

*Assessment of CIECH S.A.'s standing in 2011 conducted by
CIECH S.A.'s Supervisory Board, including the assessment of
the internal control system and the system for managing the
Company's material risks*

Acting pursuant to rule III.1.1) of the *Code of Best Practice for WSE Listed Companies*, which should be applied by companies listed at the Warsaw Stock Exchange, the Supervisory Board presents to the Ordinary General Meeting of CIECH S.A. a brief assessment of the Company's standing in 2011, including the internal control system and the system for managing the Company's material risks.

1. Assessment of the Company's standing in 2011

In 2011, CIECH S.A. generated a net result in the amount of PLN 351,176 thousand, with the balance sheet total amounting to PLN 2,779,900 thousand, and cash decreased by PLN 24,302 thousand. The net profitability amounted to 15.1%. The net result in 2011 was positively affected by the increase in the sales prices and volumes of certain goods, the sale of interests in GZNF Fosfory i Daltrade Ltd., the reversal of the write-down for borrowings granted to Uzinele Sodice Govora and the PLN exchange rate. This positive affect was partly offset by the decrease in the sales prices of TD1, lower sales of single-component fertilisers and nitrogen fertilisers as well as lower sales of fertiliser raw materials in connection with the divestment from GK Fosfory.

In 2011, CIECH S.A.'s sales revenues amounted to PLN 2,321,307 thousand and were higher than those in 2010 by 4%. The revenue was positively affected by the increase in the sales prices and sales volume of soda ash.

In 2011, the gross profit on sales amounted to PLN 279,382 thousand, while in the same period last year it amounted to 310,420 thousand. The operating profit for 2011 amounted to PLN 75,173 thousand, compared to PLN 133,595 thousand in the comparative period. At the end of 2011, the EBIT margin amounted to 3.2% (6% a year earlier), while the EBITDA margin was 3.4% (6.2% a year earlier).

As of 31 December 2011, equity amounted to PLN 1,316,173 thousand, which means an increase in equity by PLN 825,275 thousand compared to the end of 2010. The increase in capital was due to the issue of shares (increase in share capital by PLN 123,499 thousand), a share premium in the amount of PLN 356,794 thousand and a net profit amounting to PLN 351,176 thousand. The increase in equity was offset by the decrease in capital on account of the application of hedge accounting in the amount of PLN 6,194 thousand.

As of 31 December 2011, CIECH S.A.'s total long-term and short-term liabilities amounted to PLN 1,463,727 thousand, which means a decrease in liabilities by 24% compared to a year earlier. The decrease was mainly due to the repayment of liabilities on account of loans and borrowings. At the same time, the borrowing structure changed: the short-term portion of loans, borrowings and other debt instruments decreased by PLN 199,917 thousand to PLN 967,200 thousand. At the end of 2011, long-term liabilities on account of loans, borrowings and other debt instruments decreased by PLN 299,936 thousand compared to the previous year in connection with the presentation of bonds maturing in December 2012 as a short-term liability.

The net debt (financial liabilities less cash) at the end of 2011 amounted to PLN 952,101 thousand and decreased over the course of the year by PLN 479,821 thousand. As of 31 December 2011, the financial leverage ratio (defined as net debt in relation to the sum of net debt and equity) was 42%. The debt rate (calculated as the relation of long-term and short-term liabilities to total assets) decreased over 12 months of 2011 from 80% to 53%.

In 2011, the operating cash flow decreased by PLN 106,803 thousand and amounted to PLN (74,795) thousand. The surplus of investment proceeds over expenditures amounted to PLN 37,276 thousand in 2011. As part of its operations, the Company incurred capital expenditures in connection with the purchase of the shares of Ciech Pianki Sp. z o.o., Transclean Sp. z o.o., Zachem SA, Organika-Sarzynna SA, Janikowskie Zakłady Sodowe JANIKOSODA and Inowrocławskie Zakłady Chemiczne SODA MĄTWY. The Company's main source of proceeds was the sale of the interests of its subsidiary GZNF Fosfory.

Cash flows from financing activities amounted to PLN 13,217 thousand as a result of the surplus of proceeds from the issue of shares over expenditures on the repayment of loans and borrowings. At the end of 2011, the liquidity ratios deteriorated compared to 2010.

In particular, the Supervisory Board focused its attention in 2011 on the restructuring of the CIECH Capital Group's debt.

As a result of negotiations commenced in 2010 with lenders regarding the refinancing of the Ciech Group's financial debt under the Loan Agreement concluded on 26 April 2010, a loan agreement was concluded on 10 February 2011 for refinancing the Ciech Group's existing financial debt. On 15 February 2011, the European Bank for Reconstruction and Development (EBRD) entered that agreement. The Agreement's conditions precedent were satisfied in September 2011, and on 29 September 2011 funds were disbursed under a new Loan Agreement. The long-term Loan Agreement provides the Ciech Group with a stable long-term financing structure, allowing it to finance investment projects, and its financing terms are better than previously (lower financing cost, less restrictive lending terms and debt service level adjusted to the Group's cash flows).

The restructuring programme for the Ciech Group's financing was complemented by the issue of CIECH S.A.'s shares at the Warsaw Stock Exchange in Q1 2011. In February 2011, the company completed the process of issuing shares with the pre-emptive right, under which it issued 23,000,000 ordinary bearer shares. The new issue of shares was allocated on 25 February 2011. As a result of the issue, the Company raised net inflows of PLN 436 million, which allowed for a significant reduction of the Group's net debt, fulfilling the conditions precedent of the new Loan Agreement of February 10th, 2011 as well as performing the obligations under the Loan Agreement of April 26th, 2010 (i.e. reducing the debt by a total of PLN 400 million).

2. Assessment of CIECH S.A.'s internal control system

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 control measures.

In 2011, 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 of the Management Board of Ciech S.A.

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

The control and audit plan as well as the information on the plan's implementation and results are presented and discussed during the 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, such information is presented during the Supervisory Board's session.

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. The system enables monitoring and preventing undesirable events, and allows the management system to be improved.

3. 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 of operation are:

Ensuring information security

The Representative for the Integrated Quality Management System and Information Security appointed by the Management Board of Ciech S.A. is responsible for supervising 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 this area, 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 specified by the Financial Security Strategy for the Ciech Group, which describes and adopts procedures and tasks for managing the FX risk and the interest rate risk. The strategy has been approved by the Supervisory Board, which monitors its results through the actions of the Audit Committee and during board meetings.

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.

The 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.

CHAIRWOMAN OF CIECH S.A.'S SUPERVISORY BOARD

Ewa Sibrecht-Ońska

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