

REPORT

ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF

CIECH S.A.

for financial year 2018

Warsaw, May 2019

The Supervisory Board of CIECH S.A. herewith submits its report on its activities in financial year 2018 containing, among others, report on the results of the evaluation referred to in article 382 § 3 of the Code of Commercial Companies, i.e. on the evaluation of: Separate Financial Statements of CIECH S.A. for 2018, Consolidated Financial Statements of CIECH Group for 2018, the Report of the Management Board on the activities of CIECH Group and CIECH S.A. for 2018, together with the Non-Financial Report for 2018, and the Management Board's proposal regarding distribution of net profit for 2018.

The scope of this report includes:

- 1. Information on the composition of the Supervisory Board of CIECH S.A. in 2018.**
- 2. Discussion of the activities of the Supervisory Board of CIECH S.A. in the period from 1 January 2018 to 31 December 2018, including information on the issues discussed at the Supervisory Board's meetings;**
- 3. Information on the activities of the Audit Committee of the Supervisory Board of CIECH S.A. in 2018;**
- 4. Information on the activities of the Remuneration Committee of the Supervisory Board of CIECH S.A. in 2018;**
- 5. Assessment of the Separate Financial Statements of CIECH S.A. for the financial year 2018 and the Consolidated Financial Statements of CIECH Group for the financial year 2018 in terms of compliance with the accounting books and documents, as well as the actual state of affairs.**
- 6. Evaluation of the Report of the Management Board on the activities of CIECH Group and CIECH S.A. in 2018 in terms of compliance with the accounting books and documents, as well as the actual state of affairs, and the proposal of the Management Board of CIECH S.A. regarding the distribution of the net profit of CIECH S.A. for the financial year 2018.**
- 7. Assessment of the situation of CIECH S.A. in 2018, including the assessment of the internal control system and the system to manage any risk which is significant for the company.**
- 8. Recommendations to the Annual General Meeting of CIECH S.A.**

1. INFORMATION ON THE COMPOSITION OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2018

As at 1 January 2018, the composition of the Supervisory Board of CIECH S.A. was as follows:

1. Sebastian Kulczyk – Chairman of the Supervisory Board
2. Tomasz Mikołajczak – Deputy Chairman of the Supervisory Board
3. Mariusz Nowak
4. Dominik Libicki
5. Artur Olech
6. Piotr Augustyniak.

On 22 June 2018, the Annual General Meeting of CIECH S.A. appointed the Supervisory Board of CIECH S.A. for the next term of office, the composition of which is as follows:

1. Sebastian Kulczyk – Chairman of the Supervisory Board
2. Tomasz Mikołajczak

3. Mariusz Nowak
4. Dawid Jakubowicz
5. Artur Olech
6. Piotr Augustyniak.

In connection with the resignation from the office of member of the Supervisory Board of CIECH S.A. tendered by Mr Dawid Jakubowicz on 5 December 2018, as at 31 December 2018, the composition of the Supervisory Board of CIECH S.A. was as follows:

1. Sebastian Kulczyk – Chairman of the Supervisory Board
2. Tomasz Mikołajczak – Deputy Chairman of the Supervisory Board
3. Mariusz Nowak
4. Artur Olech
5. Piotr Augustyniak.

In 2018, two committees operated as part of the Supervisory Board of CIECH S.A., i.e.:

- 1) the Audit Committee of the Supervisory Board of CIECH S.A.
- 2) the Remuneration Committee of the Supervisory Board of CIECH S.A.

Information on the activities of the aforementioned committees is presented in the subsequent parts of this Report.

2. DISCUSSION OF THE ACTIVITIES OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2018

In 2018, 8 meetings of the Supervisory Board of CIECH S.A. were held, during which 33 resolutions were adopted. The Supervisory Board also adopted 13 resolutions using means of distance communication. In 2018, the Supervisory Board adopted a total of 46 resolutions.

Acting on the basis of § 21 section 1 of the Articles of Association of CIECH S.A. and § 3 section 1 of the Regulations of the Supervisory Board, the Supervisory Board of CIECH S.A. exercised continuous supervision over the activities of the Company.

The following are some of the major issues dealt with by the Supervisory Board in financial year 2018.

FINANCIAL PLAN FOR 2018 AND 2019

At the meeting of the Supervisory Board on 4 December 2017, the draft Financial Plan of the Group for 2018 was presented and discussed, with an indication of open issues, including contracting which will have the largest impact on the Financial Plan of CIECH Group for 2018 (hereinafter referred to as the “**2018 Plan**”).

The Supervisory Board, after closing and discussing all issues affecting the results presented in the Financial Plan of CIECH Group for 2018, finally approved the 2018 Plan on 24 May 2018.

The Financial Plan of CIECH Group for 2019 (hereinafter referred to as the “**2019 Plan**”) was presented and discussed in detail by the Management Board of CIECH S.A. at the meeting of the Supervisory Board on 13 November 2018. However, due to the close connection between the 2019 Plan and the developed strategy of CIECH Group for 2019 - 2021, the Supervisory Board decided to adopt the final decision regarding the approval of the 2019 Plan at the meeting at which CIECH Group strategy would be discussed.

The Audit Committee, which analysed in detail the assumptions for the 2019 Plan, on 21 November 2018, after discussing the 2019 Plan supplemented with additional information indicated by the Audit Committee, recommended submitting the 2019 Plan for approval by the Supervisory Board.

At its meeting on 5 December 2018, the Supervisory Board approved the 2019 Plan.

STRATEGY OF CIECH GROUP FOR 2019 - 2021

At its meetings, the Supervisory Board discussed and analysed in detail the assumptions and strategic objectives of CIECH Group for the upcoming years, including the assumption regarding the maximum value of CIECH Group, mainly by increasing the competitive advantage in the key soda segment, further investments in the development of specialist businesses in other segments, continuous improvement of customer service, intensive use of R&D innovations and outcomes in order to improve production efficiency and expand the product portfolio of CIECH Group, and building the value through changes in the asset portfolio.

The Supervisory Board also drew attention to creating a work environment that would enable the development, and increase the motivation of employees, as well as strengthening the position of CIECH Group as a reliable partner for local communities, taking care of the natural environment.

The final decision of the Supervisory Board to approve the Strategy of CIECH Group for 2019 – 2021 was made at its meeting on 5 December 2018.

PREPARATIONS FOR THE ANNUAL GENERAL MEETING OF CIECH S.A. HELD ON 22 JUNE 2018

At its meeting on 24 May 2018, the Supervisory Board assessed the reports and statements presented by the Company for approval at the Annual General Meeting, i.e.:

1. Separate Financial Statements of CIECH S.A. for financial year 2017, which was assessed by the Supervisory Board as prepared in accordance with the accounting books and records as well as the actual status, and meeting the requirements of the Accounting Act of 29 September 1994.
2. Consolidated Financial Statements of CIECH Group for financial year 2017, which was assessed by the Supervisory Board as prepared in accordance with the accounting books and records as well as the actual status, and meeting the requirements of the Accounting Act of 29 September 1994.
3. Report of the Management Board on the activities of CIECH Group and CIECH S.A. for 2017, together with the Non-Financial Report of CIECH Group for 2017, which was assessed by the Supervisory Board as exhaustively presenting the functioning of the Group and the Company in 2017 and as consistent with the financial data included in the Separate Financial Statements of CIECH S.A. for 2017 and the Consolidated Financial Statements of CIECH Group for 2017, and

meeting the requirements provided for in article 49 of the Accounting Act of 29 September 1994.

After the aforementioned assessments and evaluations, the Supervisory Board recommended to the Annual General Meeting of CIECH S.A. that the reports and statements indicated under points 1 to 3 above be approved.

In addition, the Supervisory Board also considered further issues to be discussed at the Annual General Meeting of CIECH S.A., including:

- 1) It considered the proposal of the Management Board of CIECH S.A. regarding distribution of the net profit of CIECH S.A. earned by the Company in 2017, and then - after analysing and discussing the financial situation of the Company – it decided to recommend to the Annual General Meeting of CIECH S.A. that the 2018 net profit be distributed as follows:
 - i. the 2017 net profit of CIECH S.A. of **PLN 243,907,228.06** (in words: two hundred and forty-three million nine hundred and seven thousand two hundred and twenty-eight and 06/100 zlotys) – to be used in its entirety for the distribution of dividends,
 - ii. **PLN 151,342,089.44** (in words: one hundred and fifty-one million three hundred and forty-two thousand eighty-nine and 44/100 zlotys) – to be transferred from the supplementary capitals created from profit and used for the distribution of dividends,
 - iii. **PLN 395,249,317.50** (in words: three hundred and ninety-five million two hundred and forty-nine thousand three hundred and seventeen and 50/100 zlotys), i.e. PLN 7.50 per share – to be distributed as a dividend from the Company's net profit for 2017 increased by the amount transferred from the supplementary capital created from profits.
- 2) It adopted the Report of the Supervisory Board on the Activities in 2017, including reports on the results of the assessment of the Report on the activities of CIECH Group and CIECH S.A. for 2017, together with the CIECH Group's Non-Financial Report for 2017, the financial statements of CIECH S.A. and CIECH Group for tax year 2017, and the Management Board's proposal regarding the allocation of the net profit for tax year 2017, taking into account the assessment of the internal control system and the system for the management of risks significant to the Company.

The Supervisory Board recommended to the Annual General Meeting of CIECH S.A. that the net profit for 2017 be distributed in the manner described in point 1) above, and that the Report of the Supervisory Board indicated in point 2 above be approved.

In consideration of the reports and statements of the Company for financial year 2017 and its positive opinion on cooperation with the Management Board of the Company in financial year 2017, the Supervisory Board of CIECH S.A. recommended to the Annual General Meeting of CIECH S.A. that the following individuals holding office of Members of the Management Board of CIECH S.A. in financial year 2017, be discharged from their duties, i.e.:

- 1) Mr Maciej Tybura with regard to performance of his duties as the President of the Management Board of CIECH S.A. in the period from 1 January 2017 to 31 December 2017.
- 2) Mr Artur Król with regard to performance of his duties as a Member of the Management Board in the period from 1 January 2017 to 31 December 2017.

3) Mr Artur Osuchowski with regard to performance of his duties as a Member of the Management Board in the period from 1 January 2017 to 31 December 2017.

ONGOING SUPERVISION OVER FINANCIAL SITUATION AND OPERATING ACTIVITIES

As part of supervision over the current operations of the Company, the financial situation and results of operating activities were the subject of regular analysis of the Supervisory Board.

The basis of analyses carried out by the Supervisory Board was the Financial Plan of CIECH Group for 2018, positively evaluated by the Audit Committee and approved by the Supervisory Board on 24 May 2018 by Resolution No. 144/IX/2018.

The Supervisory Board also dealt with issues arising from the current operations of the Company, including:

- intercompany loans extended to CIECH Group companies – in terms of extending loan repayment dates and taking/granting new loans,
- change in the margin on factoring agreements concluded with BZ WBK Faktor sp. z o.o. by CIECH Group companies,
- overdraft facility (bank overdraft) agreements concluded by CIECH S.A. with the following banks: Bank Pekao S.A. and Bank Millennium S.A.,
- amendment of the Regulations of the Audit Committee of the Supervisory Board of CIECH S.A. (amendment of § 5 section 5 of the Regulations),
- renovation and replacement investments, the value of which exceeds the limit specified in § 21 section 2 point 10), in conjunction with point 16) of the Articles of Association of CIECH S.A.

MARKET RISK HEDGING

The Supervisory Board reviewed the proposal to change the Market Risk Hedging Strategy (hereinafter referred to as the “**MRPS**”) adopted by Resolution No. 82/IX/2016 of the Supervisory Board of CIECH S.A. of 26/04/2016, and amended by Resolution No. 119/IX/2017 of the Supervisory Board of CIECH S.A. of 19.10.2017, in the scope of foreign currency risk management, including:

- a. ability to hedge currency flows related to loans granted in foreign currencies, within a period of up to 5 years, up to 100% of contract flows - within CIECH Group;
- b. ability to hedge investment costs or expenses in foreign currencies, where the projected net exposure - after taking into account cash flows related to indebtedness - is negative (up to 75% of the forecasted exposure);
- c. clarifying the definition of net currency exposure, which is hedged over a 2-year period, to account for the residual net exposure, i.e. currency exposure after taking into account cash flows related to indebtedness:
 - i. Transactions related to securing loans granted,
 - ii. CIRS transactions and debt servicing in EUR.

After the discussion and taking into account the positive opinion of the Audit Committee of 26 April 2018, in order to update the rules for managing market risk within CIECH Group, on 24 May 2018, the Supervisory Board issued a positive opinion about the proposed changes to the MRPS and gave its consent for entering into hedging transactions consistent with the MRPS and with values in excess of the limit specified in § 21 section 2 point 10) of the Articles of Association of CIECH S.A.

PROJECTS RELATED TO THE GROWTH OF CIECH GROUP'S VALUE

One of the projects dealt with by the Supervisory Board of CIECH S.A. is called Grain Project, the purpose of which is to develop the salt segment of CIECH Group, understood as increasing the production capacity and sales of salt products by building and launching at CIECH Soda Deutschland GmbH & Co. KG, Germany (hereinafter the "CSD"), new production capacity with a target efficiency of 450 K tons/year. The production will be dedicated to the salt products segment and include such products as: salt tablets, electrolysis salt, pharmaceutical-grade salt, food-grade salt and granulated salt.

The Supervisory Board analysed and discussed in detail the salt production technology, the process of choosing a company that would design the plant and provide the salt production technology, as well as contract terms with the company that would design the plant and provide the technology. Finally, at its meeting on 16 April 2018, the Supervisory Board approved the implementation of the aforementioned investment and concluded a contract with Evatherm A.G. for the design and delivery of salt production technology.

Another important issue related to the growth of CIECH Group is the development of the agro segment in the area of plant protection products, which was the subject of in-depth analyses by the Supervisory Board. The main assets for this segment include: CIECH Sarzyna S.A. having the potential for further development and creation of a new product offer as well as the planned acquisition of a new company from the sector of plant protection products.

Finally, in terms of the new acquisition for the agro segment of CIECH Group, the Supervisory Board agreed to acquire of a Spanish law company, Proplan Plant Protection Company, S.L. ("**Proplan**") operating on the PPP market and specialising in the registration, production and distribution of fungicides, herbicides, insecticides and growth controllers. The final decision to approve the acquisition of 100% shares in Proplan was adopted by the Supervisory Board on 26 July 2018.

As part of the Golden Eye Project already implemented within CIECH Group (CIECH Soda Deutschland GmbH & Co. KG, Germany) aimed at launching high-quality dialysis-grade soda to the market with a small volume of 8,400 tons/year and increasing the production of high-quality coarse-grain sodium bicarbonate by 50,000 tons/year, the Supervisory Board dealt with additional work that must be carried out as part of the investment. After discussing the implementation status of the investment and the scope of additional work that could not have been foreseen at the time of signing the agreement with the contractor - Chemnieranlagenbau Chemnitz GmbH, at its meeting on 15 October 2018, the Supervisory Board gave its consent for any additional work which, in the opinion of the Supervisory Board, is technically justified.

3. INFORMATION ABOUT THE ACTIVITIES OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2018

The report of the Audit Committee includes:

- information on the composition and tasks of the Audit Committee of the Supervisory Board of CIECH S.A. in 2018;
- discussion of the activities of the Audit Committee of the Supervisory Board of CIECH S.A. in 2018, including information on the issues raised at Committee meetings; and
- assessment of interim (periodic) reports of CIECH S.A. for 2018 and CIECH Group for 2018.

INFORMATION ON THE COMPOSITION AND TASKS OF THE AUDIT COMMITTEE IN 2018

As at 1 January 2018, the composition of the Audit Committee was as follows:

- 1) Piotr Augustyniak - Chairman of the Committee
- 2) Mariusz Nowak - Member of the Committee
- 3) Artur Olech - Member of the Committee.

In connection with the appointment of the Supervisory Board of CIECH S.A. for a new term of office by the Annual General Meeting, on 24 July 2018, the Supervisory Board appointed the Audit Committee for a new term of office, the composition of which is as follows:

- 1) Piotr Augustyniak
- 2) Mariusz Nowak
- 3) Artur Olech

At its meeting on 24 July 2018, the Audit Committee decided to entrust the duties of the Chairman of the Audit Committee to Mr Piotr Augustyniak.

As at 31 December 2018, the composition of the Audit Committee was as follows:

- 1) Piotr Augustyniak - Chairman of the Committee
- 2) Mariusz Nowak - Member of the Committee
- 3) Artur Olech - Member of the Committee.

The tasks of the Audit Committee were defined in the Regulations of the Audit Committee, which were approved by Resolution No. 116/IX/2017 of the Supervisory Board of 19 October 2017, and subsequently amended by Resolution No. 21/X/2018 of 5 December 2018.

In accordance with the Regulations of the Audit Committee, the tasks of the Audit Committee include in particular:

- a) monitoring:
 - financial reporting process,
 - effectiveness of internal control systems and risk management systems as well as internal audit, including financial reporting,

- performing auditing activities, in particular conducting an audit by the audit firm, including all proposals and findings of the Audit Oversight Commission resulting from inspections carried out in the audit firm;
- b) controlling and monitoring the independence of the statutory auditor and the audit firm, in particular when other services than auditing are provided to the Company by the auditor;
- c) informing the Supervisory Board about the results of the audit and explaining how it contributed to the reliability of financial reporting in the Company and the role of the Audit Committee in the audit process;
- d) assessing the independence of the auditor and consenting to the provision of permitted services that are not related to the Company's audit;
- e) developing a policy of selecting an audit firm to conduct the examination;
- f) developing a policy of providing - by the auditing firm, by entities related to such auditing firm and by a member of the auditing firm's network, permitted non-audit services;
- g) determining the procedure for the selection of an audit firm by the Company;
- h) presenting recommendations to the Supervisory Board regarding the appointment of an audit firm in accordance with the policies referred to in points e) and f) above. In the recommendation, the Audit Committee shall:
 - i. identify the auditing company which it proposed to entrust with the statutory audit,
 - ii. declare that the recommendation is free from the influence of third parties,
 - iii. state that the audited entity of public interest did not conclude agreements containing clauses referred to in art. 66 section 5a of the Accounting Act;
- i) where the choice referred to in section 1 h) does not apply to the extension of the contract for auditing the financial statements, the recommendation of the Audit Committee shall contain at least two options for the selection of the audit firm along with justification and indication of the justified preferences of the Audit Committee as to one of them;
- j) an annual review of internal audit programmes;
- k) analysis of the results of internal controls, including internal audits and deadlines for removing identified deficiencies;
- l) review of significant contracts concluded with related entities;
- m) preliminary assessment of the annual financial plan prepared by the Management Board and reports on its implementation;
- n) submitting recommendations aimed at ensuring the reliability of the financial reporting process in the Company.

DISCUSSION OF THE ACTIVITIES OF THE AUDIT COMMITTEE IN 2018

In 2018, 13 meetings of the Audit Committee were held.

The main issue of the Audit Committee's work in 2018 was the analysis and assessment of both annual and interim/periodical financial statements of CIECH S.A. and CIECH Group as well as the strategy for market risk hedging.

In addition, due to the new requirements imposed by the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision, the Audit Committee has recommended that the Supervisory Board renew the contract for the audit of statutory financial statements for 2018 - 2019 with the

current auditing firm, i.e. PricewaterhouseCoopers Polska spółką z ograniczoną odpowiedzialnością Audyt sp.k. ("**PwC**") and that consent be given for PwC to provide other non-audit services.

The Audit Committee selects an audit firm to audit separate and consolidated financial statements and to provide other non-audit services based on:

- the policy and procedure for selecting an audit firm to audit the statutory financial statements of CIECH S.A. and the consolidated statements of CIECH Group, adopted by Resolution No. 117/IX/2017 of the Supervisory Board of CIECH S.A. on 19.10.2017,
- the policy of providing - by the auditing firm - permitted non-audit services, adopted by Resolution No. 118/IX/2017 of the Supervisory Board of CIECH S.A. on 19.10.2017

The above documents contain detailed terms and criteria for the selection of an audit firm for the examination of separate and consolidated statements and conditions for the non-audit services to be provided by the auditor, as well as procedure for commissioning such services, organisation, rules of operation and the manner of performing activities by the Audit Committee.

The following are some of the major issues dealt with by the Audit Committee in 2018.

- ***Cooperation with a certified auditor, including commissioning of additional services***

In 2018, the Audit Committee held meetings with the auditor of CIECH S.A., PricewaterhouseCoopers Polska spółką z ograniczoną odpowiedzialnością Audyt sp.k. (hereinafter referred to as "**PwC**"), in order to discuss the scope of conducted audits and reviews of periodical/interim reports of CIECH S.A. and CIECH Group for the first half of 2018, as well as separate financial statements for the financial year 2017 and the consolidated financial statements for the financial year 2017.

Members of the Audit Committee were informed about the progress of the work related to the audit of the financial statements by PwC.

In addition, the Audit Committee submitted, to the Supervisory Board, an opinion regarding applications for the provision of additional non-audit services by PwC, or companies related thereto, to CIECH S.A. and CIECH Group companies of CIECH Group, including:

- provision by a German company - PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, related to PwC, of an unauthorised non-audit service related to the verification of an application submitted by CIECH Soda Deutschland GmbH & Co. KG (hereinafter referred to as the "**Company**") to the Federal Office of Economics and Export Control, on the basis of which the Company is applying for exemption from additional energy consumption fees;
- provision by the following PwC Group companies: PricewaterhouseCoopers Sp. z o.o., PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft and PricewaterhouseCoopers Audit S.R.L., of other non-audit services, including:

- 1) examination of consolidation packages of selected companies within CIECH Group for the purposes of reviewing the condensed separate and consolidated financial statements of CIECH S.A. and CIECH Group for the first half of 2018 and the first half of 2019,
 - 2) examination of consolidation packages of selected companies within CIECH Group for the purposes of auditing separate and consolidated financial statements of CIECH S.A. and CIECH Group for the year ended 31 December 2018 and 31 December 2019;
- provision by PwC of another non-audit service, including the verification of the correctness of the calculation of the excise duty ratio for 2017 for CIECH Soda Polska S.A. for the purposes of a partial tax refund;
 - provision by PwC - auditor of CIECH S.A., services involving verification of the electricity consumption coefficient for CIECH Soda Polska S.A. and CIECH Vistrosilicon S.A.;
 - provision by PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, related to PwC, data certification services for any data included in the application submitted to Deutsche Emissionshandelsstelle (German Emissions Trading Office) in connection with manufacturing products included in the PRODCOM list as part of the EU grant application (reimbursement of electricity costs) for CIECH Soda Deutschland GmbH&Co. KG;
 - provision by PricewaterhouseCoopers, Société coopérative, Luxembourg, related to PwC, VAT compliance services, in particular including support in the preparation of declarations and communication with the Office, to Kulczyk Investments S.A. with its registered office in Luxembourg, which is an indirect parent company of CIECH S.A.;
 - provision by PricewaterhouseCoopers Auditores, S.L., Spain, related to PwC, services involving examination of consolidation packages of Proplan - Plant Protection Company S.L., for the purpose of auditing the consolidated financial statements of CIECH Group for the period ended 31 December 2018 and 31 December 2019 and reviewing the consolidation package of Proplan - Plant Protection Company S.L. for the purpose of reviewing the condensed consolidated financial statements.
- ***CIECH Group's risk hedging strategy***

In 2018, the Audit Committee dealt with the change of the Market Risk Hedging Strategy (hereinafter referred to as the "MRPS") proposed by the Management Board of CIECH S.A., adopted by Resolution No. 82/IX/2016 of the Supervisory Board of CIECH S.A. of 26 April 2016, and amended by Resolution No. 119/IX/2017 of the Supervisory Board of CIECH S.A. of 19 October 2017, in the scope of:

- a. ability to hedge currency flows related to loans granted in foreign currencies, within a period of up to 5 years, up to 100% of contract flows - within CIECH Group;
- b. ability to hedge investment costs or expenses in foreign currencies, where the projected net exposure - after taking into account cash flows related to indebtedness - is negative (up to 75% of the forecasted exposure);

- c. clarifying the definition of net currency exposure, which is hedged over a 2-year period, to account for the residual net exposure, i.e. currency exposure after taking into account cash flows related to indebtedness:
 - i. Transactions related to securing loans granted,
 - ii. CIRS transactions and debt servicing in EUR.

At its meeting on 26 April 2018, the Audit Committee issued a positive opinion regarding the proposed change of the MRPS and recommended presenting the MRPS for approval by the Supervisory Board.

- ***Financing activities of CIECH Group***

When analysing and discussing periodic reports of CIECH S.A. and CIECH Group, the Audit Committee is also acquainted in detail with the sources of financing of CIECH Group's activities, including external debt and indebtedness resulting from the use of funds under the intercompany loans programmes, financial leasing agreements and factoring agreements.

- ***Financial Plan of CIECH Group for 2018 and for 2019***

The Financial Plan of CIECH Group for 2018 (the "**2018 Plan**") was presented and discussed in detail at the meeting of the Audit Committee on 4 December 2017. The next presentation of the 2018 Plan took place after the conclusion of contracting for 2018, which had the greatest impact on the results presented in the 2018 Plan. Finally, the Audit Committee assessed the updated 2018 Plan on 26 April 2018 and sent it for approval by the Supervisory Board of CIECH S.A.

The Audit Committee discussed in detail, submitted its comments to, and finally recommended supplementing the Financial Plan of CIECH Group for 2019 (the "**2019 Plan**") with information on the balance sheet and working capital of CIECH Group, which were discussed at the meeting on 21 November 2018, and then presented the 2019 Plan for approval by the Supervisory Board of CIECH S.A. on 5 December 2018.

- ***Analysis of the statutory auditor's letter to the Management Board of the Company***

The Audit Committee reviewed the Letter to the Management Board of CIECH S.A. prepared by PricewaterhouseCoopers spółka z ograniczoną odpowiedzialnością Audyt sp.k. – the auditor of CIECH S.A. - containing issues highlighted by the auditor during the audit of the consolidated financial statements of CIECH Group for the financial year ended 31 December 2018, together with the Management Board's replies to the abovementioned issues.

- ***Other information***

The Audit Committee also dealt with issues that were subject to inspections carried out by the Control and Audit Office in 2017 and the audit plan for 2018, and also reviewed the activity report of the Control and Audit Office in 2017.

EVALUATION OF PERIODIC REPORTS OF CIECH S.A. AND CIECH GROUP

- ***Evaluation of the Reports of CIECH S.A. for 2017 and CIECH Group for 2017***

At its meeting on 22 March 2018, the Audit Committee discussed reports and statements of the Company and CIECH Group presented by the Management Board of CIECH S.A. with regard to financial year 2017, i.e.:

- 1) Separate Financial Statements of CIECH S.A. for 2017,
- 2) Consolidated Financial Statements of CIECH Group for 2017,
- 3) Consolidated Report of the Management Board on the activities of CIECH Group and CIECH S.A. for 2017, together with the Non-financial Report for 2017.

The Audit Committee, having familiarised itself with the abovementioned reports and statements, and the auditor's opinion on the separate and consolidated financial statements for 2017, as well as the auditor's information on the issues discussed with the Management Board of CIECH S.A. during the audit of the aforementioned reports and statements, did not make any comments to the reports that were submitted to, and for the assessment of, the Supervisory Board of CIECH S.A.

- ***Review and audit of periodic reports and statements prepared in 2018***

During 2018, the Audit Committee reviewed and audited the interim report of CIECH S.A. and CIECH Group, i.e. Extended Consolidated Report of CIECH Group for the first half of 2018, and discussed the following periodic reports/statements:

- ✓ Extended consolidated quarterly report of CIECH Group for the first quarter of 2018,
 - ✓ Extended consolidated quarterly report of CIECH Group for the third quarter of 2018,
- to which the Audit Committee did not submit any comments.

4. INFORMATION ON THE ACTIVITIES OF THE REMUNERATION COMMITTEE OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2018

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits its report on the activities in financial year 2018 containing, among others:

- information on the composition and tasks of the Remuneration Committee in 2018.
- details of the activities of the Remuneration Committee in 2018.

INFORMATION CONCERNING THE COMPOSITION AND TASKS OF THE REMUNERATION COMMITTEE

The First Remuneration Committee of the Supervisory Board was established by Resolution No. 66/IV/2005 of the Supervisory Board of CIECH S.A. dated 16 March 2005.

As at 1 January 2018, the composition of the Remuneration Committee of the Supervisory Board of CIECH S.A. was as follows:

- 1) Tomasz Mikołajczak – Chairman of the Committee
- 2) Mariusz Nowak.

In connection with the appointment of the Supervisory Board of CIECH S.A. for a new term of office by the Annual General Meeting, on 24 July 2018, the Supervisory Board of CIECH S.A. appointed the Remuneration Committee for a new term of office, the composition of which is as follows:

- 1) Tomasz Mikołajczak
- 2) Mariusz Nowak
- 3) Dawid Jakubowicz.

As of 5 December 2018, Mr Dawid Jakubowicz resigned from his office in the Supervisory Board of CIECH S.A.

In connection with the above, the composition of the Remuneration Committee of the Supervisory Board of CIECH S.A. as at 31 December 2018 was as follows:

- 1) Tomasz Mikołajczak – Chairman of the Committee
- 2) Mariusz Nowak.

In accordance with the Regulations of the Remuneration Committee, adopted by Resolution No. 66/IV/2005 of the Supervisory Board of CIECH S.A. dated 16 March 2005, the main task of the Committee is to advise the Supervisory Board on issues related to the determination of the rules for, and amount of, remuneration of members of the Management Board of CIECH S.A., and in particular:

- 1) presentation of proposals regarding the principles of remunerating members of the Management Board of CIECH S.A. to the Supervisory Board, which should include all forms of remuneration, in particular in relation to: fixed remuneration, performance compensation system, pension system and severance pay,
- 2) presentation of proposals regarding the amount of remuneration of each member of the Management Board of CIECH S.A. to the Supervisory Board,
- 3) presentation of draft agreements governing performance of duties by members of the Management Board of CIECH S.A. to the Supervisory Board,
- 4) discussing (with or without the participation of the Company's Management Board) any problems or reservations that may arise in matters related to the remuneration of members of the Management Board of CIECH S.A.,
- 5) considering any other issues identified and emphasised by the Committee or the Supervisory Board,
- 6) informing the Supervisory Board of any significant issues in the general context of the Committee's activities.

DETAILS OF THE ACTIVITIES OF THE REMUNERATION COMMITTEE

In 2018, due to changes in the composition of the Management Board of CIECH S.A., the Remuneration Committee met in order to determine and recommend to the Supervisory Board of CIECH S.A. the principles of remunerating members of the Management Board.

5. & 6. ASSESSMENT OF THE SEPARATE FINANCIAL STATEMENTS OF CIECH S.A. FOR 2018 AND THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2018, REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF CIECH GROUP AND CIECH S.A. IN 2018, TOGETHER WITH THE NON-FINANCIAL REPORT FOR 2018 - IN TERMS OF THEIR COMPLIANCE WITH THE ACCOUNTING BOOKS AND RECORDS, AS WELL AS THE ACTUAL STATUS, AND OF THE PROPOSAL OF THE MANAGEMENT BOARD OF CIECH S.A. REGARDING THE DISTRIBUTION OF THE NET PROFIT OF THE COMPANY FOR 2018

Pursuant to article 382 § 3 of the Code of Commercial Companies and § 21 point 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. assessed the Separate Financial Statements of CIECH S.A. for 2018 and the Consolidated Financial Statements for 2018, the Report of the Management Board on the activities of CIECH Group and CIECH S.A. for 2018, together with the Non-Financial Report for 2018, in terms of their compliance with the accounting books and records, as well as the actual status, and the proposal of the Management Board of CIECH S.A. regarding the distribution of the net profit for 2018.

1. ASSESSMENT OF THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY FOR 2018

Pursuant to article 382 § 3 of the Code of Commercial Companies and § 21 section 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. assessed the Separate Financial Statements of CIECH S.A. for 2018 in terms of its compliance with the books and records, as well as with the actual status.

The audit of the Financial Statement of CIECH S.A. for financial year 2018 was conducted by PricewaterhouseCoopers Polska spółką z ograniczoną odpowiedzialnością Audyt sp.k. (hereinafter also referred to as "PwC"). In 2018, representatives of PwC participated in selected meetings of the Supervisory Board and cooperated on an on-going basis with the Audit Committee of the Supervisory Board of CIECH S.A.

The Supervisory Board familiarised itself with the Separate Financial Statements of CIECH S.A. for 2018 (the "**Financial Statements**") and the Report of the independent certified auditor from the audit of the Separate Financial Statements, according to which the Financial Statements:

- presented a reliable and clear picture of the asset and financial situation of CIECH S.A. as at 31 December 2018 and its financial result and cash flows for the financial year ended on that day in accordance with applicable International Financial Reporting Standards approved by the European Union, and the adopted accounting principles (policy);
- complied, in terms of form and content, with the laws applicable to the Company and its Articles of Association;
- were prepared on the basis of correctly kept accounting books in accordance with the provisions of Chapter 2 of the Accounting Act of 29 September 1994 (the "Accounting Act" – consolidate text: Journal of Laws of 2019, item 351, as amended).

On 25 March 2019, the Audit Committee of the Supervisory Board of CIECH S.A., having familiarised itself with the Financial Statements and the auditor's report on the audit of the Separate Financial Statements, did not submit any comments to the Separate Financial Statements of CIECH S.A. for tax year 2018.

The Supervisory Board, having familiarised itself with the Separate Financial Statements of CIECH S.A. for 2018 and the auditor's report, concluded that the Separate Financial Statements had been prepared in accordance with the books and records as well as the actual status, presented an accurate and clear picture of the asset and financial position of the Company, and met the requirements provided for in the Accounting Act of 29 September 1994.

At its meeting on 27 May 2019, upon assessment of the Separate Financial Statements of CIECH S.A. for tax year 2018, the Supervisory Board of CIECH S.A. recommended to the Annual General Meeting that the Separate Financial Statements be approved.

2. ASSESSMENT OF CONSOLIDATED FINANCIAL STATEMENTS OF CIECH GROUP FOR 2018

According to article 382 § 3, in conjunction with article 395 § 5 of the Code of Commercial Companies and § 21 section 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. assessed the Consolidated Financial Statements of CIECH Group for 2018 in terms of their compliance with books and records, as well as the actual status.

The audit of the Consolidated Financial Statements of CIECH Group for 2018 was conducted by PricewaterhouseCoopers Polska spółką z ograniczoną odpowiedzialnością Audyt sp.k. (hereinafter also referred to as "**PwC**").

The Supervisory Board familiarised itself with the Consolidated Financial Statements of CIECH Group for 2018 (the "**Financial Statements**") and the Report of the independent certified auditor from the audit of the Consolidated Financial Statements, according to which the Consolidated Financial Statements of CIECH Group:

- whose parent entity is CIECH S.A., reflected a reliable and clear picture of the consolidated asset and financial situation of CIECH Group as at 31 December 2018 and its consolidated financial result and consolidated cash flows for the financial year ended on that day in accordance with applicable International Financial Reporting Standards approved by the European Union, and the adopted accounting principles (policy);
- complied, in terms of form and content, with the laws applicable to CIECH Group and the Articles of Association of the Parent.

On 25 March 2019, the Audit Committee of the Supervisory Board of CIECH S.A., having familiarised itself with the Financial Statements and the auditor's report on the audit of the consolidated financial statements, did not submit any comments to the Consolidated Financial Statements of CIECH Group for 2018.

The Supervisory Board, having familiarised itself with the Consolidated Financial Statements of CIECH Group for 2018 and the auditor's report, concluded that the Consolidated Financial Statements of CIECH Group for 2018 had been prepared in accordance with the books and records as well as the actual status and met the requirements provided for in the Accounting Act of 29 September 1994.

At its meeting on 27 May 2019, upon assessment of the Consolidated Financial Statements of CIECH Group for 2018, the Supervisory Board of CIECH S.A. recommended to the Annual General Meeting that the Consolidated Financial Statements be approved.

3. ASSESSMENT OF THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF CIECH S.A. AND CIECH GROUP IN 2018, TOGETHER WITH THE NON-FINANCIAL REPORT OF CIECH GROUP FOR 2018

Pursuant to article 382 § 3 of the Code of Commercial Companies and § 21 section 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. assessed the Management Board's Report on the activities of CIECH Group and CIECH S.A. for 2018, together with CIECH Group's non-financial report for 2018 in terms of their compliance with books and records, as well as the actual status.

The Supervisory Board, having familiarised themselves with the Report of the Management Board on the activities of CIECH Group and CIECH S.A. in 2018, together with CIECH Group's non-financial report for 2018 and the Report of the independent auditor on the audit of the Consolidated Financial Statements of CIECH Group and the Separate Financial Statement of CIECH S.A., which contained an opinion on the Management Board's Report, a corporate governance declaration, and details of non-financial information.

With reference to the Report of the Management Board on the activities of CIECH Group and CIECH S.A. in 2018, together with CIECH Group's non-financial report for 2018 (hereinafter referred to as the "Report"), the auditor concluded that the Report had been prepared in accordance with the requirements of article 49 of the Accounting Act and § 70 and § 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognising information required by the laws of a non-member state as equivalent (the "Regulation on current information" - Journal of Laws of 2018, item 757) and that it was consistent with the information contained in the audited separate and consolidated financial statements.

In addition, the auditor stated that in consideration of the knowledge about the Parent Company and the Group and their environment obtained during the audit, it had not identified any significant distortions in the Joint Activity Report.

On 25 March 2019, the Audit Committee of the Supervisory Board of CIECH S.A., after hearing the Report and the auditor's report, did not submit any comments to the Management Report on the activities of CIECH Group and CIECH S.A. in 2018, together with CIECH Group's non-financial report for 2018.

The Supervisory Board, at the meeting held on May 13, 2019, in connection with the necessity of preparing Errata for the Report of the Management Board on the activities of CIECH Group and CIECH S.A. for 2018, she got acquainted and accepted the following documents:

At its meeting on 13 May 2019, the Supervisory Board, in connection with the need to prepare an Erratum to the Report of the Management Board on the activities of CIECH Group and CIECH S.A. in 2018, familiarised itself and approved the following documents:

- Assessment of the Report of the Management Board on the activities of CIECH Group and CIECH S.A. in 2018, the Financial Statements of CIECH S.A. for 2018 and the Consolidate Financial Statements of CIECH Group for 2018.
- Statements/declarations required for the purposes of the Annual Report for 2018 and the Consolidated Annual Report for 2018, i.e.:
 - statement regarding the Audit Committee,
 - statement on the auditing firm selection policy.

Bearing in mind the aforementioned documents, the Supervisory Board of CIECH S.A. stated that the Report of the Management Board on the activities of CIECH Group and CIECH S.A. in 2018, together with CIECH Group's non-financial report for 2018, presented in an exhaustive manner the functioning of the Company and CIECH Group in 2018. The Report was consistent with the financial data contained in the Separate and Consolidated Financial Statements for 2018, and met the requirements provided for in article 49 of the Accounting Act of 29 September 1994.

At its meeting on 27 May 2019, upon assessment of the Report of the Management Board on the activities of CIECH Group and CIECH S.A. in 2018, together with CIECH Group's non-financial report for 2018, the Supervisory Board of CIECH S.A. recommended to the Annual General Meeting that the Report be approved.

4. ASSESSMENT OF THE PROPOSAL OF THE MANAGEMENT BOARD OF CIECH S.A. ON THE DISTRIBUTION OF NET PROFIT FOR FINANCIAL YEAR 2018

The Supervisory Board of CIECH S.A., having familiarised themselves with the proposal of the Management Board of 22 May 2019, submitted to the Annual General Meeting, for the distribution of net profit of PLN 270,611,852.97 (in words: two hundred and seventy million six hundred and eleven thousand eight hundred and fifty-two and 97/100 zlotys), earned by the Company in 2018, in the following manner:

- a) the amount of 17,181,990.27 (seventeen million one hundred and eighty-one thousand nine hundred and ninety and 27/100 zlotys) to be allocated to cover the loss recognised as an adjustment to the opening balance,

- b) the remaining amount of 253,429,862.70 (in words: two hundred and fifty-three million four hundred and twenty-nine thousand eight hundred and sixty-two and 70/100 zlotys) to be transferred to the supplementary capital,
- and having analysed the financial situation of the Company, decided to recommend the following distribution of the 2018 net profit of PLN 270,611,852.97 (in words: two hundred and seventy million six hundred and eleven thousand eight hundred and fifty-two and 97/100 zlotys) to the Annual General Meeting of CIECH S.A.:
 - a) the amount of 17,181,990.27 (seventeen million one hundred and eighty-one thousand nine hundred and ninety and 27/100 zlotys) to be allocated to cover the loss recognised as an adjustment to the opening balance,
 - b) the remaining amount of 253,429,862.70 (in words: two hundred and fifty-three million four hundred and twenty-nine thousand eight hundred and sixty-two and 70/100 zlotys) to be transferred to the supplementary capital.

7. ASSESSMENT OF THE SITUATION OF CIECH S.A. IN 2018 BY THE SUPERVISORY BOARD OF CIECH S.A. TAKING INTO ACCOUNT THE INTERNAL CONTROL SYSTEM AND THE SYSTEM FOR THE MANAGEMENT OF RISKS SIGNIFICANT TO THE COMPANY

The Supervisory Board of CIECH S.A. submits to the Annual General Meeting of CIECH S.A. a concise evaluation of the Company's situation in 2018, including the assessment of the internal control system and the system for the management of risks significant to the company.

1. ASSESSMENT OF THE COMPANY'S SITUATION IN 2018

In 2018, CIECH S.A. generated revenues of PLN 2,418,534 thousand (2017 - PLN 2,365,764 thousand), result on operating activity of PLN 112,279 thousand (2017 - PLN 207,112 thousand) and a positive net profit in the amount of PLN 270,612 thousand (2017 - PLN 243,907 thousand), the balance sheet total amounted to PLN 3,927,454 thousand (end of 2017 - PLN 3,652,664 thousand) and the cash balance showed a decrease by PLN 320,405 thousand to PLN 54,988 thousand. Both internal and external factors had a significant impact on the Company's results. The key factors with a positive impact on the operating result include the increase in soda prices on the so-called overseas markets (dollar prices), higher revenues from the sale of dry salt (increase in the volume and prices of dry salt), development of specialised products in the sodium bicarbonate business, increase in sales prices and higher sales volume of raw materials for the production of plant protection products. The operating income was adversely affected by factors such as: a decline in soda prices on European markets, a decrease in sales volume of soda and wet salt, and an increase in prices of products purchased from CIECH Group companies (mainly soda ash, sodium bicarbonate and salt) as a result of the increase in the product manufacturing cost which was related to an increase in the prices of energy raw materials (coal and gas), furnace fuel, CO₂ certificates and electricity. The net result was positively affected by the release of revaluation write-offs for the value of the investment of PLN 282,937,000 thousand. These write-offs were mainly related to the impairment loss on the interest in CIECH Soda Deutschland GmbH of PLN 260,494,000 thousand.

In addition, the net result realised in 2018 was adversely affected by the creation of a provision for potential tax liability and interest due to customs and tax audit of CIT (corporate income tax) settlements for 2012 – PLN 23,511 thousand – i.e. the amount of interest as at 31 Dec. 2018 – was charged to financial expenses and PLN 43,700 thousand to the income tax expense.

In 2018, sales revenues of CIECH S.A. amounted to PLN 2,418,534 thousand and were higher (by 2.2%) compared to 2017. The main reasons for such increase included growing soda sale prices in the dollar markets, increase in salt sales prices, development of specialised products in sodium bicarbonate and salt, increase in the sale of raw materials for the production of plastics and plant protection products, as well as an increase in revenues from transport operations. The decline in soda ash prices on the European market and the decrease in sales volume of soda and wet salt had a negative impact on the change in revenues.

In 2018, gross profit on sales amounted to PLN 389,078 thousand, and in the corresponding period of the previous year it was PLN 502,418 thousand, while operating profit (EBIT) for 2018 amounted to PLN 112,279 thousand, and PLN 242,213 thousand for the comparative period, thus generating EBIT margin for 2018 at the level of 4.6% (in the previous year - 10.2%). The adjusted EBITDA amounted to PLN 120,581 thousand and PLN 246,185 thousand for 2018 and 2017 respectively, thus generating adjusted EBITDA margin at the level of 5.0% and 10.4% for 2018 and 2017 respectively.

As at 31 December 2018, equity amounted to PLN 11,402,701 thousand (end of 2017 – PLN 1,549,028 thousand). The decrease in equity was mainly the effect of dividend distribution from retained earnings in the amount of PLN 395,249 thousand as a result of the decision of the General Meeting of Shareholders.

As at 31 December 2018, (short-term and long-term) liabilities of CIECH S.A. amounted to PLN 2,524,753 thousand, which means an increase in liabilities by PLN 421,117 thousand compared to last year. This increase was mainly due to the higher use of available credit line facilities and the launch of additional credit line facilities in 2018.

As at 31 December 2018, the net debt of CIECH S.A., calculated as the sum of long- and short-term liabilities due to loans, borrowings and other debt instruments less cash and cash equivalents, amounted to PLN 1,772,308 thousand, and compared to the end of December 2017, it increased by PLN 603,703 thousand.

In 2018, cash flows from operating activities amounted to PLN 64,232 thousand and were by PLN 236,056 thousand lower than the inflows from this activity generated in 2017. Such decrease was affected mainly by lower results from operating activity.

In 2018, the surplus of investment expenses over inflows amounted to PLN 268,087. As part of these operations, the largest items were expenses related to the purchase of the Spanish company - Proplan Plant Protection Company S.L., a manufacturer of plant protection products (PLN 172,371 thousand). The remaining amount was mainly the difference between loans granted and repaid within CIECH Group.

The balance of cash flows from financing activities was negative and amounted to PLN 116,765 thousand. The main item was related to the distribution of dividend of PLN 395,249 thousand in 2018.

2. ASSESSMENT OF THE INTERNAL CONTROL SYSTEM

The control system in CIECH Group consists of:

- institutional control - exercised by the Control and Audit Office of CIECH S.A.,
- operational and functional control exercised continuously by employees of all organisational units, by following procedures and regulations, and other internal regulations in all phases of activity in the form of initial, ongoing and follow-up inspections (checking).

In 2018, the Control and Audit Office, acting on the basis of the Organisational Regulations of CIECH S.A., carried out a series of inspections and audits on the basis of the Control and Audit Plan, both at CIECH S.A. and at CIECH Group companies. The office also carried out ad hoc inspections and audits at the request of the Management Board and Supervisory Board of CIECH S.A.

Audit and inspection reports, together with proposals, are presented on an ongoing basis to the Management Board of CIECH S.A. and relevant organisational units, and their implementation is monitored.

Both the control and audit plan, as well as information on their implementation and results are presented and discussed at meetings of the Audit Committee of the Supervisory Board of CIECH S.A. As part of the annual review of the internal control and risk management system, this information is presented at the meeting of the Supervisory Board.

CIECH S.A. has an internal control system covering significant areas of activity within the entire CIECH Group, which is adapted to the Group's organisational structure and also includes subsidiaries. However, it requires constant improvement through regular audits and inspections of areas identified as the most susceptible to various types of irregularities.

3. ASSESSMENT OF THE SYSTEM FOR THE MANAGEMENT OF RISKS SIGNIFICANT FOR THE COMPANY

In CIECH Group, the risk management process is carried out at all levels of strategic and operational management. The implementation of tasks in this field is carried out continuously by organisational units within the Group, coordinated by the Control and Audit Office and the Representative of the Management Board for of the Integrated Management System. Effective operation of a comprehensive information security management system, business continuity management and financial risk management is based on series of instructions, procedures and internal regulations.

The method of risk management in CIECH Group is defined in the new Risk Management Policy adopted by the Management Board of CIECH S.A. in 2017 within CIECH Group, in which the procedures, model, structure and responsibility for the functioning of the risk management system within CIECH Group are described and adopted.

At the strategic level, the Management Board of CIECH S.A. carries out continuous monitoring and assessment of business risks.

At the operational level, tasks are carried out by a number of organisational units. The main areas of activity are:

- 1) Information security protection;
- 2) Ensuring security in the area of business continuity;
- 3) Financial risk management;
- 4) Compliance System within CIECH Group.

1) INFORMATION SECURITY PROTECTION

The Security Office and the IT Office are responsible for the supervision of information security. The tasks are carried out in the areas of organisational, legal, physical, personal and ICT security. The risk management plan governs the relevant procedures and security measures.

2) ENSURING SECURITY IN THE AREA OF BUSINESS CONTINUITY

In the area of ensuring security with regard to business continuity, the analysis and monitoring includes business impact factors, business continuity strategies, business continuity plans, compliance with regulations, and contingency plans. These activities are coordinated by the Security Office.

3) FINANCIAL RISK MANAGEMENT

The method of financial risk management is defined in the Market Risk Hedging Strategy adopted by the Supervisory Board on 27 April 2016 (the "MRPS") for CIECH Group, and updated on 19 October 2017 and 24 May 2018, in which the procedures and division of tasks in the field of risk management with regard to currency risk, interest rate risk and the risk of changes in the prices of raw materials (coal, gas, electricity and CO₂ emission certificates) are described and adopted. The document defines the purpose of market risk management, defines the risks for which hedging instruments are applied, defines the principles of identification, quantification and determining the manner of proceeding with market risks, including the maximum allowable value of hedging transactions. The MRPS specifies the instruments used for particular types of market risks and the rules of operation of the Market Risk Committee.

CIECH Group's Risk Management System allows for effective risk management in the economic activity pursued. However, taking into account the dynamics of global economic processes and the emergence of new risk areas requiring identification and response, this system should be developed and improved in the coming years.

In the opinion of the Supervisory Board, the internal control measures implemented by the Company are adjusted to the level and profile of risk related to the operations of the Company. At the same time, any risks relevant to the Company's operations are adequately managed, with the reservation risk management methods should be improved as part of a continuous process.

In view of the above, the Supervisory Board's assessment of the potential of CIECH S.A. is positive, taking into account the fact that it has appropriate resources to introduce any planned changes to the business model that will ensure the development of the Company and its entire Group in the long term.

4) COMPLIANCE SYSTEM WITHIN CIECH GROUP

The Compliance System, implemented by CIECH Group in 2018, is a set of rules, processes, means as well as formal and organisational measures the purpose of which is to avoid the risk of violating any type of compliance obligations applicable to CIECH Group. The Compliance System has been implemented in CIECH Group in order to eliminate any risk of non-compliance with external and internal requirements by continuously examining the conduct of CIECH Group in terms of compliance obligations, understood as any laws, internal regulations and ethical standards applicable to all business processes existing within CIECH Group in connection with its operations.

The Compliance System defines business areas (e.g. Divisions, Offices within CIECH S.A. or CIECH Group companies) depending on the scope and specificity of compliance obligations managed by members of their executive staff who are responsible for ensuring compliance of the operations of CIECH Group with the requirements, among others, of: competition protection, environmental protection, product quality and safety, capital market law, health and safety at work, counteracting fraud and corruption, preventing conflicts of interest, energy law, personal data protection, protection of company property, infringement of or bypassing accounting and financial reporting rules, preventing and combating discrimination, mobbing and harassment, as well as protection of intellectual and industrial property rights.

The following tools are used within CIECH Group in order to ensure efficiency of the Compliance System:

1. Code of Conduct, i.e. a document which identifies the values, mission, vision and rules of conduct adopted by CIECH Group and the need for employees to comply with laws and regulations applicable to the operations of CIECH Group;
2. Policies and procedures, i.e. any documents that specify in detail the rules governed by the Code of Conduct of CIECH Group;
3. Training system. Training programmes are adapted to the risk profile of individual areas and positions. They take various forms: classic training conducted by representatives of the executive staff, CIECH Group's Compliance Officer, owners of business areas or external experts, as well as e-learning methods;
4. System for reporting questions and violations, providing adequate protection for whistleblowers.

As part of the Compliance System, within CIECH Group there is a Compliance Office, CIECH Group's Compliance Officer and the Ethics Committee, responsible, among others, for investigating violations of CIECH Group's Code of Conduct and cases of conflict of interest.

8. RECOMMENDATIONS OF THE SUPERVISORY BOARD OF CIECH S.A. TO THE ANNUAL GENERAL MEETING OF CIECH S.A.

The assessment of the Separate Financial Statements of CIECH S.A. for 2018 and the Consolidated Financial Statements of CIECH Group for 2018, the Report of the Management Board on the activities of CIECH Group and CIECH S.A. for 2018, together with CIECH Group's Non-Financial Report for 2018, made it possible to conclude that the information contained therein is consistent with the books and records, as well as with the actual status, and that their content is consistent.

The Supervisory Board of CIECH S.A., having regard to the above assessment, **recommends that the Annual General Meeting of CIECH S.A. approve:**

- 1) Separate Financial Statements of CIECH S.A. for 2018,
- 2) Consolidated Financial Statements of CIECH Group for 2018,
- 3) Report of the Management Board on the activities of CIECH Group and CIECH S.A. for 2018, together with CIECH Group's Non-Financial Report for 2018.

The Supervisory Board of CIECH S.A., after the analysis of the financial situation of the Company, positively evaluated the proposal of the Management Board of CIECH S.A. regarding the distribution of the net profit of CIECH S.A. for financial year 2018 **and recommends that the Annual General Meeting of CIECH S.A.** distribute the net profit of CIECH S.A. for financial year 2018, amounting to 270,611,852.97 (in words: two hundred and seventy million six hundred and eleven thousand eight hundred and fifty-two and 97/100 zlotys) in the following manner:

- c) the amount of 17,181,990.27 (seventeen million one hundred and eighty-one thousand nine hundred and ninety and 27/100 zlotys) to be allocated to cover the loss recognised as an adjustment to the opening balance,
- d) the remaining amount of 253,429,862.70 (in words: two hundred and fifty-three million four hundred and twenty-nine thousand eight hundred and sixty-two and 70/100 zlotys) to be transferred to the supplementary capital.

In addition, the Supervisory Board of CIECH S.A. recommends to the Annual General Meeting of CIECH S.A. that the following individuals holding office of Members of the Management Board of CIECH S.A. in financial year 2018, be discharged from their duties:

- 1) Mr Dawid Jakubowicz with regard to performance of his duties as the President of the Management Board of CIECH S.A. in the period from 5 December 2018 to 31 December 2018, and temporary performance of his duties of the President of the Management Board, as a delegated Member of the Supervisory Board of CIECH S.A., i.e. in the period from 10 September 2018 to 5 December 2018.
- 2) Mr Artur Osuchowski with regard to performance of his duties as a Member of the Management Board in the period from 1 January 2018 to 31 December 2018.
- 3) Mr Mirosław Skowron with regard to performance of his duties as a Member of the Management Board in the period from 10 September 2018 to 31 December 2018.

- 4) Mr Maciej Tybura with regard to performance of his duties as the President of the Management Board of CIECH S.A. in the period from 1 January 2018 to 10 September 2018.
- 5) Mr Artur Król with regard to performance of his duties as a Member of the Management Board in the period from 1 January 2018 to 10 August 2018.
- 6) Mr Krzysztof Szlaga with regard to performance of his duties as a Member of the Management Board in the period from 6 March 2018 to 26 November 2018.