

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



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

Dear Sirs and Madams,

2018 was a challenging year for the CIECH Group, especially in the face of rising prices of raw materials, electricity and CO<sub>2</sub> emission allowances. This makes it even more important to acknowledge the fact that despite the unfavourable market situation, the CIECH Group earned PLN 3,673 million in consolidated revenues and PLN 633 million in adjusted EBITDA. The margins earned by the Group were lower than in 2017, but remained solid. EBITDA (A) margin stood at 17.2% and net margin at 3.1%. We have mitigated the negative impact of external factors on the CIECH Group's operations owing to the global scale of operations, effective use of the upturn in the core markets, effective management of product prices or continuous expansion of the product range, as well as consistent cost optimisation. The CIECH Group has been expanding all its operational businesses.

2018 confirmed the solid foundations for the growth of the soda ash and sodium bicarbonate market, and new supply streams and their impact on the market have been offset

by changes in Chinese industry, driven by the environmental aspects and reduced exports from China to Southeast Asia. This created a supply gap in those markets, effectively exploited by CIECH in 2018. The growing demand for detergents on Asian, African and Latin American markets was also conducive to the Group's market expansion. However, it should be stressed here that we are still focusing on the strategic European market, because we still see a great potential for growth here. In 2018, CIECH also continued intense efforts with respect to its product portfolio and customers, and made the most of all market opportunities, both in terms of geographical expansion and product range.

Our key investments – construction of new saltworks and increasing sodium bicarbonate, including pharmaceutical-grade soda, production capacity in the Stassfurt plant – also went smoothly. The launch of a salt plant in Germany is scheduled for 2020 and owing to this project CIECH will move up to third place in the European ranking of largest evaporated salt producers. The total salt production in Stassfurt and Janikowo will reach 1 million tonnes per year, which means that the production capacity will almost double. The plant will supply Western European markets with a wide range of highly processed salt products: from food grade salt, salt for dishwashers, tablets, electrolysis salt to specialised pharmaceutical-grade salt. On the other hand, the project to expand the sodium bicarbonate production capacity by 50 thousand tonnes per year is scheduled for completion in the first half of 2019.

In the agro business by far the most important event of the past year was the acquisition of a Spanish company, Proplan, a supplier of crop protection products, operating on three continents. With this acquisition, CIECH has gained access to new markets in Southern Europe, North Africa, South America and Australia and acquired a portfolio of active substances and 120 product registrations. By acquiring Proplan, we have entered a new stage of development of the agro business within the Group, combining the intellectual capital of the acquired company and its presence on new markets with the scale of CIECH's operations, its production capacities and R&D facilities. The expansion of the Group's crop protection products business was also supported by CIECH Sarzyna's strong activity in foreign markets, as it started supplying its herbicides to Canada and Australia. In agro business, the value of exports increased 2.5 times between 2015 and 2018 and the Company currently sells its crop protection products to approximately 40 countries worldwide. The increased share of export makes the agro business resistant to unfavourable weather conditions on the domestic market. Moreover, as a result of intensive R&D efforts, CIECH Sarzyna expanded its product range by introducing 12 new agro products in 2018.

During the past year, we focused on the development of the resin and foam areas. In the resin business, we have fundamentally redesigned our product portfolio towards specialist resins, tailored to the needs of different customers. These efforts resulted in the stabilization of business in the face of rapidly growing prices of raw materials and the persistently high level of supply from Asia, which in turn was the effect of the ongoing trade war between China and the USA. In the foam business, we expanded our product portfolio with high-margin products and increased production capacity and efficiency. Thanks to our efforts in this business, despite a noticeable drop in demand in the furniture sector, especially on the German market, we are still one of the key players on the polyurethane foams market in Poland.

The business of silicates – which are used for the production of precipitated silica in such sectors as the tire and cosmetics industries – has benefited from favourable conditions on the global market in the past year. In the first half of 2018,



CIECH Vitrosilicon completed a project to expand the glassy sodium silicate production capacity of its plants by 20%. This was another – after replacing the furnace in 2016 – CIECH Group's investment aimed at increasing capacity in this area. As a result of these efforts, CIECH has become one of the largest producers of sodium silicate in Europe. For us, this is a prospective business whose global value may increase significantly in the coming years.

One of the most significant events of the past year was the announcement of the CIECH Group Strategy for 2019-2021 which was published on 5 December 2018. We have prepared a strategy aimed at stable and precisely planned development of the CIECH Group, which will result in business diversification, strengthening of the leading position on the soda ash market, expansion in the salt area, and using the potential of the organic segment and intra-group synergies in the area of silicates. An important element of the strategy is the utilisation of employees' potential through the implementation and improvement of the best HR practices, as well as innovations aimed at increasing production efficiency and expanding the product portfolio. In terms of the operation of the Strategy, we do not impose any restrictions on the choice of the Group's development model, thus confirming a flexible approach to our asset portfolio management. I am convinced that through consistent implementation of the objectives set out in the Strategy, with the support of the majority shareholder of CIECH S.A. and our Group's employees, by 2021 we will create an effective and diversified chemical holding that generates a positive value for shareholders in the long term and, apart from the soda business, holds a significant position in innovative, specialised market segments.

Thanks to the successful contracting of our products for 2019, especially of soda, salt and silicates, we enter the next year with optimism, although we remain attentive to the challenges posed by the market environment and competition. We will consistently implement the new Strategy of our Group in accordance with the following values: customer orientation, innovation, efficiency and effective management. The Management Board of CIECH S.A. will make every effort to ensure that our Group grows in line with the interests of all its stakeholders – that it generates profit for shareholders, maintains high level of customer satisfaction, becomes an increasingly attractive employer and maintains its position as a reliable partner for local communities, with an eye for the natural environment.

On behalf of the Management Board of CIECH S.A. and the Management Boards of the CIECH Group companies, I would like to present the Management Board Report on Activities of the CIECH Group and CIECH S.A. in 2018 and encourage you to read this document. On behalf of the entire Management Board of CIECH S.A., I would like to take this opportunity to express my sincere thanks to all Employees for their hard work and commitment, to the Clients for another year of fruitful cooperation, to the Shareholders for the trust they placed in the Company, and to the Supervisory Board for their invaluable support and constructive dialogue.

Yours faithfully,

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