

**ASSESSMENT OF CIECH S.A.'S STANDING IN 2013
CONDUCTED BY THE SUPERVISORY BOARD OF CIECH S.A.,
INCLUDING THE INTERNAL CONTROL SYSTEM
AND THE SYSTEM FOR MANAGING THE COMPANY'S MATERIAL RISKS**

The Supervisory Board of CIECH S.A. presents to the Ordinary General Meeting of CIECH S.A. a brief assessment of the Company's standing in 2013, including the internal control system and the system for managing the Company's material risks.

1. ASSESSMENT OF THE COMPANY'S STANDING IN 2013

In 2013, CIECH S.A. generated a positive net result amounting to PLN 100,690 thousand, the balance sheet total amounted to PLN 2,563,439 thousand and cash increased by PLN 18,740 thousand. The net profitability is positive and amounts to 5.7%. The net result for 2013 was positively affected by the settlement of the merger of the soda sections of IZCH Soda Mątwy S.A., JZCH Janikosoda S.A. and CIECH S.A., as revenue was generated on the performance of the agreement for the sale and transfer of TDI's assets.

The positive result was partly offset by the recognition of impairment losses on assets as well as the remission of the borrowing plus interest for the subsidiary Infrastruktura Kapuściska S.A.

CIECH S.A.'s sales revenues in 2013 amounted to PLN 1,764,413 thousand and were lower than those of 2012 by 31%. The decrease was largely due to the discontinued sales of TDI and EPI as a result of the discontinuation of production by the subsidiary Infrastruktura Kapuściska S.A., the discontinued sales of polyester resins and the sale of Alwernia S.A.

In 2013, the gross profit on sales amounted to PLN 295,834 thousand, while in the same period last year it amounted to 300,174 thousand. The operating profit for 2013 amounted to PLN 191,609 thousand, compared to PLN 45,674 thousand in the comparative period. At the end of 2013, the EBIT margin amounted to 10.9% (1.8% a year earlier), while the EBITDA margin was 3.5% (2.9% a year earlier).

As at 31 December 2013, equity amounted to PLN 935,432 thousand, which means an increase in equity by PLN 100,773 thousand compared to the end of 2012. The increase in equity was due to the generated net profit in the amount of PLN 100,690 thousand, the actuarial measurement of employee liabilities (positive effect in the amount of PLN 2 thousand) and the measurement of the hedging instrument IRS (positive effect in the amount of PLN 78 thousand).

As of 31.12.2013, CIECH S.A.'s total long-term and short-term liabilities amounted to PLN 1,628,007 thousand, which means a decrease in liabilities by 11% compared to a year earlier.

The decrease was mainly attributable to the decrease in short-term trade liabilities and other liabilities as well as other long-term liabilities on account of settling payments to CET Govora in connection with an assignment.

The net debt (financial liabilities less cash) at the end of 2013 amounted to PLN 1,288,518 thousand and increased over the course of the year by PLN 273 thousand.

In 2013, the operating cash flow increased by PLN 252,248 thousand and amounted to PLN 208,390 thousand.

The surplus of capital expenditures over proceeds in 2013 amounted to PLN 205,218 thousand. As part of its operations, the Company incurred capital expenditures mainly on granting borrowings to the subsidiaries KWG, Ciech Trading SA, Soda Mątwy SA, Janikosoda SA, USG Govora and Sodawerk, the purchase of interests/shares and the increase of share capital in the subsidiaries SDC and Ciech

Trading S.A. The main source of proceeds was the repayment of borrowings by SDC, Vitrosicon S.A. and Soda Polska S.A., and the sale of the interests in Alwernia and USG Govora.

Cash flows from financing activities amounted to PLN 15,568 thousand as a result of the surplus of proceeds from the raised loans over expenditures on the repayment of loans and borrowings.

At the end of 2013, the liquidity ratios were higher than 1 and improved slightly compared to 2012.

2. ASSESSMENT OF THE INTERNAL CONTROL SYSTEM

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The control system in the Ciech Group includes the following:

- institutional control, performed by the Control and Internal Audit Department of Ciech S.A.,
- operational and functional control, performed on a continuous basis by the employees of all organisational units by observing procedures, regulations and other internal provisions in all phases of operations in the form of preliminary, regular and follow-up (verification) control measures.

In 2013, the Control and Internal Audit Department, acting pursuant to the Organisational Regulations of Ciech S.A., based on the adopted control and audit plan, performed a number of audits and internal control measures in Ciech S.A. and in the companies of the Ciech Group. The Department also performed ad-hoc control measures and audits, as ordered by the President and Members of the Management Board of Ciech S.A.

The audit and control reports as well as recommendations are regularly presented to the Management Board of CIECH S.A. and the competent organisational units, and the implementation of such recommendations is monitored.

Both the Control and Audit Plan as well as reports on the execution and results thereof are presented and discussed at meetings of the Audit Committee of the Supervisory Board of Ciech S.A. Within the annual review of the internal control and risk management system a report thereon is presented at a Supervisory Board meeting.

Ciech S.A.'s internal control system covers significant areas of operations in the whole Ciech Group, it is adapted to the Group's organisational structure and covers subsidiaries. However, the system must be constantly improved through regular audits and control measures in areas that have been identified as the most vulnerable to any irregularities.

ASSESSMENT OF THE SYSTEM FOR MANAGING THE COMPANY'S MATERIAL RISKS

In the Ciech Group, the risk management process covers all strategic and operational management levels. The related tasks are performed on a continuous basis by the organisational units forming the Group that are coordinated by the Representative of Ciech S.A.'s Management Board for the Integrated Quality and Information Security Management System. There are a number of manuals, procedures and internal regulations in place that serve as basis for the effective operation of a comprehensive system for managing information security, business continuity and financial risk.

At the strategic level, Ciech S.A.'s Management Board continuously monitors and assesses the business risks.

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

- Ensuring information security,
- Ensuring security in the area of business continuity,
- Financial risk management

ENSURING INFORMATION SECURITY

The Representative for the Integrated Quality and Information Security Management System appointed by Ciech S.A.'s Management Board is responsible for information security. The tasks fulfilled in this area concern organisational, legal, physical personal and data communication security. The risk management plan regulates all procedures and protective measures.

ENSURING SECURITY IN THE AREA OF BUSINESS CONTINUITY

In the area of securing business continuity, analyses and monitoring cover factors which influence business, business continuity strategies, business continuity plans, legal compliance and emergency plans. Coordination tasks are fulfilled by the Representative for the Integrated Quality and Information Security Management System.

FINANCIAL RISK MANAGEMENT

The method for managing the financial risk is defined by the Financial Risk Management Policy and the Financial Security Strategy for the Ciech Group, which describes and adopts procedures and tasks for managing the FX risk, the interest rate risk and the price risk related to CO₂ emission allowances. The Financial Risk Management Policy has been approved by CIECH S.A.'s Supervisory Board.

The Ciech Group's Risk Management System allows the existing business risks to be managed effectively. However, given the dynamics of the global economy as well as new risk areas that need to be identified and addressed, the System should be developed and improved in the coming years.

CIECH S.A.'s Supervisory Board is of the opinion that the Ciech Group's Internal Control and Risk Management System is adequate to the Ciech Group's scale of operations and organisational structure, it allows the main business risks to be eliminated and allows management processes to be optimised and improved.