUP

As at 30 September 2019, the CIECH Group did not hold any significant disputed receivables of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies.

### 3.12. LOAN OR BORROWING SURETIES OR GUARANTEES GRANTED BY CIECH S.A. OR ITS SUBSIDIARY AND OTHER CONTINGENT LIABILITIES

Information about loan or borrowing sureties or guarantees is presented in Section 2.13 hereof.



### Letters of support

As at 30 September 2019, CIECH S.A. was the obliged party in the letter of support (Patronatserklärung) regarding CIECH Soda Deutschland GmbH&Co. KG seated in Staßfurt (CSD) granted to Innogy Gas Storage NWE GmbH ("Innogy") relating to liabilities of CSD resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CSD received payments of EUR 45.8 million from Innogy by 30 September 2019. In the letter of support, CIECH S.A. has committed, among other things, to ensure that CSD will have sufficient funds to fulfil its financial commitments against Innogy resulting from the above-mentioned agreement.

### Audits of tax settlements at the CIECH Group

In 2019, tax authorities carried out tax audits or tax proceedings in the companies of the CIECH Group with respect to CIT and VAT settlements.

The CIECH Group companies were subject to CIT proceedings concerning the following years:

- a) 2012 – at CIECH S.A.
- b) 2013 – at CIECH S.A.
- c) 2014 – at CIECH S.A.
- d) 2015 – at CIECH Soda Polska S.A.
  - at CIECH Pianki Sp. z o.o.
  - at CIECH Cargo Sp. z o.o.
  - at CIECH Sarzyna S.A.
  - at CIECH Vitrosilicon S.A.
- e) 2016 – at CIECH Sarzyna S.A.

**CIT audit for 2012 at CIECH S.A.** was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. CIECH S.A. received the outcome of the audit on 4 July 2018. The tax authority challenged the transaction concerning the capital increase in a subsidiary. In the opinion of the authority, making a cash contribution by means of a contractual set-off of mutual receivables gives rise to income on the part of the Company for which, according to the auditors, the company cannot recognise a cost. The company's management board and its tax advisors do not agree with the findings made by the auditors

In December 2018, the company received a decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority. The Company contested the position and filed an appeal. In April 2019, the Company received a decision of the second instance, upholding the decision of the first instance. The Company paid up the outstanding tax along with interest in three tranches in the total amount of PLN 66.4 million (tax: PLN 43.7 million, interest: PLN 22.7 million). CIECH S.A. appealed against the decision of the second instance to the Provincial Administrative Court in Cracow. On 9 October 2019, the Provincial Administrative Court issued a ruling in which it confirmed the approach presented by the authority. The court indicated that the company was obliged to recognise the income and did not have the right to recognise the tax deductible cost. The Company will file a cassation complaint after receiving a written justification for the judgment.

**CIT audit for 2013 at CIECH S.A.** was initiated by the Tax Audit Office in Warsaw on 30 November 2016. The tax audit report was issued on 16 May 2017. The authority claims that the Company has overestimated the tax deductible cost of interest on cash obtained as a result of the issue of bonds and allocated to the supplementary capital of CIECH Soda Deutschland GmbH & Co. KG. Moreover, the authority is of the opinion that the fee for the CIECH S.A. trademark should not be recognised by CIECH S.A. as a tax deductible cost.

The tax base challenged by the authority is PLN 9.4 million (after taking into account the tax loss incurred in the audited year), which translates into a tax of PLN 1.8 million.

The company and its advisors did not agree with the findings of the auditors and as a result of the tax proceedings, the Decision of the First Instance was issued, against which the company filed an appeal in 2017. On 14 March 2018 CIECH S.A. received the decision of the Second Instance in which the auditors upheld their findings contained in the Decision of the First Instance.

The company appealed to the Provincial Administrative Court against this decision. Despite this, the company decided to pay tax in the amount of PLN 1.8 million and interest (PLN 0.3 million) on 10 April 2018. The Court made its decision on 6 June 2019. The Court complied with the CIECH S.A. appeal as regards the costs of trademark fees, repealing the decision of the second instance. However, as regards the costs of consulting and financing of Soda Deutschland, the Court adjudicated



that said costs could not constitute tax costs. After receipt of a written statement of reasons, the company lodged a cassation complaint with the Supreme Administrative Court in September 2019.

**CIT audit for 2014 at CIECH S.A.** was initiated by the Head of the Malopolska Customs and Tax Office in Krakow on 13 November 2019. At the time of publication of the report, the authority did not make any findings.

**CIT audit for 2015 at CIECH Soda Polska S.A.** was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 10 October 2016. On 7 March 2017, the tax office issued the tax audit report. The irregularities found result primarily from the fact that the auditors challenged the company's right to settle the loss from participation in a partnership – as was the case for CIECH Pianki Sp. z o.o., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A. The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Soda Polska S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 3.9 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 3.9 million (the tax base challenged by the tax authorities was PLN 20.4 million) plus the interest due in the amount of PLN 1 million. On 9 October 2019, the company appealed to the Provincial Administrative Court against the decision of the Second Instance.

**CIT audit for 2015 at CIECH Pianki Sp. z o.o.** was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 22 November 2016. On 3 March 2017, the tax office issued the tax audit report. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership.

The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Pianki S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 2.6 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 2.6 million (the tax base challenged by the tax authorities was PLN 13.8 million) plus the interest due in the amount of PLN 0.7 million. On 9 October 2019, the company appealed to the Provincial Administrative Court against the decision of the Second Instance.

**CIT audit for 2015 at CIECH Cargo Sp. z o.o.** was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 23 January 2017. On 14 June 2017, the tax office issued the tax audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Cargo Sp. o.o. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 1.7 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 1.7 million (the tax base challenged by the tax authorities was PLN 8.8 million) plus the interest due in the amount of PLN 0.5 million. On 9 October 2019, the company appealed to the Provincial Administrative Court against the decision of the Second Instance.

**CIT audit for 2015 at CIECH Vitrosilicon S.A.** was initiated by the Head of the Lubuskie Province Customs and Tax Office in Gorzów Wielkopolski on 19 April 2018. The company received the outcome of the audit on 4 January 2019. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 2.7 million (the tax base challenged by the authority is PLN 14.4 million) plus interest due. Tax proceedings are currently underway.

**CIT audit for 2015 at CIECH Sarzyna S.A.** was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 6 February 2017. On 7 November 2017, the tax office issued the audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Cargo Sp. z o.o., the authority challenged the company's right to settle the loss from participation in a partnership. In addition, the authority challenged the company's right to include the fee for the trademark and interest on loans paid in advance in tax deductible costs.



If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 6.9 million (the tax base challenged by the authority is PLN 36.4 million) plus interest due. Tax proceedings are currently underway.

**CIT audit for 2016 at CIECH Sarzyna S.A.** was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 26 February 2018. On 11 January 2019, the tax office issued the audit report. According to the authority, the expenses incurred by the company in 2016 for the use of Chwastox trademarks cannot be classified as tax deductible costs. In addition, the company should have included interest on loans paid in advance in 2015 in its tax deductible costs in 2016. Additionally, the authority claims that the company may not offset the loss for 2015 in the annual return for 2016. In January 2019, the company submitted objections to the report. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 4.3 million (the tax base challenged by the authority is PLN 22.4 million) plus interest due. Tax proceedings are currently underway.

The Group estimated that the potential impact on income tax expense (in the form of additional tax liabilities or inability to recover a deferred income tax asset calculated for tax losses), in connection with the above events which are or may continue to be challenged, would amount to PLN 143.8 million if it were no longer probable that the Group would be able to uphold its tax interpretations before the tax authorities. From the above-mentioned amount of PLN 143.8 million, a provision was recognised for potential tax liabilities in the amount of PLN 90.2 million, and an impairment loss on deferred tax asset was recognised in the amount of PLN 26.7 million. Following the decisions of the second instance, regarding CIT (2012 and 2013) in CIECH S.A., and CIT (2015) in CIECH Soda Polska S.A., CIECH Pianki Sp. z o.o. and CIECH Cargo Sp. z o.o., despite the appeals to the Provincial Administrative Court, the total tax amount of PLN 53.7 million was paid, including total interest of PLN 25.2 million.

The CIECH Group companies were subject to VAT audits/proceedings concerning the following years:

- a) Fourth quarter of 2013
  - at Verbis Kappa Sp. z o.o. S.K.A.
  - at Verbis ETA Sp. z o.o. S.K.A.
- b) December 2014 – at Cerium Finance Sp. z o.o.
- c) January–June 2018 – at CIECH Trading S.A.

**VAT audit for the fourth quarter of 2013 at Verbis Kappa Sp. z o.o. S.K.A.** was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 6 April 2018. The company received the outcome of the audit on 11 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 35.7 million which translates into a tax of PLN 8.2 million.

The Company and the other party to the transaction, i.e. CIECH Sarzyna S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the position presented in the motion that the taxable amount of the in-kind contribution made in 2013 was the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, CIECH Sarzyna S.A. as the issuer of the invoice and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company did not make a VAT correction, considering that the tax treatment of the in-kind contribution made in 2013 was correct. On 7 August 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the company had no right to deduct VAT in the amount of PLN 8.2 million. The Company and its advisors do not agree with the findings set forth in the Decision and have appealed against it. On 14 November 2019, the company received the Second Instance Decision issued by the Head of the Małopolska Customs and Tax Office (MUCS), where the Head of MUCS upheld the first instance decision. The decision issued by the second instance authority is due. Therefore, the company is obliged to pay overdue VAT inspectors in the amount of PLN 8.2 million plus interest due in the amount of about PLN 3.9 million. The company intends to file a complaint with the Provincial Administrative Court.





**VAT audit for the fourth quarter of 2013 at Verbis ETA Sp. z o.o. S.K.A.** was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 16 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 133.5 million which translates into a tax of PLN 30.8 million.

The Company and the other party to the transaction, i.e. CIECH S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the CIECH S.A.'s position that the company had determined the taxable amount in a correct manner, i.e. the taxable amount of the in-kind contribution made in 2013 should have been the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, the Company and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company and, accordingly, the other party to the transaction complied with the ruling.

On 17 July 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the Company had no right to deduct VAT in the amount of PLN 30.8 million. The Company and its advisors do not agree with the findings set forth in the Decision and have appealed against it. On 6 August 2019, the company received an order of the Head of the Third Tax Office for Warszawa-Śródmieście to make the Decision of the Head of the Małopolskie Province Customs and Tax Office in Krakow, issued in connection with the tax proceedings conducted against the company, immediately enforceable. The Company filed a complaint against said decision. Irrespective of the complaint, the company applied to the Head of the Third Tax Office for crediting the overpaid VAT in the amount of PLN 30.8 million resulting from the correction of the VAT settlement for July 2018 towards the arrears indicated in the Decision of the Małopolskie Province Customs and Tax Office in Krakow, and repaid interest in the amount of PLN 12.4 million. In its decision, the Head of the Third Tax Office agreed to the company's request. Thus, no enforcement proceedings were initiated. On 24 October 2019, the company received the Decision of the second instance, where the Head of the Małopolskie Province Customs and Tax Office upheld the decision of the first instance in its entirety. The company intends to file a complaint with the Provincial Administrative Court (WSA). On 13 November 2019, the company received a resolution issued by the Director of the Tax Administration Chamber in Warsaw regarding the upkeep of the provisions of the Third Tax Office regarding the rigor of immediate enforceability of a final decision of the first instance authority. Due to the fact that the company has previously received a decision of the second instance, it does not intend to file a complaint with the Provincial Administrative Court.

**VAT audit for December 2014 at Cerium Finance Sp. z o.o.** was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 19 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 110 million which translates into a tax of PLN 25.3 million. Guided by the outcome of the audit, the other party to the in-kind contribution transaction, i.e. CIECH Soda Polska S.A., issued a correction to the invoice, specifying the taxable amount of the in-kind contribution as the nominal value of the shares acquired. Cerium Finance Sp. z o.o. included the correction of the invoice in the current tax return and paid the tax. CIECH Soda Polska S.A. received a refund of overpaid VAT.

The Company and CIECH Soda Polska S.A. filed motions for tax rulings. The Director of the National Revenue Information agreed with the position of the companies with respect to the recognition of a possible VAT correction in the current period. In turn, CIECH Soda Polska S.A. received a reply that the taxable amount of the in-kind contribution made in 2014 was the nominal value of the shares acquired. Taking into account the ruling concerning the taxable amount and the regulations, as amended in 2014, according to which the taxable amount should be the value contributed to the share capital, the company is of the opinion that the correction made (included in the current period) is correct.

On 17 July 2019, CIECH Soda Polska S.A. (CSP), as the legal successor of Cerium Finance Sp. z o.o., received the Accounting Books' Audit Report, in which the auditors upheld their position, that the Company had no right to deduct VAT in the amount of PLN 25.3 million, without referring to the correction of VAT submitted by the Company in the current period and payment of this tax.



On 11 September 2019, the CSP received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that Cerium Finance Sp. z o.o. had no right to deduct VAT in the amount of PLN 25.3 million. CSP appealed against the decision of the first instance. Maintaining an unfavorable position towards CSP by a second instance authority may result in the necessity to re-pay VAT in the amount of PLN 25.3 million due to VAT settlement for December 2014 together with due interest. The amount of VAT paid again (in the event of an unfavorable decision of the second instance authority) will be recovered by the Subsidiary at the latest after the end of any administrative court proceedings (for December 2014) or after the end of any overpayment proceedings for July 2018.

**VAT audit for the period from January to June 2018 at CIECH Trading S.A.** was started by the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (for the period from January to April 2018) – commenced on 20 June 2018, and by the Head of the Śląskie Province Customs and Tax Office in Katowice (for the period from May to June 2018) – commenced on 19 September 2018. On 13 September 2019, the Company received a report on the audit of the books and the outcome of the audit from the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń. According to the auditors, the company overstated the input tax by PLN 1.4 million, deducting the tax resulting from invoices issued by two contractors who, according to the authority, committed tax fraud at an earlier stage of trade. According to the authority, the company failed to exercise due diligence when entering into transactions with these entities. The company do not agree with the position of the auditors.

However, given the lack of clear legal guidelines as to the scope of due diligence and following the prudence principle, the company decided to correct the VAT return for the period from January to April 2018 in the amount indicated by the authority, i.e. PLN 1.4 million. In addition, following the precautionary principle in order to hedge against any additional tax liability in the form of VAT sanctions, the company corrected VAT settlements for 2017 and for the period of July-November 2018, excluding from its settlements VAT calculated from invoices issued by the same two contractors. from which the authority refuses to deduct input VAT for the period of January-June 2018. The amount of adjusted VAT is PLN 7.5 million.

As a result of corrections of VAT declarations and their settlement with the tax office, the company paid PLN 0.5 million in interest. The audit carried out by the Silesian Customs and Tax Office in Katowice (i.e. for the period of May-June 2018) is in progress. Therefore, the company created a provision for any tax arrears, interest and a fine of PLN 2.6 million.

**The audit at the Ciech Group in Germany** concerns CIT settlements. The CIT audit concerns the following companies: Sodawerk Staßfurt Verwaltungs GmbH, CIECH Soda Deutschland GmbH & Co. KG, Sodawerk Holding Staßfurt GmbH, SDC GmbH. The audits cover settlements for 2007-2009 and 2010-2015. The issues raised by the auditors concerning 2006 were definitively clarified by the auditors at the initial stage of the audit. In case of a different assessment of economic events by audit authorities, an obligation may arise to recalculate and potentially increase the tax liability and to pay interest on tax arrears. As at the balance sheet date, the outcome of the audit is not known – the companies did not receive any reports from the tax authorities.

### 3.13. INFORMATION ON TRANSACTIONS BETWEEN THE KEY MANAGEMENT PERSONNEL OF CIECH S.A. AND RELATED PARTIES

Information on transactions with related entities is presented in item 2.11 hereof.





**QUARTERLY FINANCIAL INFORMATION  
OF THE PARENT COMPANY  
CIECH S.A.  
FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2019**



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## QUARTERLY FINANCIAL INFORMATION OF THE PARENT COMPANY, CIECH S.A.

### CONDENSED SEPARATE STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	01.01.-30.09.2019	01.01.-30.09.2018	01.07.-30.09.2019	01.07.-30.09.2018
<b>CONTINUING OPERATIONS</b>				
Sales revenues	1,796,779	1,787,413	553,655	579,385
Cost of sales	(1,573,927)	(1,458,519)	(484,410)	(463,124)
<b>Gross profit/(loss) on sales</b>	<b>222,852</b>	<b>328,894</b>	<b>69,245</b>	<b>116,261</b>
Other operating income	4,834	7,723	1,173	728
Selling costs	(141,235)	(166,034)	(42,404)	(53,698)
General and administrative expenses	(66,087)	(47,595)	(24,168)	(13,897)
Other operating expenses	(2,635)	(5,831)	(1,474)	(1,305)
<b>Operating profit/(loss)</b>	<b>17,729</b>	<b>117,157</b>	<b>2,372</b>	<b>48,089</b>
Financial income	68,165	49,414	4,225	10,885
Financial expenses	(89,210)	(74,378)	(32,668)	9,748
<b>Net financial income/(expenses)</b>	<b>(21,045)</b>	<b>(24,964)</b>	<b>(28,443)</b>	<b>20,633</b>
<b>Profit/(loss) before tax</b>	<b>(3,316)</b>	<b>92,193</b>	<b>(26,071)</b>	<b>68,722</b>
Income tax	(6,014)	(19,744)	3,307	(13,808)
<b>Net profit/(loss) on continuing operations</b>	<b>(9,330)</b>	<b>72,449</b>	<b>(22,764)</b>	<b>54,914</b>
<b>DISCONTINUED OPERATIONS</b>				
Net profit/(loss) on discontinued operations	-	-	-	-
<b>Net profit / (loss) for the period</b>	<b>(9,330)</b>	<b>72,449</b>	<b>(22,764)</b>	<b>54,914</b>
<b>Earnings/(loss) per share (in PLN):</b>				
Basic	(0.18)	1.37	(0.43)	1.04
Diluted	(0.18)	1.37	(0.43)	1.04

### CONDENSED SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME OF CIECH S.A.

	01.01.-30.09.2019	01.01.-30.09.2018	01.07.-30.09.2019	01.07.-30.09.2018
<b>Net profit / (loss) for the period</b>	<b>(9,330)</b>	<b>72,449</b>	<b>(22,764)</b>	<b>54,914</b>
<b>Other comprehensive income before tax that may be reclassified to statement of profit or loss</b>	<b>(3,630)</b>	<b>(3,926)</b>	<b>(7,337)</b>	<b>(2,322)</b>
Provision for the use of cash flow hedges	(3,630)	(3,926)	(7,337)	(2,322)
<b>Income tax attributable to other comprehensive income</b>	<b>703</b>	<b>678</b>	<b>1,398</b>	<b>984</b>
Income tax attributable to other comprehensive income that may be reclassified to statement of profit or loss	703	678	1,398	984
<b>Other comprehensive income net of tax</b>	<b>(2,927)</b>	<b>(3,248)</b>	<b>(5,939)</b>	<b>(1,338)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(12,257)</b>	<b>69,201</b>	<b>(28,703)</b>	<b>53,576</b>



## CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

	30.09.2019	31.12.2018
<b>ASSETS</b>		
Property, plant and equipment	14,317	13,551
Intangible assets	52,574	46,057
Long-term financial assets	2,433,694	2,339,188
Deferred income tax assets	21,986	25,514
Rights to use an asset	29,735	-
<b>Total non-current assets</b>	<b>2,552,306</b>	<b>2,424,310</b>
Inventory	23,700	41,019
Short-term financial assets	947,471	1,006,464
Income tax receivables	646	-
Trade and other receivables	474,244	400,673
Cash and cash equivalents	77,820	54,988
<b>Total current assets</b>	<b>1,523,881</b>	<b>1,503,144</b>
<b>Total assets</b>	<b>4,076,187</b>	<b>3,927,454</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	287,614	287,614
Share premium	470,846	470,846
Provision for the use of cash flow hedges	(4,079)	(1,152)
Actuarial gains	11	11
Other reserve capitals	76,199	76,199
Retained earnings	559,853	569,183
<b>Total equity</b>	<b>1,390,444</b>	<b>1,402,701</b>
Loans, borrowings and other debt instruments	1,586,522	1,333,695
Other non-current liabilities	57,159	59,416
Lease liabilities	25,074	-
Employee benefits provisions	579	574
<b>Total non-current liabilities</b>	<b>1,669,334</b>	<b>1,393,685</b>
Loans, borrowings and other debt instruments	315,783	493,601
Trade and other liabilities	658,465	532,895
Income tax liabilities	-	867
Employee benefits provisions	1,262	421
Other provisions	35,916	103,284
Lease liabilities	4,983	-
<b>Total current liabilities</b>	<b>1,016,409</b>	<b>1,131,068</b>
<b>Total liabilities</b>	<b>2,685,743</b>	<b>2,524,753</b>
<b>Total equity and liabilities</b>	<b>4,076,187</b>	<b>3,927,454</b>



## CONDENSED SEPARATE STATEMENT OF CASH FLOWS OF CIECH S.A.

	01.01.-30.09.2019	01.01.-30.09.2018
<b>Cash flows from operating activities</b>		
<b>Net profit /(loss) for the period</b>	<b>(9,330)</b>	<b>72,449</b>
Adjustments		
Amortisation/depreciation	10,073	6,365
Recognition of impairment allowances	(83)	10,908
Foreign exchange (profit) /loss	(12,979)	3,661
(Profit) / loss on disposal of property, plant and equipment	(2)	120
Dividends and interest	2,578	(8,649)
Income tax payable/(receivable)	6,014	19,744
Change in liabilities due to loan arrangement fee	167	(2,538)
Valuation of financial instruments	15,946	21,784
Other adjustments	2,863	(490)
<b>Cash from operating activities before changes in working capital and provisions</b>	<b>15,247</b>	<b>123,354</b>
Change in receivables	(70,476)	(107,484)
Change in inventory	20,791	10,843
Change in current liabilities	116,406	12,171
Change in provisions and employee benefits	(1,014)	584
<b>Cash generated from operating activities</b>	<b>80,954</b>	<b>39,468</b>
Interest paid	(51,811)	(21,472)
Income tax paid/returned	(48,015)	(2,737)
Set-off receivables from interest on loans	13,438	-
<b>Net cash from operating activities</b>	<b>(5,434)</b>	<b>15,259</b>
<b>Cash flows from investment activities</b>		
Disposal of intangible assets and property, plant and equipment	24	31
Dividends received	5,268	1,678
Interest received	11,595	17,396
Proceeds from cash-pooling facility	-	6,198
Proceeds from repaid borrowings	75,143	104,429
Acquisition of a subsidiary	(4,742)	(172,366)
Acquisition of intangible assets and property, plant and equipment	(18,093)	(20,597)
Expenditures on increase and extra contribution to capital	(1,051)	(150)
Borrowings paid out	(98,198)	(61,748)
Cash pooling expenditures	(949)	-
<b>Net cash from investment activities</b>	<b>(31,003)</b>	<b>(125,129)</b>
<b>Cash flows from financial activities</b>		
Proceeds from loans and borrowings	257,636	504,393
Proceeds from cash-pooling facility	50,164	-
Dividends paid to shareholders	-	(395,249)
Repayment of loans and borrowings	(256,500)	(276,424)
Cash pooling expenditures	-	(29,325)
Payments of lease liabilities	(2,694)	-
<b>Net cash from financial activities</b>	<b>48,606</b>	<b>(196,605)</b>
<b>Total net cash flows</b>	<b>12,169</b>	<b>(306,475)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	<b>54,988</b>	<b>375,393</b>
<i>Impact of foreign exchange differences</i>	<i>10,663</i>	<i>1,464</i>
<b>Cash and cash equivalents as at the end of the period</b>	<b>77,820</b>	<b>70,382</b>



## CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

	Share capital	Share premium	Provision for the use of cash flow hedges	Other reserve capitals	Actuarial gains	Retained earnings	Total equity
<b>01.01.2019</b>	<b>287,614</b>	<b>470,846</b>	<b>(1,152)</b>	<b>76,199</b>	<b>11</b>	<b>569,183</b>	<b>1,402,701</b>
Transactions with owners	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(2,927)</b>	<b>-</b>	<b>-</b>	<b>(9,330)</b>	<b>(12,257)</b>
Net profit /(loss) for the period	-	-	-	-	-	(9,330)	(9,330)
Other comprehensive income	-	-	(2,927)	-	-	-	(2,927)
<b>30.09.2019</b>	<b>287,614</b>	<b>470,846</b>	<b>(4,079)</b>	<b>76,199</b>	<b>11</b>	<b>559,853</b>	<b>1,390,444</b>
<b>31.12.2017</b>	<b>287,614</b>	<b>470,846</b>	<b>3,246</b>	<b>76,199</b>	<b>121</b>	<b>711,002</b>	<b>1,549,028</b>
The accounting policies - implementation of MSSF 9	-	-	-	-	-	(17,182)	(17,182)
<b>01.01.2018</b>	<b>287,614</b>	<b>470,846</b>	<b>3,246</b>	<b>76,199</b>	<b>121</b>	<b>693,820</b>	<b>1,531,846</b>
Transactions with owners	-	-	-	-	-	(395,249)	(395,249)
Dividend	-	-	-	-	-	(395,249)	(395,249)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(3,248)</b>	<b>-</b>	<b>-</b>	<b>72,449</b>	<b>69,201</b>
Net profit /(loss) for the period	-	-	-	-	-	72,449	72,449
Other comprehensive income	-	-	(3,248)	-	-	-	(3,248)
<b>30.09.2018</b>	<b>287,614</b>	<b>470,846</b>	<b>(2)</b>	<b>76,199</b>	<b>121</b>	<b>371,020</b>	<b>1,205,798</b>



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## EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF CIECH S.A.

### 5.1. BASIS OF PREPARATION

On 31 January 2007, the Extraordinary General Meeting of Shareholders of CIECH S.A. adopted resolution No 4, concerning the preparation of separate financial statements in accordance with International Financial Reporting Standards as approved by the European Union. Due to the adopted resolution, since 2007 the reports of CIECH S.A. have been prepared in accordance with the IFRS using the valuation of assets and liabilities and the measurement of net result as defined in the accounting policy.

These interim condensed separate financial statements were prepared in compliance with IAS 34 "Interim Financial Reporting" as approved by the European Union and the Regulation of the Minister of Finance dated 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 (Journal of Laws 2018.757 of 2018). These financial statements present the financial position of CIECH S.A. as at 30 September 2019 and as at 31 December 2018, results of the Company's operations and cash flows for the period of 9 months ended 30 September 2019 and 30 September 2018, and were approved by the Management Board of CIECH S.A. on 19 November 2019.

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

The Management Board of CIECH S.A. declares that to the best of its knowledge these interim condensed separate financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of CIECH S.A.'s financial position and the results of operations.

These interim condensed separate financial statements should be read together with the interim condensed consolidated financial statements of the CIECH Group for the 9-month period ended 30 September 2019.

### 5.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH S.A.'s accounting principles are described in the Financial Statements of CIECH S.A. for 2018, published on 26 March 2019. The aforementioned Financial Statements include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data presented, except for IFRS 16 *Leases* and change in the manner of accounting for the disposal of inventories – from the FIFO method to the weighted average method.

#### 5.2.1. CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

Information on changes in International Financial Reporting Standards is provided in Section 2.2.1 hereof.

### 5.3. CHANGES IN ESTIMATES

In the presented periods, there were no significant revisions to the estimates.



## RATIO CALCULATION METHODOLOGY

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

<b>EBITDA (%)</b>	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
<b>Adjusted EBITDA (%)</b>	EBITDA excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
<b>gross return on sales</b>	gross profit on sales for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>return on sales</b>	profit for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>EBIT margin</b>	operating profit for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>EBITDA margin</b>	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
<b>adjusted EBIT margin</b>	operating profit for a given period excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
<b>adjusted EBITDA margin</b>	EBITDA excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
<b>net return on sales (ROS)</b>	net profit for a given period / net revenues from sales of products, services, goods and materials for a given period
<b>return on assets (ROA)</b>	net profit for a given period/total assets at the end of a given period
<b>return on equity (ROE)</b>	net profit for a given period/total equity at the end of a given period
<b>debt ratio</b>	the ratio of current and non-current liabilities to total assets; measures the share of external funds in financing of a company's activity
<b>long-term debt ratio</b>	the ratio of non-current liabilities to total assets; measures the share of non-current liabilities in financing of company's activity
<b>debt to equity ratio</b>	the ratio of total liabilities to equity
<b>equity to assets ratio</b>	the ratio of equity to total assets; measures the share of equity in financing of a company's activity
<b>net financial liabilities</b>	liabilities from loans, borrowings (plus overdraft) and other debt instruments (leases + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities) less cash and cash equivalents
<b>gross financial liabilities</b>	liabilities from loans, borrowings (plus overdraft) and other debt instruments (leases + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities)



## REPRESENTATION OF THE MANAGEMENT BOARD

This Extended consolidated quarterly report of the CIECH Group for the three quarters of 2019 was approved by the Management Board of CIECH S.A. on 19 November 2019.

Warsaw, 19 November 2019

*(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**

*(signed on the polish original)*

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**Katarzyna Rybacka — Chief Accountant of CIECH Spółka Akcyjna**