



**EXTENDED CONSOLIDATED  
QUARTERLY REPORT  
OF THE CIECH GROUP  
for the 4th quarter of 2005**

**SELECTED FIGURES****Data concerning condensed consolidated financial statements:**

SELECTED FIGURES	in thousands PLN		in thousands EUR	
	4 quarters year-to-date from 01/01/05 to 31/12/05	4 quarters year-to-date from 01/01/04 to 31/12/04	4 quarters year-to-date from 01/01/05 to 31/12/05	4 quarters year-to-date from 01/01/04 to 31/12/04
Net sales revenue	2 208 338	2 315 385	548 887	512 457
Operating profit (loss)	131 980	136 737	32 804	30 264
Profit (loss) before taxes	134 923	97 293	33 535	21 534
Total net profit (loss)	108 751	76 003	27 030	16 822
Net profit (loss) of shareholders of the parent company	103 615	70 003	25 754	15 494
Net profit (loss) of minority shareholders	5 136	6 000	1 277	1 328
Net cash flows from operating activities	115 837	107 835	28 792	23 867
Net cash flows from investing activities	-118 351	-82 543	-29 416	-18 269
Net cash flows from financing activities	72 179	-19 913	17 940	-4 407
Total net cash flow	69 665	5 379	17 316	1 191
Total Assets	1 671 401	1 596 374	433 028	391 364
Long-term liabilities	116 966	121 796	30 304	29 859
Short-term liabilities	497 180	664 227	128 810	162 841
Total equity	1 057 255	810 351	273 914	198 664
Equity attributable to equity holders of the parent company	1 008 895	704 900	261 385	172 812
Minority's share	48 360	105 451	12 529	25 852
Share capital	164 115	123 096	42 519	30 178
Profit (loss) per share (in PLN / EUR)	4.05	4.16	1.01	0.92

**Data concerning condensed financial statement of Ciech SA:**

SELECTED FIGURES	in thousands PLN		in thousands EUR	
	4 quarters year-to-date from 01/01/05 to 31/12/05	4 quarters year-to-date from 01/01/04 to 31/12/04	4 quarters year-to-date from 01/01/05 to 31/12/05	4 quarters year-to-date from 01/01/04 to 31/12/04
I. Net income from sale of products, goods and materials	1 588 892	1 470 007	394 923	325 352
II. Profit (loss) on operating activity	64 017	33 920	15 912	7 507
III. Gross profit (loss)	53 666	21 383	13 339	4 733
IV. Net profit (loss)	46 747	19 445	11 619	4 304
V. Net cash flow from operating activities	49 442	-2 222	12 289	-492
VI. Net cash flow from investing activities	-34 346	13 175	-8 537	2 916
VII. Net cash flow from financing activities	30 346	-14 243	7 543	-3 152
VIII. Total net cash flow	45 442	-3 290	11 295	-728
IX. Total assets	898 817	829 620	232 866	203 388
X. Liabilities and reserves for liabilities	309 891	473 598	80 287	116 106
XI. Long-term liabilities	18 527	35 185	4 800	8 626
XII. Short-term liabilities	267 780	413 339	69 377	101 333
XIII. Equity	588 926	356 022	152 579	87 282
XIV. Share capital	140 001	98 982	36 272	24 266

## I. CONSOLIDATED INTERIM FINANCIAL REPORT OF THE CIECH CHEMICAL GROUP

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>in thousands of Polish zlotys</i>	01.01.- 31.12.2005	01.10.2005- 31.12.2005	01.01.-31.12.2004			01.10.2004-31.12.2004		
			Continued operations	Discontinued operations	TOTAL	Continued operations	Discontinued operations	TOTAL
<b>Net sales revenue</b>	<b>2 208 338</b>	<b>539 431</b>	<b>2 311 913</b>	<b>3 472</b>	<b>2 315 385</b>	<b>581 339</b>	<b>172</b>	<b>581 511</b>
Cost of sales	(1 691 640)	(408 717)	(1 781 793)	(3 245)	(1 785 038)	(464 863)	(162)	(465 025)
<b>Gross profit/loss on sales</b>	<b>516 698</b>	<b>130 714</b>	<b>530 120</b>	<b>227</b>	<b>530 347</b>	<b>116 476</b>	<b>10</b>	<b>116 486</b>
Other operating income	60 913	42 730	51 148	-	51 148	30 567	-	30 567
Selling costs	(222 004)	(58 628)	(216 030)	(22)	(216 052)	(54 913)	(4)	(54 917)
Administrative expenses	(164 118)	(45 846)	(160 562)	-	(160 562)	(43 083)	-	(43 083)
Other operating expenses	(59 509)	(31 190)	(68 144)	-	(68 144)	(35 384)	-	(35 384)
<b>Operating profit/loss</b>	<b>131 980</b>	<b>37 780</b>	<b>136 532</b>	<b>205</b>	<b>136 737</b>	<b>13 663</b>	<b>6</b>	<b>13 669</b>
Finance income	33 821	685	15 973	-	15 973	5 299	-	5 299
Finance costs	(33 908)	(9 671)	(54 351)	-	(54 351)	(22 179)	-	(22 179)
<b>Net financial income / costs</b>	<b>(87)</b>	<b>(8 986)</b>	<b>(38 378)</b>	<b>-</b>	<b>(38 378)</b>	<b>(16 880)</b>	<b>-</b>	<b>(16 880)</b>
Share of the net profits of subsidiaries accounted for using the equity method	3 030	(3 651)	(1 066)	-	(1 066)	3 078	-	3 078
<b>Profit/loss before taxes</b>	<b>134 923</b>	<b>25 143</b>	<b>97 088</b>	<b>205</b>	<b>97 293</b>	<b>(139)</b>	<b>6</b>	<b>(133)</b>
Income tax	(26 172)	(2 634)	(21 251)	(39)	(21 290)	918	(1)	917
<b>Net profit/loss</b>	<b>108 751</b>	<b>22 509</b>	<b>75 837</b>	<b>166</b>	<b>76 003</b>	<b>779</b>	<b>5</b>	<b>784</b>
Sales profit/loss relative to discontinued operations	-	-	-	-	-	-	-	-
<b>Profit for the marketing year</b>	<b>108 751</b>	<b>22 509</b>	<b>75 837</b>	<b>166</b>	<b>76 003</b>	<b>779</b>	<b>5</b>	<b>784</b>
including:								
Profit/loss attributable to equity holders of the parent company	103 615	23 845	69 837	166	70 003	1 231	5	1 236
Profit/loss attributable to minority interest	5 136	(1 336)	6 000	-	6 000	(452)	-	(452)
Profit per share (in PLN):								
Basic	4.05	0.82	4.15	0.01	4.16	0.04	-	0.04
Diluted	4.05	0.82	4.15	0.01	4.16	0.04	-	0.04

\* No operations were discontinued in 2005.

**CONSOLIDATED BALANCE SHEET***in thousands of Polish zlotys*

	31.12.2005	31.12.2004
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	755 024	799 332
Perpetual leasehold rights	1 035	2 432
Intangible assets, including:	19 720	13 451
- goodwill	18	6
Investment property	10 994	11 709
Long-term receivables	49	85
Investments in associates and joint ventures accounted for using the equity method	35 398	32 386
Other long-term investments	30 164	31 803
Deferred tax assets	4 145	1 098
<b>Total non-current assets</b>	<b>856 529</b>	<b>892 296</b>
<b>Current assets</b>		
Inventories	130 278	130 270
Short-term investments	269	1 174
Income tax receivables	5 500	8 073
Trade and other receivables	492 312	525 914
Cash and cash equivalents	101 210	36 144
Current assets available for sale	85 303	2 503
<b>Total current assets</b>	<b>814 872</b>	<b>704 078</b>
<b>Total Assets</b>	<b>1 671 401</b>	<b>1 596 374</b>
	<b>31.12.2005</b>	<b>31.12.2004</b>
<b>EQUITY AND LIABILITIES</b>		
Equity		
Share capital	164 115	123 096
Treasury shares	-	(18 805)
Share premium reserve	151 328	-
Equity components relative to assets available for sale	-	-
Revaluation reserve	-	-
Other reserve capital	78 524	84 633
Foreign exchange differences arising from translation of subsidiaries	736	(807)
Retained earnings	614 192	516 783
<b>Equity attributable to equity holders of the parent company</b>	<b>1 008 895</b>	<b>704 900</b>
Minority interest	48 360	105 451
<b>Total equity</b>	<b>1 057 255</b>	<b>810 351</b>
Liabilities		
Borrowings and other debt instruments	49 339	51 942
Employee benefits	25 895	24 096
Provisions (other long-term)	21 652	22 645
Deferred tax provision	20 080	23 113
<b>Total non-current liabilities</b>	<b>116 966</b>	<b>121 796</b>
Overdraft facility	-	-
Borrowings and other debt instruments	139 732	245 042
Trade and other payables	305 670	388 428

	31.12.2005	31.12.2004
Income tax payable	672	201
Provisions (short-term employee-benefit and other provisions)	30 819	30 556
Liabilities arising from non-current assets available for sale	20 287	-
<b>Total current liabilities</b>	<b>497 180</b>	<b>664 227</b>
<b>Total liabilities</b>	<b>614 146</b>	<b>786 023</b>
<b>Total Equity and Liabilities</b>	<b>1 671 401</b>	<b>1 596 374</b>

## OFF-BALANCE SHEET ITEMS

<i>in thousands of Polish zlotys</i>	31.12.2005	31.12.2004
<b>1. Contingent receivables</b>	<b>1 800</b>	<b>2 800</b>
- guarantees and bonds received	1 800	2 800
- other off-balance sheet receivables	-	-
<b>2. Contingent liabilities</b>	<b>32 239</b>	<b>40 787</b>
- guarantees and bonds granted	6 719	13 325
- other off-balance sheet liabilities	25 520	27 462
<b>3. Other</b>	<b>12 145</b>	<b>9 955</b>
- other	12 145	9 955
<b>Total off-balance sheet items</b>	<b>46 184</b>	<b>53 542</b>

## CONSOLIDATED CASH FLOW STATEMENT

*in thousands of Polish zlotys*

	01.01-31.12.2005	01.01-31.12.2004
<b>Cash flows from operating activities</b>		
<b>Net profit (loss) for the period</b>	<b>108 751</b>	<b>76 003</b>
Adjustments		
Depreciation	106 459	103 211
Recognition / reversal of impairment losses	-9 080	-12 805
Gains / losses on foreign exchange differences	-3 892	-4 061
Changes in investment property revaluations	0	1 684
Gains / losses on investing activities	-51 243	-6 770
Gains / losses on disposal of current assets	-1 529	754
Interest and dividends	27 714	41 283
Input income tax	26 172	21 290
Gains / losses on shares in entities accounted for using the equity method	-3 030	1 066
<b>Operating profit before changes in current assets and reserves</b>	<b>200 322</b>	<b>221 655</b>
Changes in receivables	41 386	-96 345
Changes in inventories	-10 322	-1 760
Changes in current liabilities	-78 347	10 480
Changes in reserves and employee benefits	1 206	15 006
<b>Net cash generated from operations</b>	<b>154 245</b>	<b>149 036</b>
Interest paid	-12 679	-19 573
Income taxes paid	-31 781	-25 759
other adjustments	6 052	4 131
Gains / losses on disposal of discontinued operations	0	0

	01.01-31.12.2005	01.01-31.12.2004
<b>Net cash from operating activities</b>	<b>115 837</b>	<b>107 835</b>
<b>Cash flows from investing activities</b>		
<b>Inflows (in "+")</b>		
Disposal of intangible assets and property, plant and equipment	9 526	2 468
Disposal of subsidiary	72	2 300
Disposal of investments	25 604	0
Dividends received	1 871	831
Interest received	1 299	548
Other inflows	51 470	2 854
<b>Outflows (in "-")</b>		
Acquisition of intangible assets and property, plant and equipment	-120 444	-91 330
Acquisition of subsidiary (net of cash acquired)	-41 410	-62
Acquisition of investment property	0	0
Acquisition of other investments	-46 298	-91
Research and development expense	0	0
Other inflows	-41	-61
<b>Net cash used in investing activities</b>	<b>-118 351</b>	<b>-82 543</b>
<b>Cash flows from financing activities</b>		
<b>Inflows (in "+")</b>		
Proceeds from issue of share capital and other equity instruments, and capital contributions	192 875	0
Proceeds from issue of convertible preference shares	0	0
Proceeds from borrowings	115 760	169 337
Other financial inflows	2 209	74 714
<b>Outflows (in "-")</b>		
Purchase of treasury shares	0	-4 121
Dividends paid and other payments to equity holders	-8 400	-917
Dividends paid to minority interest holders	-1 455	-2 295
Repayment of borrowings	-205 279	-155 983
Redemption of debt securities	-15 000	-93 970
Payment of finance lease liabilities	-7 270	-5 231
Other financial outflows	-1 261	-1 447
<b>Net cash used in financing activities</b>	<b>72 179</b>	<b>-19 913</b>
<b>Total net cash flow</b>	<b>69 665</b>	<b>5 379</b>
<b>Cash at beginning of period</b>	<b>36 144</b>	<b>31 345</b>
Impact of foreign exchange differences	753	-580
<b>Cash at end of period</b>	<b>106 562</b>	<b>36 144</b>

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

<i>in thousands of Polish zlotys</i>	Share capital	Treasury shares	Share premium reserve	Equity components relative to assets available for sale	Revaluation reserve	Other reserve capital	Foreign exchange differences arising from translation of subsidiaries	Retained earnings	Equity attributable to equity holders of the parent company	Minority interest	Total equity
<b>Equity as at (beginning of period) 01/01/2005:</b>											
<b>Brought forward</b>	<b>123 096</b>	<b>(18 805)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>84 633</b>	<b>(807)</b>	<b>516 783</b>	<b>704 900</b>	<b>105 451</b>	<b>810 351</b>
Changes in accounting standards									-		-
Fundamental error corrections									-		-
<b>Balance (restated) at:</b>	<b>123 096</b>	<b>(18 805)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>84 633</b>	<b>(807)</b>	<b>516 783</b>	<b>704 900</b>	<b>105 451</b>	<b>810 351</b>
Decreases from retirement and disposal of non-current assets								(181)	(181)		(181)
Establishment of a different fund						248			248	2	250
Exchange differences on translating foreign operations							1 543		1 543	804	2 347
Net profit (loss)								103 615	103 615	5 137	108 752
Payment of dividend to shareholders								(8 400)	(8 400)	(1 455)	(9 855)
Profit-based bonus payments									-		-
Issue of share capital	41 019		151 328						192 347		192 347
Change due to additional purchase of shares									-	(61 574)	(61 574)
Transfer of the reserve capital to retained profit						(2 210)		2 210	-		-
Disposal of treasury shares		18 805							18 805		18 805
Redemption of treasury shares						(3 966)			(3 966)		(3 966)
Other increases									-		-
Other						(181)		165	(16)	(5)	(21)
<b>Equity as at (end of period) 31/12/2005:</b>	<b>164 115</b>	<b>-</b>	<b>151 328</b>	<b>-</b>	<b>-</b>	<b>78 524</b>	<b>736</b>	<b>614 192</b>	<b>1 008 895</b>	<b>48 360</b>	<b>1 057 255</b>

<i>in thousands of Polish zlotys</i>	Share capital	Treasury shares	Share premium reserve	Equity components relative to assets available for sale	Revaluation reserve	Other reserve capital	Foreign exchange differences arising from translation of subsidiaries	Retained earnings	Equity attributable to equity holders of the parent company	Minority interest	Total equity
<b>Equity as at (beginning of period) 01/01/2004:</b>											
<b>Brought forward</b>	<b>123 096</b>	<b>(14 684)</b>	-	-	-	<b>84 633</b>	<b>3 197</b>	<b>448 021</b>	<b>644 263</b>	<b>104 324</b>	<b>748 587</b>
Changes in accounting principles									-		-
Fundamental error corrections									-		-
<b>Balance (restated) at:</b>	<b>123 096</b>	<b>(14 684)</b>	-	-	-	<b>84 633</b>	<b>3 197</b>	<b>448 021</b>	<b>644 263</b>	<b>104 324</b>	<b>748 587</b>
Increases due to revaluation of non-current assets								(788)	(788)	(281)	(1 069)
Changes in the Group's composition								1 245	1 245		1 245
Exchange differences on translating foreign operations							(4 004)		(4 004)	(2 314)	(6 318)
Net profit (loss)								70 003	70 003	6 000	76 003
Payment of dividend to shareholders								(917)	(917)	(2 295)	(3 212)
Profit-based bonus payments								-	-	-	-
Purchase of treasury shares		(4 121)							(4 121)		(4 121)
Other								(781)	(781)	17	(764)
<b>Equity as at (end of period) 31/12/2004:</b>	<b>123 096</b>	<b>(18 805)</b>	-	-	-	<b>84 633</b>	<b>(807)</b>	<b>516 783</b>	<b>704 900</b>	<b>105 451</b>	<b>810 351</b>



## Additional information to the consolidated condensed financial report of the Ciech Group

### 1. General Information

Presented interim consolidated financial report for the period from January 01st, 2005 to December 31st, 2005, including comparative information was approved for publication by the Management Board of Ciech SA on March 01st, 2006.

This consolidated report comprises the financial statements of Ciech SA and its subsidiaries (jointly called the "Ciech Chemical Group", "Group"), and the Group's interests in associates and joint ventures. The Ciech Chemical Group's parent company is Ciech S.A.

### Description of organization in the Ciech Group

The Ciech Chemical Group's parent company is Ciech Spółka Akcyjna with its registered office in Warsaw, at ul. Powązkowska 46/50, registered under entry no. 0000011687 with the District Court for the Capital City of Warsaw, 19th Commercial Division of the National Court Register.

Ciech Group is a group of domestic and foreign manufacturing, distribution and trade companies operating in the chemical industry. As at December 31st, 2005, it comprised 36 business entities, including:

- parent company Ciech SA,
- 31 subsidiaries, including:
  - 24 domestic subsidiaries,
  - 7 foreign subsidiaries.
- 3 domestic associated undertakings,
- 1 foreign associated undertaking.

Ciech Group conducts manufacturing activity connected with the sale of own products, and trading activity related to trading with goods. Trading activity is carried in major part by Ciech SA and by domestic and foreign commercial companies being Ciech SA's subsidiaries, manufacturing activity, however, is carried out by the Ciech SA's subsidiaries of the manufacturing type.

The whole group of companies affiliated to Ciech SA consists of 36 business entities, direct subsidiaries and directly associated companies, whose parent company is Ciech SA, as well as indirect subsidiaries and indirectly associated companies, whose parent companies are direct subsidiaries and directly associated companies of Ciech SA.

When preparing the consolidated financial statement for four quarters of 2005 the following companies were taken into consideration:

- full consolidation method:
  1. Ciech SA – parent company
  2. Przedsiębiorstwo Chemiczne Cheman SA
  3. Vitrosilicon SA
  4. Ciech Polfa Sp z o.o.
  5. Polsin Pte. Ltd.
  6. Daltrade Plc
- equity method:
  7. Przedsiębiorstwo Transportowo-Uslugowe TRANSCLEAN Sp. z o.o.

The consolidated financial statement also includes five capital groups of the lower level:

1. Petrochemia-Blachownia Capital Group, including:
  - Petrochemia-Blachownia SA – parent company
  - BI-Trans Sp. z o.o.
2. Capital Group of Fosfory, including:

- Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. – parent company
  - Agrochem Sp. z o.o. Dobre Miasto
  - Agrochem Sp. z o.o. Człuchów
3. Capital Group of Soda Mątwy, including:
- Inowrocławskie Zakłady Chemiczne Soda Mątwy SA – parent company
  - Elektrociepłownie Kujawskie Sp z o.o.
  - Transoda Sp. z o.o.
  - Polskie Towarzystwo Ubezpieczeniowe SA (the company valuated using the equity method)
4. Janikosoda Capital Group, including:
- Janikowskie Zakłady Sodowe Janikosoda SA – parent company
  - Polskie Towarzystwo Ubezpieczeniowe SA (the company valuated using the equity method)
5. Capital Group of Alwernia, including:
- Alwernia SA – parent company
  - Alwernia Chrom Sp z o.o.

The parent company does not have branches.

**List of consolidated entities accounted for using the equity method in the fourth quarter of 2005: comparative figures**

Company/Group	Consolidation method as at 31.12.2005 and Ciech SA's control	Consolidation method as at 31.12.2004 and Ciech SA's control
<b>1) Ciech SA</b>	Parent company	Parent company
<b>2) Ciech - Polfa SA</b>	Fully consolidated subsidiary of Ciech SA	Fully consolidated subsidiary of Ciech SA
<b>3) Ciech Petrol Sp. z. o. o.</b>	Entity merged with Cheman SA.	Ciech SA's subsidiary fully consolidated until the merger with Cheman SA, i.e. until 9th July 2004.
<b>4) Przedsiębiorstwo Chemiczne Cheman SA</b>	Fully consolidated subsidiary of Ciech SA	Fully consolidated subsidiary of Ciech SA since July 9th, 2004, after the merger with Ciech Petrol Sp. z o.o. also fully consolidated.
<b>5) Petrochemia-Blachownia Group</b>	Fully-consolidated lower-tier Capital Group	Fully-consolidated lower-tier Capital Group
5.1) Petrochemia-Blachownia SA	Lower-tier group parent company (controlled by Ciech SA)	Lower-tier group parent company (controlled by Ciech SA)
5.2) BI-Trans Sp. z o.o.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.
<b>6) Soda Mątwy Group</b>	Fully-consolidated lower-tier Capital Group	Fully-consolidated lower-tier Capital Group
6.1) Inowrocławskie Zakłady Chemiczne SODA MĄTWY SA	Lower-tier group parent company (controlled by Ciech SA)	Lower-tier group parent company (controlled by Ciech SA)
6.2) Transoda Sp. z o.o.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.
6.3) Elektrociepłownia Kujawskie Sp. z o.o.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.
6.4) Polskie Towarzystwo Ubezpieczeń SA	Indirect lower-tier associate of CIECH SA valuated using the equity method.	Indirect lower-tier associate of CIECH SA valuated using the equity method.
<b>7) Janikosoda Group</b>	Fully-consolidated lower-tier Capital Group	Fully-consolidated lower-tier Capital Group
7.1) Janikowskie Zakłady Sodowe Janikosoda SA	Lower-tier group parent company (controlled by Ciech SA)	Lower-tier group parent company (controlled by Ciech SA)
7.2) Polskie Towarzystwo Ubezpieczeń SA	Indirect lower-tier associate of Ciech SA valuated using the equity method.	Indirect lower-tier associate of Ciech SA valuated using the equity method.
<b>8) Fosfory Group</b>	Fully-consolidated lower-tier Capital Group	Fully-consolidated lower-tier Capital Group
8.1) Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.	Lower-tier group parent company (controlled by Ciech SA)	Lower-tier group parent company (controlled by Ciech SA)

Company/Group	Consolidation method as at 31.12.2005 and Ciech SA's control	Consolidation method as at 31.12.2004 and Ciech SA's control
8.2) Agrochem Sp. z o.o. Dobre Miasto	Indirect lower-tier subsidiary of Ciech SA - full consolidation.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.
8.3) Agrochem Sp. z o.o. Człuchów	Indirect lower-tier subsidiary of Ciech SA - full consolidation.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.
<b>9) Alwernia Group</b>	Fully-consolidated lower-tier Capital Group	Fully-consolidated lower-tier Capital Group
9.1) Zakłady Chemiczne Alwernia SA	Fully consolidated subsidiary of Ciech SA	Fully consolidated subsidiary of Ciech SA
9.2) Alwernia Chrom Sp. z o.o.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.	Indirect lower-tier subsidiary of Ciech SA - full consolidation.
<b>10) Polsin Pte. Ltd.</b>	Fully consolidated subsidiary of Ciech SA	Fully consolidated subsidiary of Ciech SA
<b>11.) Daltrade Plc.</b>	Fully consolidated subsidiary of Ciech SA	Fully consolidated subsidiary of Ciech SA
<b>12) Vitrosilicon SA</b>	Fully consolidated subsidiary of Ciech SA	Fully consolidated subsidiary of Ciech SA
<b>13) Przedsiębiorstwo Transportowo-Uslugowe TRANSCLEAN Sp. z o.o.</b>	Associate of Ciech SA valued using the equity method.	Associate of Ciech SA valued using the equity method.
<b>14) Zach-Ciech Sp. z o.o.</b>	Associate of Ciech SA valued using the equity method; in liquidation from March 11th, 2005. An impairment loss was recognised for the entity in liquidation.	Associate of Ciech SA valued using the equity method
<b>15) Zakłady Tworzyw i Farb Sp. z o.o.</b>	-	Associate of Ciech SA valued using the equity method until disposal on June 13th, 2004.

**The business of the parent and its subsidiaries is:**

▪ **Ciech S.A., Parent Company**

The core business of the parent company as defined in the Articles of Association includes: trade activities, investments, manufacturing, services, and financial operations, including in particular foreign and domestic trade in chemicals and related operations. The Company is also licensed to act as agent for Polish and foreign companies.

**Fully-consolidated lower-tier subsidiary Groups**

▪ **Petrochemia-Blachownia Group**

- manufacture of other organic basic chemicals,
- manufacture of refined petroleum products,
- wholesale of chemical products,
- wholesale of solid, liquid, and gaseous fuels and related products,
- freight transport by road with specialised and all-purpose vehicles.

▪ **Alwernia Group**

- manufacture of other inorganic basic chemicals,
- manufacture of dyes and pigments,
- manufacture of other organic basic chemicals,
- manufacture of fertilizers and nitrogen compounds,
- manufacture of gypsum,
- production of heat (steam and hot water).

▪ **Soda Mątwy Group**

- manufacture of other inorganic basic chemicals,
- wholesale of chemical products,
- production and distribution of electricity.

▪ **Fosfory Group**

- manufacture of fertilizers and nitrogen compounds,
- manufacture of other inorganic chemicals,
- manufacture of other organic chemicals,
- manufacture of refined petroleum products,
- manufacture of plastics,
- wholesale of grain, seeds, and animal seeds.

- **Janikosoda Group**
- production of salt,
- manufacture of industrial gas,
- manufacture of other inorganic basic chemicals,
- manufacture of other chemical products n.e.c.

#### **Fully-consolidated entities**

- **Vitrosilicon SA**
  - manufacture of other inorganic basic chemicals,
  - manufacture of household and technical glassware,
  - manufacture of plastic packing goods,
  - manufacture of other plastic products,
- 
- **Ciech – Polfa Sp. z o.o.**
  - wholesale of pharmaceutical goods,
  - wholesale of chemical products,
  - wholesale of perfume and cosmetics,
  - retail sale of medical and orthopaedic goods.
- 
- **Chemax SA**
  - wholesale and distribution of solid inorganic and organic chemicals,
  - wholesale and distribution of materials for household chemicals,
  - wholesale and distribution of cosmetic and pharmaceutical materials,
  - wholesale and distribution of builders, pigments, raw materials for paints and varnishes,
  - wholesale and distribution of food and feed additives,
  - wholesale and distribution of acids, bases, and other liquid chemicals.
- 
- **Polsin Ltd.:**
  - wholesale and retail sales of a variety of goods in Far East markets.
- 
- **Daltrade PLC:**
  - distribution and wholesale of chemicals in the UK chemical market.

#### **Companies accounted for using the equity method.**

- Associate: Przedsiębiorstwo Transportowo-Usługowe TRANSCLEAN Sp. z o.o., Bydgoszcz

## **2. Statement of Compliance**

The interim consolidated financial statement of Ciech Group, as well as financial statements of all subsidiaries and associated companies of Ciech SA for the presented period and corresponding periods have been prepared according to the International Financial Reporting Standards (IFRS) adopted for use in the European Union.

The parent company's management board used its best judgement in the selection of the applicable standards and interpretations, as well as in selection of the measurement methods and principles for the different items of the Ciech Group's interim consolidated financial statement according to IFRS as at December 31st, 2005 and the comparable figures. Due diligence was exercised when preparing the tables and explanations below. The financial information presented here was not audited.

Section 27 of this interim financial statement explains the impact of IFRS application on the balance-sheet items and the net profit of the Ciech Group.

The Management Board of Ciech SA declares that the presented interim consolidated financial statement presents the assets, financial result on operations, and cash flow in a reliable way.

## **3. Basis for preparing condensed consolidated financial statements**

The presented financial statement has been prepared under the assumption of going concern.

The measurement and reporting currency for the purposes of this interim consolidated financial statement is the Polish zloty. Unless provided otherwise, the data in the interim consolidated financial statement have been presented in thousands of Polish zloty (PLN '000).

Preparation of condensed financial statements in compliance with IFRS requires the Management to exercise professional judgement, estimates, and objectives that impact the adopted accounting principles and the measurement of the assets, liabilities, income, and expense. All estimates and the related assumptions are based on a historical experience various other factors considered reasonable under the given circumstances, and the results of such estimates are the basis for a professional judgement of the carrying value of the assets and liabilities which cannot be calculated using other sources. The actual values may differ from the estimated values.

The estimates and assumptions are revised in a continuing basis. Changes in accounting estimates are recognised in the period in which they are made, if such changes only apply to that period, or in the current period and future periods if such changes apply both to the current period and the future periods.

The Management Board's professional judgements that have a significant impact on the consolidated financial statement, and the estimates bearing a high risk of significant changes in the future periods, are elaborated on in Sections 10.14 and 21 of this condensed financial statement.

For the purposes of presentation of selected financial data, certain assets and liabilities were translated into euros at the average exchange rate announced at the balance-sheet date (December 31st, 2005) by the national Bank of Poland to be 3.8598. Particular items on the income statement were translated into euros at a rate calculated as the arithmetical mean of the average EUR exchange rates determined by the National Bank of Poland at the last day of each month: from January to December 2005 respectively: 4.0503 ; 3.9119; 4.0837; 4.2756; 4.1212; 4.0401; 4.0758; 4.0495; 3.9166; 3.9893; 3.9053; 3.8598. The exchange rate for the reporting period of four quarters of 2005 is 4.0233.

#### **4. Significant accounting and consolidation principles**

No changes in the accounting principles occurred in the presented period. The accounting principles adopted by the Ciech Group have been presented in the half year consolidated financial statement, published on October 28th, 2005. Those principles have been used on continuous basis when preparing all consolidated financial statements of the Ciech Group since the day of changing to IFRS, that is since January 1st, 2004.

#### **5. Major achievements of Ciech SA and the Group companies in the fourth quarter of 2005.**

##### Ciech SA

On October 06th, 2005 contract on the sale of 100% of shares of subsidiary Petrochemia-Blachownia SA, specializing in production of benzene and ethylbenzene, was concluded with the Hungarian corporation BorsodChem Rt. Upon receipt of the permission granted by the Consumers and Competition Protection Office, the contract was finalized on January 10th, 2006.

On October 18th, 2005, State Treasury sold its shares of Soda Companies to Ciech SA The number of 399,567 shares of Janikosoda S.A., constituting 8.94% of share capital valued at 17.69 mln PLN and 622,761 of Soda Mątwy S.A.'s shares constituting 8.4% of share capital valued at 16 mln PLN were the subject of the transaction. Currently, Ciech SA holds 99.26% of Janikosoda S.A.'s shares and 99.77% of Soda Mątwy S.A.'s shares.

The Company takes part in a bid for the purchase of majority blocks of shares of ZCh Zachem and ZCh Organika Sarzyna In case of the two companies, Ciech SA was granted the exclusivity by Nafta Polska SA to conduct further negotiations concerning sale of 80% of their shares.

Ciech SA, under the contract as of December 29th, 2005, purchased from "Provimi-Rolimpex" S.A. the block of 5,400 shares of its subsidiary GZNF Fosfory, constituting 9.32% of share capital in the amount of 6,500 thousand PLN. Presently, Ciech SA holds 89.04% of interest in the GZNF Fosfory capital.

##### Alwernia SA

In the fourth quarter of 2005 the construction of the feed phosphate system in Alwernia was completed.

##### GZNF Fosfory Sp. z o.o.

Construction of the feed phosphate system is still in progress in GZNF Fosfory. In 2005 all assembly work connected with basic technological facilities was finished. Continuous manufacture of DCP is planned in 2006. Within this task additional financial means are provided for to optimize the technical solution to the amount of 500 thousand PLN. Total expenditure on the systems in both companies was PLN 11,368,000 PLN.

IZCh Soda Małwy SA

Construction of a monohydrate system is in progress in Soda Małwy SA, the system will enable production of heavy "monohydrate" soda. The investment is planned to be completed by the end of the first quarter 2007. The estimated cost of the construction of the monohydrate system is about 47.2 million PLN. The implementation of that project will allow Ciech Group to strengthen its position towards main customers interested in that product.

Vitrosilicon

The glass block production section is being modernised in Vitrosilicon S.A. in Łłowa that launches the implementation of ecological technology of production of glass blocks. The modernization works will be finished in May 2006, and will allow doubling the production from 3.5 million to 7 million glass blocks annually. Total value of the investment regarding the glass block production section shall estimate at 25,000 thousand PLN.

**6. Detailed information concerning the consolidated profits of the Ciech Group**

In the four quarters of 2005, Ciech Group recorded the consolidated profit that amounted to 108,751 thousands PLN, the balance-sheet showed the total of 1,671,104 thousands PLN, and cash had increased by 69,665 thousands PLN. The table below presents the selected financial data and the basic financial ratios for four quarters of 2005 and 2004.

**Table No. 1****Selected Figures**

<i>in thousands PLN</i>	<b>4 quarters 2005</b>	<b>4 quarters 2004</b>	<b>2005/2004 dynamics</b>
<b>Net sales revenue</b>	<b>2 208 338</b>	<b>2 315 385</b>	-4.62%
Cost of sales	1 691 640	1 785 038	-5.23%
Gross profit	516 698	530 347	-2.57%
Selling costs	222 004	216 052	2.75%
Overhead costs	164 118	160 562	2.21%
Other Operating Income / Expense	1 404	-16 996	-
Operating profit	131 980	136 737	-3.48%
Financial income / expense	-87	-38 378	-
Share in the profit of subsidiaries	3 030	-1 066	-
Income tax	26 172	21 290	22.93%
<b>Net profit</b>	<b>108 751</b>	<b>76 003</b>	43.09%
<b>Net profit of minority shareholders</b>	<b>5 136</b>	<b>6 000</b>	-14.40%
<b>Profit attributable to equity holders of the parent company</b>	<b>103 615</b>	<b>70 003</b>	48.02%
EBITDA	238 439	239 948	-0.63%
<b>Net earnings per share</b>	<b>4.05</b>	<b>4.16</b>	-2.64%
Net profit margin	4.69%	3.02%	55.19%
EBIT%	5.98%	5.91%	1.20%
EBITDA %	10.80%	10.36%	4.19%
Current ratio	1.64	1.06	54.62%
Quick ratio	1.38	0.86	59.39%
Total debt ratio	36.74%	49.24%	-25.37%
Equity to assets ratio	63.26%	50.76%	24.61%

*Calculation principles:*

*net earnings per share – net earnings per ordinary shareholders of the parent company / weighted average number of ordinary shares in the given period (pursuant to the definition of IAS 33 "Earnings per share")*

*net return – net profit for the shareholders in the parent company for a given period / net income from sales of products, services, goods and materials in a given period,*

*EBIT% – operating profit for a given period / net income from sales of products, services, goods and materials in a given period,*

*EBITDA% – (operating profit + depreciation for a given period) / net income from sales of products, services, goods and materials in a given period,*

*current ratio – current assets at the period-end / current debt at the period-end,*

*quick ratio – current assets less inventories at the period-end / current debt at the period-end,*

*total debt ratio – short- and long-term debt at the period-end / total assets at period-end,*

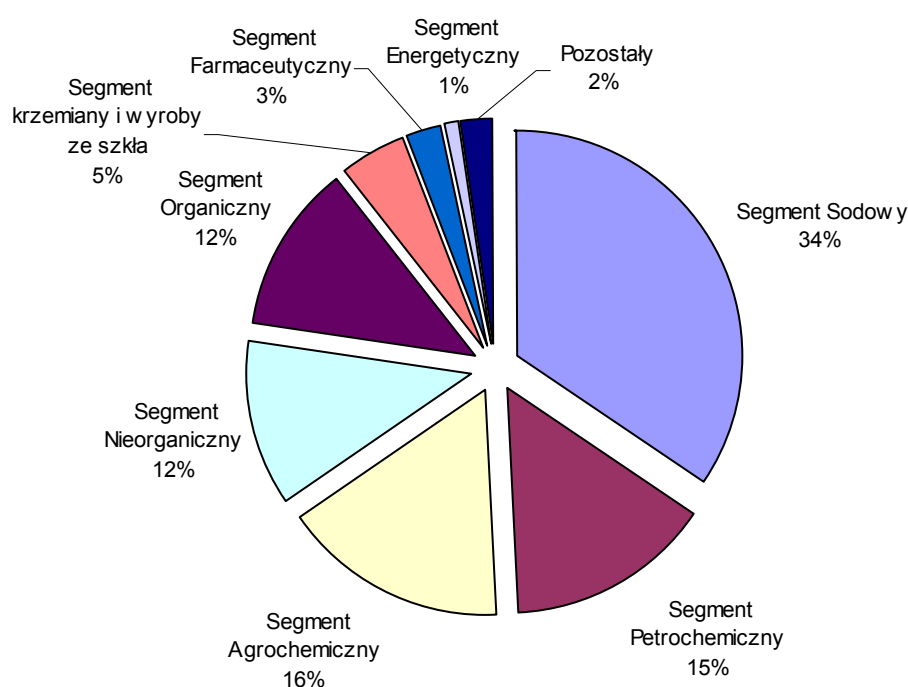
*equity to assets ratio – total equity as at period-end / total assets as at period-end*

## Sales revenues

The Group's net consolidated sales for the four quarters of 2005 were 2,208,338 thousand PLN, which was 4.5% lower than the sales income recorded in the same period in 2004. Change of the form of TDI trade in exports (organic segment) had the effect on the sales income decrease in 2005. In the fourth quarter of 2004 TDI sales for own account was mainly carried out, while in the fourth quarter of this year the sales was realised on the consignment basis. Decreased sale due to unfavourable market prices of the Petrochemia Blachownia products (petrochemical segment) was another significant factor affecting sale income decrease. Note that the first four quarters of 2004 were a special period in terms of the strong demand for chemical products, and especially agro-chemical products (a pre-accession effect), and the good EUR/PLN exchange rates (the average EURO/PLN exchange rate in 2004 was PLN 4.51, whereas the average EUR/PLN exchange rate this year was PLN 4.02). A positive factor contributing to the sales increase in the four quarters of 2005 was the growth in chemical-product prices compared to the same period of 2004, especially noticeable in the soda industry.

**Figure 1. Structure of the income from sales**

Income in the four quarters of 2005 by business segment looked as follows:



Source: Ciech SA

<i>Soda Segment</i>	34%
<i>Petrochemical Segment</i>	15%
<i>Agro-chemical Segment</i>	16%
<i>Inorganic Segment</i>	12%
<i>Organic Segment</i>	12%
<i>Segment of silicates and glass products</i>	5%
<i>Pharmaceutical Segment</i>	3%
<i>Power Generation Segment</i>	1%
<i>Other</i>	2%

The domestic market continues to have the largest share in the Group's product and goods sales, while the European Union is the main export market. The geographical proximity and the lack of trade barriers make EU countries the natural markets for the Ciech Group. The Group's domestic income in the four quarters of 2005 was 1,272,089 thousand PLN accounting for 57% of the total income, and the income from EU markets was 936,249 thousand PLN, accounting for 42% of the Group's total income. The largest share of the Ciech Group's revenues in the four quarters of 2005 (89%) was generated by the five main business segments: the soda segment, the agro-chemical segment, the petrochemical segment, the organic and inorganic segments.

### Soda Segment

The soda segment's share in the Group's total sales in the four quarters of 2005 was 34%. The parent company, Ciech SA, plays a key role in the sales operations, processing the total sales of the output manufactured by the subsidiaries

Soda Mątwy SA and Janikosoda SA. The main product in this segment is soda ash, which accounts for 74% of sales in this segment. The Group companies are the sole manufacturers of soda in Poland. Compared to the four quarters of 2004, sales in the segment were maintained on a similar level.

#### ***Agro-Chemical Segment***

The agro-chemical segment accounted for 16% of the Group's sales income in the four quarters of 2005. It is the home segment of the parent company Ciech SA which exports fertilisers and imports raw materials for fertiliser manufacture, and for the subsidiary Fosfory Sp. z o.o. which manufactures fertilisers and sells them on the domestic market. The key income-generating product here is fertilisers, which account for over 85% of the segment income. The growth of sales in the segment in comparison to the four quarters of 2004 was caused by an increase in fertiliser export sales by Ciech SA which was caused by an acquisition of additional goods from the suppliers' countries.

#### ***Petrochemical Segment***

The petrochemical segment accounted for 15% of the Group's sales income in the four quarters of 2005. The key product here is benzene, accounting for 59% of the segment income. The main entities operating here are the parent Ciech SA and Petrochemia Blachownia SA, and, to a limited extent, also Cheman SA. The drop in the revenues in this segment was caused by lower production volume at Petrochemia Blachownia which was caused by a temporary reduction of production of ethylbenzene resulting from unfavourable sales prices and successive withdrawal of Ciech SA from the liquid fuel market.

#### ***Inorganic segment***

The inorganic segment accounted for 12% of the Group's sales income in the four quarters of 2005. The subsidiary - Alwernia SA - which manufactures phosphorus and chromium compounds is the main manufacturer in this segment; the company imported raw materials and exported some of its products through Ciech SA. The main commodity of this segment is sodium tripolyphosphorus, which accounts for 34% of the segment's income and sulphur accounting for 19% of the segment's income. Sales in the segment decreased in comparison to the four quarters in 2004. It was caused by unfavourable price relations of the main product of the segment.

#### ***Organic segment.***

The organic segment accounted for 12% of the Group's sales income in the four quarters of 2005. The key player in that segment is Ciech SA, which renders exports agency services, usually on a consignment basis. The main products in the segment are plastics which account for 26% of the segment's income and caprolactam accounting for 24% of the segment income. Other contributors to the segment revenues are epichlorohydrin and isocyanides (TDI) accounting for 20% in total of the segment's income; in the four quarters of 2005 Ciech SA exported those products on a consignment basis. Drop in the segment's sales in relation to the same period in 2004 was in the largest part due to the changes in payment arrangements of particular products (a switch to consignment sales in 2005).

#### ***Silicates and glass products segment***

The silicates and glass products segment accounted for 5% of the Group's sales income in the four quarters of 2005. Vitrosilicon SA, which manufactures silicates, glass blocks, and glass lanterns, is the main manufacturer in this segment. Vitrosilicon SA is the only manufacturer of glass blocks in Poland. Glass blocks and lanterns accounted for approx. 54% of the segment's income and contributed the most to the segment's revenue in the four quarters of 2005 and sodium water glass accounting for 37% of the segment's income. Silicates are mainly sold for export, usually via Ciech SA. The growth of sales in the segment in comparison to the four quarters of 2004 was caused by an increase in sales of particular product groups in the segment, resulting from good market growth and higher demand.

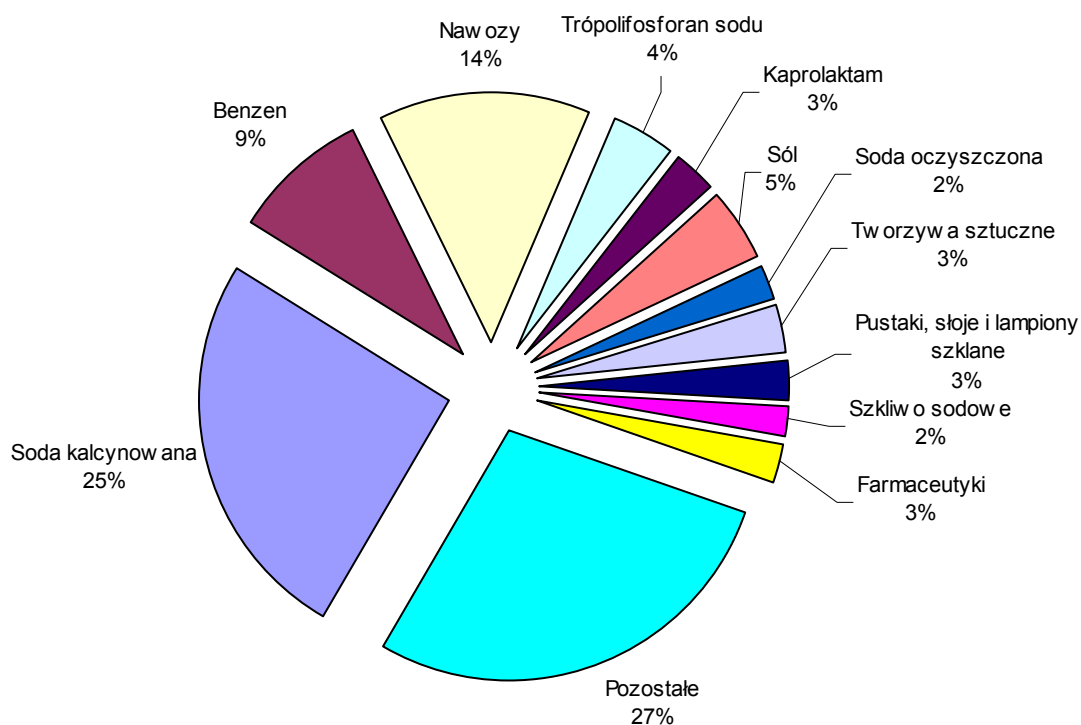


**Table No. 2**  
**Sales revenue by business segment**

<i>in thousands of Polish zlotys</i>	<b>01.01.-31.12.2005</b>	<b>01.01.-31.12.2004</b>
Soda Segment	760 422	735 730
Petrochemical Segment	327 841	398 856
Agro-Chemical Segment	354 904	321 399
Inorganic Segment	264 125	272 183
Organic Segment	265 186	335 697
Segment of silicates and glass products	108 391	100 556
Pharmaceutical Segment	55 361	55 859
Power Generation Segment	21 631	4 160
Other	50 477	87 645
Discontinued Operations	0	3 300
<b>TOTAL</b>	<b>2 208 338</b>	<b>2 315 385</b>

The figure below shows the Group's sales income distribution by leading products.

**Figure 2. Sales income distribution by leading product shares**



Source: Ciech SA

Soda Ash	25%
Benzene	9%
Fertilizers	14%
Sodium tripolyphosphorus	4%
Caprolactam	3%
Salt	5%
Baking soda	2%

Plastics	3%
Glass blocks, jars and lanterns	3%
Sodium water glass	2%
Pharmaceuticals	3%
Other	27%

### Gross profit

The consolidated gross sales profit for the four quarters of 2005 was 516,698 thousand PLN and was lower by approx. 2.6% than the profit earned in the same period of 2004. The gross sales profit result in 2005 was mainly affected by: (a) the unfavourable exchange rates (average EUR/PLN exchange rate in 2005 was 4.02 while it was 4.51 in the same period of 2004) (b) unfavourable price relations of the Group's main petrochemical products (low ICIS quotations - benzene, ethylbenzene) and (c) increase in the prices of the manufacturing base stock (including mainly ethylene).

The increase in raw material prices was compensated by a reduction in the raw material use and an increase in the soda-product prices.

### Operating profit (EBIT)

In the four quarters of 2005 the operating profit amounted to 131,980 thousand PLN (in 2004 136,532 thousand PLN) Level of the operating profit was affected by the generated gross sales profit result and by sales expense level higher than in the previous year and administrative expenses (in a total of 9,530 thousand PLN). The operational excellence programs aimed at reducing the base-stock used for manufacture and cost reduction and a positive balance of other income and operational costs had a positive impact on EBIT levels. Increase in other operating income was caused by the excess write-off of the interest in the net assets acquired over the cost (21,034 thousand PLN), resulting from additional purchase of the consolidated subsidiary interests.

### Net result

The consolidated net profit for the four quarters of 2005 was 108,751 thousand PLN. The net profit for the shareholders of the parent company was 103,615 thousand PLN. The net profitability reached a level of 4.7% (3.02% the year before). The share of minority interests in the net profit was 5,136 thousand PLN. The main source of profit - similarly to last year - was the result attained in core business (gross sales profit less sales costs and overhead costs). The profit achieved on financial activities ensued, above all, from the sale of Ciech SA's shares by the Group entities in a public offering (the profit on the transaction was 17,815 thousand PLN). The loss recorded by the subsidiary Cheman SA (10.7 million PLN) had an adverse effect on the net profit.

**Table No. 3**  
**Capital structure**

	31.12.2005	31.12.2004	2005/2004 dynamics	structure 31.12.2005
<b>Value of assets</b>	<b>1 671 401</b>	<b>1 596 374</b>	<b>4.70%</b>	<b>100.00%</b>
Non-current assets	856 529	892 296	-4.01%	51.25%
Current assets, including:	814 872	704 078	15.74%	48.75%
- inventories	130 278	130 270	0.01%	7.79%
- short-term receivables	497 812	533 987	-6.77%	29.78%
- cash and cash equivalents	101 210	36 144	180.02%	6.06%
<b>Equity</b>	<b>1057255</b>	<b>810351</b>	<b>30.47%</b>	<b>63.26%</b>
Parent company's equity	1 008 895	704 900	43.13%	60.36%
Minority interest	48 360	105 451	-54.14%	2.89%
Long-term liabilities	116 966	121 796	-3.97%	7.00%
Short-term liabilities	497 180	664 227	-25.15%	29.75%

### Equity

The consolidated equity of the Group as at December 31st, 2005, was 1,057,255 thousand PLN including the equity of the parent company of 1,008,895 thousand PLN, which is higher than the equity of the previous year by the amount of 246,904 thousand PLN. The decisive reason for the increase in equity was the acquisition of funds from the issue of shares in the amount of 192,347 thousand PLN, as well as the generation of a net profit of shareholders of the parent company for four quarters of 2005 in the amount of 103,615 thousand PLN. Equity increase of the shareholders of the

parent company was also caused by purchase of the subsidiary shares such as Soda Mątwy SA, Janikosoda SA, Fosfory Sp. z o.o. and (directly and indirectly) Vitrosilicon SA. from minority shareholders in the fourth quarter of 2005.

### **Non-current assets**

As at December 31st, 2005, the Group's non-current assets amounted to 856,529 thousand PLN and accounted for 51.3% of the balance-sheet total. Their share decreased by five percentage points in comparison to the level from the year before. Classification of the Petrochemia Blachownia Group as non-current asset held for sale prescribed in IFRS 5 was the main reason for non-current asset value drop. Due to such a presentation the non-current assets of the Group increased by the amount of 50,507 thousand PLN, which was directly reflected in the current asset increase. Non-current assets comprised mainly property, plant and equipment, which accounted for 88% of the total non-current assets.

### **Current assets**

At December 31st, 2005, the Group's current assets amounted to 814,872 thousand PLN and accounted for 49% of the total assets. In the current asset structure the following elements were dominant: (a) trade and other receivables – 61% of the current assets, (b) inventories – 16% of the current assets and (c) cash and cash equivalents – 12.5%. In comparison to the status as of 31.12.2004, current asset value increased by 15.7%, which resulted mostly from increase of: (a) cash and cash equivalents (by 65,066 thousand PLN) and presentation of the non-current assets of the Petrochemia Blachownia Group as non-current asset held for sale. The increase in the value of cash ensued mainly from the income earned on the issue of shares in February 2005.

### **Consolidated liabilities**

The total short-term and long-term debt of the Ciech Capital Group at 31.12.2005 stood at 614,146 thousand PLN, which was 22% less than at 31.12.2004. Long-term debt accounted for 19% of the total debt. In comparison of the status as of 31.12.2004, long-term debt increased by approx. 4%. Short-term debt decreased by 167,047 thousand PLN compared to the status as of 31.12.2004. The drop in the debt amount ensued mainly from the repayment of bank loans. Bank debt accounted for 31%, and trade and other debt accounted for 50% of the total short-term debt.

### **Net consolidated debt**

Net debt as at December 31st, 2005 (comprising bank loans, other loans, and other financial liabilities less cash) amounted to 87,861 thousand PLN (260,840 thousand PLN the year before). Such a considerable reduction in net debt ensued from the repayment of some of the current borrowings while observing an increase in cash (mainly thanks to the obtainment of cash from the share issue). Also for this reason the Group's debt index (calculated as the ratio of net debt to the balance sheet amount) decreased from 16 % to 5.2% in comparison to December 31st, 2004.

The financial leverage (the ratio of net debt to the sum of net debt and total equity) at December 31st, 2005 was equal to 7.7%. The year before this index was 24.3%.

The current ratio, calculated as the ratio of total current assets to short-term debt, amounted to 1.64, which means a significant improvement in liquidity compared to the value observed the year before when that ratio stood at 1.06.

The non-current assets to fixed assets cover ratio (total equity, liabilities and long-term reserves) amounted to 137% at December 31st, 2005, while in the compared period the ratio amounted to 104%.

### **Cash flows**

The net cash flows after the four quarters of 2005 amounted to 69,665 thousand PLN. Net cash from operating activities was 115,837 thousand PLN. Operating profit before changes in current assets and reserves amounted to 200,322 thousand PLN. The amount of cash from the operating profit was in the largest part decreased by: (a) profit/loss on investing activities due to recognition of excess write-off of the interest in the net assets acquired over the cost (-51,243 thousand PLN) and (b) decrease in debt (-78,347 thousand PLN). The balance between the revenue and the expenses related to investments was negative and amounted to 118,351 thousand PLN. The most important expenses in the four quarters were expenditures on non-current assets in production companies and expenses related to deposits made by Ciech SA after receiving funds from the issue of shares. The greatest revenues were made up of the funds obtained from the sale of Ciech SA's own shares by the Ciech Group of Companies as well as money earned on Ciech SA's deposits. The main source of the increase in cash levels were cash flows related to financial activity, whose balance amounted to 72,179 thousand PLN. The funds mainly came from share issues, which were partially used to pay off current loans.

Cash as disclosed in the cash-flow statement at the end of December 2005 amounted to 106,562 thousand PLN and was higher by 5,352 thousand PLN than cash disclosed in the balance sheet on the account of Petrochemia Blachownia Group being held for sale.

## 7. Income and profits/losses by business segments.

01.01.-31.12.2005

<i>in thousands of Polish zlotys</i>	<b>Soda Segment</b>	<b>Power Generation Segment</b>	<b>Organic Segment</b>	<b>Petrochemi- cal Segment</b>	<b>Agro- Chemical Segment</b>	<b>Pharmaceu- tical Segment</b>	<b>Segment of silicates and glass products</b>	<b>Inorganic Segment</b>	<b>Discontin- ued Operations</b>	<b>Other Operations</b>	<b>Unallocat- ed income / expense</b>	<b>Elimination s (consolidat- ion adjustment s)</b>	<b>TOTAL</b>
Revenue from third parties	750 517	21 551	263 353	327 841	354 588	55 353	108 391	263 233	-	49 044	-	-	2 193 871
Income from inter-segment sales	57 059	215 629	1 880	-	321	284	180	2 409	-	29 057	-	(292 352)	14 467
<b>Total revenue</b>	<b>807 576</b>	<b>237 180</b>	<b>265 233</b>	<b>327 841</b>	<b>354 909</b>	<b>55 637</b>	<b>108 571</b>	<b>265 642</b>	<b>-</b>	<b>78 101</b>	<b>-</b>	<b>(292 352)</b>	<b>2 208 338</b>
<b>Segment profit/loss</b>	<b>189 285</b>	<b>13 993</b>	<b>17 608</b>	<b>21 909</b>	<b>52 876</b>	<b>22 767</b>	<b>13 022</b>	<b>31 594</b>	<b>-</b>	<b>37 707</b>	<b>-</b>	<b>(9 225)</b>	<b>391 536</b>
<b>Unallocated (expenses) income</b>													(259 556)
<b>Operating profit</b>													<b>131 980</b>
Net finance income (costs)													(87)
Share of profit of associates	-	-	-	-	-	-	-	-	-	3 030	-	-	3 030
Tax													(26 172)
Profit on discontinued operations													-
<b>Net profit</b>													<b>108 751</b>

**01.01.-31.12.2004**

<i>in thousands of Polish zlotys</i>	<b>Soda Segment</b>	<b>Power Generation Segment</b>	<b>Organic Segment.</b>	<b>Petrochemi- cal Segment</b>	<b>Agro- Chemical Segment</b>	<b>Pharmaceu- tical Segment</b>	<b>Segment of silicates and glass products</b>	<b>Inorganic Segment</b>	<b>Discontin- ed Operations</b>	<b>Other Operations</b>	<b>Unallocat- ed income / expense</b>	<b>Elimination s (consolidat- ion adjustment s)</b>	<b>TOTAL</b>
Revenue from third parties	712 141	4 076	329 191	398 617	319 025	55 859	100 556	270 856	3 300	83 720	-	-	2 277 341
Income from inter-segment sales	68 159	211 482	6 673	930	2 382	147	151	2 962	-	35 846	-	(290 688)	38 044
<b>Total revenue</b>	<b>780 300</b>	<b>215 558</b>	<b>335 864</b>	<b>399 547</b>	<b>321 407</b>	<b>56 006</b>	<b>100 707</b>	<b>273 818</b>	<b>3 300</b>	<b>119 566</b>	<b>-</b>	<b>(290 688)</b>	<b>2 315 385</b>
<b>Segment profit/loss</b>	<b>199 614</b>	<b>14 872</b>	<b>38 198</b>	<b>48 338</b>	<b>84 696</b>	<b>21 705</b>	<b>17 064</b>	<b>51 370</b>	<b>217</b>	<b>22 217</b>	<b>-</b>	<b>(8 753)</b>	<b>489 538</b>
<b>Unallocated (expenses) / income</b>													<b>(352 801)</b>
<b>Operating profit</b>													<b>136 737</b>
Net finance income (costs)													(38 378)
Share of profit of associates	-	-	-	-	-	-	-	-	-	(1 066)	-	-	(1 066)
Tax													(21 290)
Profit on discontinued operations													-
<b>Net profit</b>													<b>76 003</b>

## 8. Purchase and disposal of property, plant and equipment and commitments to purchase property, plant and equipment

in thousands PLN.

Figures for the period from 01.01.2005 to 31.12.2005	Purchase	Disposal
a) Fixed assets, including:	41 682	14 595
land, buildings, structures, and land- and water engineering facilities	7 326	7 483
machinery and equipment	28 957	2 840
means of transport	4 318	3 739
other fixed assets	1 081	533
b) Fixed assets under construction	93 031	116
c) Advances on fixed assets under construction (net)	2 161	0
<b>Total property, plant and equipment</b>	<b>136 874</b>	<b>14 711</b>

### Parent company - Ciech SA

Ciech SA purchased PPE for the total of 3,444 thousand PLN, including 2,644 thousand PLN spent on purchases of machinery and technical equipment, and 713 thousand PLN spent on vehicles. The entity financed the PPE purchases from its own resources.

### Alwernia Group

Alwernia S.A (lower-tier parent) purchased PPE worth PLN 187 thousand PLN. The company purchased vehicles for the amount of 554 thousand PLN. The Company also purchased technical equipment and machinery for the amount of 429 thousand PLN. The entire purchase was financed from its own resources.

### Przedsiębiorstwo Chemiczne Cheman SA

Cheman SA purchased PPE for the total of 1,176 thousand PLN, including 220 thousand PLN spent on purchases of PPE under construction.

### Fosfory Group

GZNF Fosfory Sp. z o.o. (lower-tier parent) purchased fixed assets under construction worth 10,216 thousand PLN, and fixed assets worth 2,871 thousand PLN.

### Janikosoda Group

JZS Janikosoda SA (lower-tier parent) assigned the amount of 30,365 thousand PLN from own funds for the purpose of purchase of fixed assets under construction.

### Petrochemia Blachownia Group

Petrochemia-Blachownia SA (lower-tier parent) purchased PPE worth 3,519 thousand PLN using its own resources.

### Ciech – Polfa Sp. z o.o.

The Company purchased fixed assets worth 986 thousand PLN, and fixed assets under construction worth 471 thousand PLN. Vehicles worth 349 thousand PLN were purchased on the basis of financial leasing agreement. The entity financed the purchase of other property, plant and equipment from its own resources.

### Soda Mątwy Group

IZCH Soda Mątwy SA (lower-tier parent) purchased fixed assets worth 28,505 thousand PLN, and purchased fixed assets under construction worth 39,775 thousand PLN. The purchases of property, plant and equipment are financed from a loan (spent in the amount of 4,717 thousand PLN as of December 31st, 2005) and from own resources.

### Vitrosilicon SA

The company assigned the amount of 11,984 thousand PLN for the purchase of fixed assets under construction, and the amount of 55 thousand PLN for the purchase of fixed assets. The value of advance payments transferred for the purpose of purchase of fixed assets under construction is 2,161 thousand PLN. The purchases of property, plant and equipment are financed from a loan of 3,677 thousand PLN and from own resources.

## 9. Information concerning default in debt repayment or any violations of borrowing contract provisions not subsequently adjusted

None of the above mentioned events occurred in the Ciech Group.

## 10. Provisions and impairment of assets – from 01.01.2005 to 31.12.2005

The Ciech Group's consolidated condensed financial statement for the fourth quarter of 2005 showed the following adjustments for recognition and reversal of provisions and impairment of assets.

<b>Provisions recognised in Q4 2005</b>	<i>thousand PLN</i>
Deferred tax provision	1 678
Provision for severance pays, leaves, bonuses, reimbursements, etc.	10 956
Provision for expected losses	1 165
Reclamation provision	978
Restructuring provision	5 189
Provision for expected commitments (expenses)	1 852
<b>Total</b>	<b>21 818</b>

<b>Provisions reversed in Q4 2005</b>	<i>thousand PLN</i>
Deferred tax provision	2 818
Provision for severance pays, leaves, bonuses, reimbursements, etc.	1515
Provision for expected losses	5540
Reclamation provision	687
Restructuring provision	687
Provision for commitments (expenses)	3 712
<b>Total</b>	<b>14 959</b>

<b>Impairment losses on assets (increase) recognised in Q4 2005</b>	<i>thousand PLN</i>
Impairment losses on receivables	2 646
Impairment losses on inventories	896
Impairment losses on PPE and intangible assets	2 288
Impairment losses on long-term financial assets	3889
<b>Total</b>	<b>9 719</b>

<b>Impairment losses on assets (decrease) recognised in Q4 2005</b>	<i>thousand PLN</i>
Impairment losses on receivables	4632
Impairment losses on inventories	993
Impairment losses on PPE and intangible assets	1 644
Impairment losses on long-term financial assets	15
<b>Total</b>	<b>7284</b>

<b>Deferred tax assets in Q4 2005</b>	<i>thousand PLN</i>
Increase	5 264
Decrease	3 051

## **11. Seasonality and cyclicity of the operations of Ciech SA and the Ciech Group.**

The Ciech Group's income and financial performance depends to a large extent on the general standing of the economy. Level of sales in the quarters is marked by a considerable evenness as per year. The factors affecting the phenomenon include:

- stable structure of sales
- large share of product supply by own manufacturing entities
- small share of finished-product sales to end customers, and the resulting low sensitivity to changes in demand
- large share of loyal customers in the total sales (high customer loyalty rates).
- variation of directions of the market activities (export, import and local sale)

The seasonality resulting from the periodic demand and supply fluctuations have little impact on the general sales trends. Goods especially prone to seasonality include: fertilizers, raw materials for fertilizer production, plant protection agents.

In general, the seasonability phenomenon is estimated to apply to approx. 15% of the sale value. Seasonality plays a relatively small role in the overall sales, as it overlaps with other factors which considerably modify the strength and direction of the seasonal fluctuations. Among the key factors are:

- impact of global prices and price cycles
- exchange rate fluctuations
- delays and rescheduling of large deliveries
- subcontractors' manufacturing schedules
- downtime maintenance and operating breaks at manufacturing plants
- higher capacities of the own manufacturing companies

The activity of the Ciech Group involves the chemicals that are raw materials. The raw-material markets are characterised by high cyclicity, prompted by fluctuations in the world economies.

With regard to chemicals manufactured by the Group, which are dominating items in the turnover of Ciech SA (soda ash, soda-based products, mixed and phosphate fertilizers) the differences in market prices are slight up to a few percentage points a year. Changes in prices of soda ash are mainly connected with annual contracts, whose terms and conditions are usually determined at the end of the calendar year and are binding from the start of the following year.

The biggest fluctuations of market prices connected with the cycles, concern oil-related products such as benzene, toluene, and ethylbenzene. In the periods of several years (3-5 years) the differences in prices range from 50% to over 100%. The prices of many chemicals belonging to that group increased in 2004. During the first half of 2005 their market prices established themselves at a lower level in comparison to the record prices in 2004. However, due to the substantial increase in prices of crude oil in the third quarter this year, the prices of oil-based products increased again. This concerned mainly plastics.

## **12. Disclosures regarding issue, redemption, and repayment of debt securities and equity securities at the Ciech Group**

In the fourth quarter of 2005 ended on 31.12.2005, the Group did not issue any debt securities such as: bonds, promissory notes and short-term securities.

## **13. Disclosures regarding paid or declared dividends in their total amount and per share, broken down by ordinary shares and preference shares.**

The Ordinary General Meeting of Shareholders of Ciech SA resolved by virtue of resolution no. 9 dated June 29th, 2005 to allot 8,400 thousand PLN from the net profit made by Ciech SA in 2004 to pay the dividend to the Shareholders equal to 0.30 PLN per share. The dividend for 2004 was paid to the shareholders who were holding Company's shares on July 15th, 2005. The dividend shall be paid on August 1st, 2005. In 2004, the dividend for 2003 was paid in the amount of 989 thousand PLN, which accounts for 0.05 PLN per share.

The Management Board of Ciech SA suggests allotting the amount of approx. 20% of the consolidated net profit earned in 2005 to pay for the dividend for the Shareholders. The motion concerning division of profit shall be moved on the General Meeting of Shareholders.



**14. Unrecognised events occurring after December 31st, 2005 that may have a significant impact on the future financial performance of the Ciech Group.**

- On October 6th, 2005 in Budapest the Company signed the agreement with BorsodChem Rt. concerning sales of 100% of shares of the Ciech SA's subsidiary (fully-consolidated) being Petrochemia Blachownia SA. in Kędzierzyn Koźle, specialising in production of benzene and ethylbenzene. The agreement results from the long-term operating strategy of Ciech Group, which involves focusing on products belonging to the main product portfolio of the Group. The entry of the agreement into force depends on consent of the Polish Office of Competition and Consumer Protection. Such consent may be obtained on the basis of a signed agreement. On the day of signing the agreement, Petrochemia Blachownia SA shall be shown in the consolidated financial report according to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".  
On January 10th, 2006 the sale transaction of 100% shares of Ciech SA's subsidiary Petrochemia Blachownia SA was completed in Kędzierzyn Koźle in favour of BorsodChem Rt.
- On January 4th, 2006, Nafta Polska SA resolved to grant the exclusivity for Ciech SA to conduct negotiations aimed at conclusion of purchase of 80% shares of Zakłady Chemiczne Organika – Sarzyna.
- On January 5th, the Management Board of Ciech SA approved the contracts concerning sales of dense soda ash to the enterprises within the Owens Illinois Group (one of the largest manufacturers of glass containers) in 2006. Total value of the contracts amounts to 81,000 thousand PLN.
- Good situation in the glass industry in Central and Eastern Europe, and in the domestic construction industry, which are important target markets for Ciech Chemical Group, is predicted to continue.
- Tendency in price changes of coke, which is an important raw material for production of soda ash, was downward during 2005.
- Closing of the Solvay soda ash production plant in Austria, the production capacity of which was 150 thousand tons a year, was executed in November 2005, and may improve the competitive position of other European suppliers, including Ciech SA.
- The course of privatisation process of the biggest Polish chemical companies, conducted by Nafta Polska, which will lead to changes on the domestic chemical market. Ciech SA takes part in that process.
- Price increases of soda ash expected in 2006 by the largest European suppliers such as Solvay and Brunner Mond.
- Equity investments of the Indian soda ash manufacturers made in European factories (Brunner Mond from Great Britain and taken over by TATA Chemicals Ltd. and Bega UPSOM Ocna Mures from Romania acquired by Gujarat Heavy Chemicals Ltd.) at the end of 2005. These acquisitions will change the line-up on the European and global soda ash market.
- Changes with regard to the ownership structure of the petrochemical industry in Central and Eastern Europe (Orlen-Unipetrol) and launch in the 3rd quarter of 2005 of new domestic installations for production of plastics in Plock (Basell Orlen Polyolefins) changing the situation on that markets.
- On 17th February 2006 the Extraordinary General Meeting of Shareholders of Ciech SA dismissed the following members of the Supervisory Board:
  - Elżbieta Boniuszko
  - Zygmunt Bosiakowski
  - Andrzej Buczak
  - Edmund Kozak
  - Ireneusz Król

On the same day the Extraordinary General Meeting of Shareholders of Ciech SA appointed the following persons as members of the Supervisory Board:

- Krystyna Dziworska
- Maksymilian Klank
- Marek Konopczyński
- Maciej Rudnicki
- Wiesław Piosik
- Zbigniew Markowski

**15. Effects of changes in the organisational structure of the Ciech Group in the fourth quarter of 2005, including business mergers, acquisitions or disposals of the group's entities, long-term investments, divisions, restructuring, and discontinuation**

On October 6th, 2005 in Budapest the Company signed the agreement with BorsodChem Rt. concerning sales of 100% of shares of the Ciech SA's subsidiary being Petrochemia Blachownia SA. in Kędzierzyn Koźle, specialising in production of benzene and ethylbenzene. This agreement is an effect of the long-term activity strategy of the Ciech Chemical Group, which focuses on products belonging to the basic product portfolio of the Group (products of soda, phosphorus, silicate and glass segments). On December 30th, 2005, the President of the Consumers and Competition Protection Office agreed to conduct concentration depending on assumption of control over the company of Petrochemia Blachownia S.A. by BordsodChem Rt with its registered office in Kazincbarcik (Hungary). On January 10th, 2006, the sale transaction of 100% shares of Ciech SA's subsidiary Petrochemia Blachownia S.A. was closed.

On 18th October 2005 the option of share sale of Janikowskie Zakłady Sodowe Janikosoda SA and Inowrocławskie Zakłady Chemiczne Soda Małty SA owned by the State Treasury to Ciech SA was used. The number of 399,567 shares of Janikosoda S.A., constituting 8.94% of share capital valued at 17.69 mln PLN and 622,761 of IZCh Soda Małty S.A.'s shares constituting 8.4% of share capital valued at 16 mln PLN were the subject of the transaction. This shall mean fulfilment of the contents of the agreements concluded on August 28th, 1996 between Ciech SA and the State Treasury. These transactions prove the State Treasury ceased to be the shareholder of both companies, while Ciech SA completed one of the objectives connected with the share issues on the Warsaw Stock Exchange. Currently, Ciech SA holds 99.26% of JZS Janikosoda S.A.'s shares and 99.77% of IZCh Soda Małty S.A.'s shares.

Kompania Węglowa S.A. with its registered office in Katowice purchased 10,270,800 of Ciech SA's shares, accounting for 36.68% of the share capital and 36.68% of the total number of votes at the General Meeting, due to the State Treasury's contribution of these shares in the form of a contribution in kind to cover 283,987 class-G registered shares acquired in exchange, in the nominal value of 1,000 PLN each in the increased share capital of Kampania Węglowa. On October 21st, 2005, Ciech SA's shares were evidenced on the securities account of Kompania Węglowa S.A. The Management Board of Kampania Węglowa S.A. declared that in the period of the following 12 months and in the period after it is not going to increase its interest in Ciech SA.

On December 29th, 2005, Ciech SA purchased from Provimi-Rolimpex S.A. a parcel of 5,400 shares constituting 9.32% of share capital in the amount of 6,500 thousand PLN that belonged to its subsidiary Gdańskie Zakłady Fosforowe Fosfory Sp. z o.o. Presently, Ciech SA holds 89.04% of interest in the GZNF Fosfory Sp. z o.o. capital.

Due to concentration and improvement of efficiency of the disinvestment activities concerning unnecessary financial assets, the Management Board of Ciech SA appointed a specialized target company named Ciech Finanse Sp. z o.o., whose main aim is to manage the disinvestment processes. Share capital of this company amounts to 50,000 PLN and is divided into 100 shares with the value of 500 PLN per share. All the shares in the share capital were subscribed to by Ciech SA. Ciech Finanse Sp. z o.o. was registered in the Business Register with the entry number 0000246747 in the District Court for the capital city of Warsaw in Warsaw, 19th Commercial Division of the National Court Register.

On December 08th, 2005 the sales contract on 100% of shares of partially owned subsidiary Alwernia Chrom Sp. z o.o. was signed. The contract became effective on the day of full payment of the purchase price in the amount of 450 thousand PLN on January 04th, 2006.

**16. Changes in contingent liabilities or contingent assets occurring after the end of the previous financial year.**

At 31.12.2005, the contingent receivables of the Ciech Group amounted to 1,800 thousand PLN, which means a decrease by 1,000 thousand PLN in comparison 31.12.2004. Decrease in the contingent receivables is caused by the expiry of the customs guarantee worth 1,000 thousand PLN issued by Alwernia SA.

The value of liabilities as at 30.12.2005 amounted to 239 thousand PLN, which means a decrease of 8,548 thousand PLN in comparison to 31.12.2004.

A drop in contingent liabilities for guarantees and sureties amounted to 6,606 thousand PLN. Other contingent liabilities decreased in comparison to the end of 2004 by 1,942 thousand PLN (Alwernia SA as well as Fosfory Sp. z o.o. discounted some of its bills of exchange). Decrease in contingent liabilities in comparison to 31.12.2004 is mostly connected with a change in the surety value of the National Fund For Environmental Protection and Water Management on the account of the loan taken out by Town Office in Inowrocław and with a change in banking guarantee value granted by Bank Handlowy for a loan taken out by Soda Małty S.A. with the National Fund For Environmental Protection and Water Management. Soda Małty made a repay in 2005 of principal payments in the amount of 3,160 thousand PLN, while the Town Office in Inowrocław decreased its debt on the account of the taken loan by the amount of 1,000 thousand PLN. In January 2005 Ciech SA granted loan guarantees without specific deadlines worth 1,247 thousand PLN taken out at BRE-Multibank SA by Ciech SA employees entitled to purchase

shares in the company (employee shares) as part of a closed public offering. At December 31st, 2005 the value of the guarantee amounted to 136 thousand PLN. The guarantee expired on final loan settlement on February 03rd, 2006.

Other off-balance sheet items as at 31.12.2005 amounted to 12,145 thousand PLN and increased in comparison to 31.12.2004 by 2,190 thousand PLN.

Detailed information concerning off-balance sheet items has been presented under the consolidated balance sheet.

#### **17. Assets held for sale.**

At 31.12.2005 lower-tier Group Petrochemia Blachownia and indirect subsidiary Alwernia Chrom Sp. z o.o. were disclosed in the item of non-current assets held for sale.

#### **18. Fulfilment of profit forecasts published previously against the results disclosed in the quarterly report in relation to the forecasted profit.**

In its Current Report 5/2005 of January 17th, 2005, the Management Board published a forecast of the consolidated profit of the Ciech Group for 2005. The projected consolidated sales revenues were 2,200 million PLN, and the consolidated net profit of Ciech Group was 104 million PLN.

The forecast for 2005 has been fulfilled; the net profit has amounted to 109 mln PLN and sales income to 2,208 mln PLN.

Consolidated data of the Ciech Chemical Group for the fourth quarter of 2005 was not audited by the authorised auditor.

#### **19. Ciech SA's Shareholders holding at least 5% shares /GA votes as at 01.03.2006.**

The Management Board of Ciech SA took cognizance, in accordance with art. 69 of the Act on Public Offer and Conditions for Introducing Financial Instruments to the Organised Dealing System and on Public Companies, that the following entities hold at least 5% of the total number of votes at the general meetings of the company:

- Kompania Węglowa SA - 10,270,800 shares equal to 36.68 % of Ciech SA's share capital; votes: 10,270,800, which constitutes 36.68% of the total number of votes at the General Meeting.
- Franklin Templeton Investments, UK – 2,000,000 shares equal to 7.14% of Ciech SA's share capital; votes: 2,000,000, which constitutes 7.14% of the total number of votes at the General Meeting.
- Otwarty Fundusz Emerytalny PZU 'Złota Jesień' – 1,712,732 equal to 6.12% of Ciech SA's share capital; votes: 1,712,732, which constitutes 6.12% of the total number of votes at the General Meeting;
- Commercial Union Investment Management S.A. (CUIM) Poland – 1,504,961 shares equal to 5.37% of Ciech SA's share capital; votes: 1,504,961, which constitutes 5.37% of the total number of votes at the General Meeting.

**Changes in the ownership structure of Ciech S.A.'s significant shareholders (at least 5%).**

	As at 14.11.2005	Shares acquired	Shares sold	as at 01.03.2006
Kompania Węglowa SA	10 270 800	-	-	10 270 800
Franklin Templeton Investments, UK	2 000 000	-	-	2 000 000
Otwarty Fundusz Emerytalny PZU "Złota Jesień"	1 712 732	-	-	1 712 732
Commercial Union Investment Management S.A. (CUIM) Polska	1 504 961	-	-	1 504 961

The Management Board of Ciech SA was informed on November 15th, 2005 that on the account of disposal of Ciech SA's shares which took place on November 7th, 2005, Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK decreased the interest in the total number of votes below 5%. Before the mentioned transaction, CU OFE held 1,408,720 shares accounting for 5.03% of share capital with 1,408,720 votes at the General Meeting, which constituted 5.03% of the total number of votes. After the transaction, as at November 10th, 2005, CU OFE holds 1,358,720 shares accounting for 4.85% of share capital with 1,358,720 votes at the General Meeting, which constitute 4.85% of the total number of votes.

**20. Changes in Ciech SA's shares held by Management Board or Supervisory Board Members.**

Pursuant to the statements submitted by the managing and supervising persons, the following persons hold Ciech SA's shares:

Forename and Surname	Position/Function	As at 14.11.2005	Shares acquired	Shares sold	As at 01.03.2006
Ludwik Klinkosz	President of the Management Board	390 641	-	-	390 641

**21. Procedures pending before courts, in arbitration proceedings, or public administration bodies as at 31.12.2005****I Ciech SA****Liabilities of Ciech SA (domestic and foreign) claimed in court or arbitration proceedings as at 30th September 2005.****Action by Petro Carbo Chem Aktiengesellschaft (PCC)**

PCC AG filed an action in 2000, claiming compensation in the amount of PLN 21,364,000 and EUR 13,861.45 (equivalent to PLN 54,000) for failing to fulfil the agreement to transfer the shares of Petrochemia Blachownia Sp. z o.o. as stipulated in the preliminary contract of 09.07.1999. On 27.05.2003, the Circuit Court in Warsaw issued a preliminary judgment in favour of PCC AG (stating that PCC AG's claim was well founded), without specifically determining the amount of the damages. Ciech S.A. appealed against the preliminary judgment on 19.09.2003, on the grounds that the preliminary judgment was issued based on an erroneous legal findings of fact, and infringement of the substantive law by assuming that it was the intention of the parties to enter into an agreement. During a hearing held on 12.08.2004, the Appeals Court upheld the Circuit Court's preliminary judgment, confirming that PCC's claims were justified, without stating the amount of damages, which will be subject to further proceedings. In November 2004, Ciech SA filed another appeal, on the grounds of infringement of the substantive law due to its incorrect interpretation and application, and violation by the Court of Appeal of the principle of free assessment of evidence as defined in the EU directives. On April 19th, 2005, Ciech SA received a final decision of the Supreme Court dismissing its appeal.

Because the appeal was dismissed, the case returned before the District Court which continued the proceedings by determining the amount of damages owing to PCC AG.

After the preliminary judgement became final, the claimant verified and extended its claim, and demanded the following from Ciech SA:

- 16,391 thousand PLN due to the lost dividend for the years 1999 and 2000 with statutory interest, which at 31.12.2005 amount to the total of 14,653 thousand PLN.
- or alternatively;

- 14.200 thousand PLN constituting the equivalent of 72.33 % of the Petrochemia Blachownia Sp. z o.o.'s value according to the balance sheet as of 30.11.2000, increased by revenues from one-year treasury bills for the period from 01.12.2000 to the payment date amounting to 6,819 thousand PLN as at 31.12.2005, and
- PLN 13,861.44 EURO (equivalent of 54 thousand PLN) which constitutes a compensation due to exchange rate differences arisen when repaying the advance payment with statutory interest from 22.07.1999, i.e. the amount of PLN 63 thousand PLN as at 31.12.2005.

On 10.11.2005 the District Court judged against PCC. The judgement is not final yet.

#### Action by Comexport

In September 2003 Comexport (Brazil) filed an action with the Court of Arbitration at the International Chamber of Commerce in Paris, claiming damages for failure to complete sulphur deliveries to Brazil in the period from 1996 to 1999. The sued parties were Ciech S.A. and the sulphur mines in Tarnobrzeg and Grzybów. The current claim is for 3,872,943 USD (equivalent of PLN 12,631 thousand PLN), and statutory interest according to the Polish law, calculated from 16.09.2003, which as at 31.12.2005 constituted the amount of PLN 3,655 thousand PLN. In addition, Comexport demanded the return of the cost of court proceedings and the cost of legal service in the amount of 204,436.26 EURO (equivalent of 789 thousand PLN).

The principal claim amount comprises Comexport's lost profits on contractual quantities not delivered to Brazilian customers, losses from overstated freight costs, etc. In November 2003, Ciech SA answered the claim by filing for dismissal of Comexport's action, on the grounds of the force majeure certificates evidencing that the mines were closed down as part of restructuring of the sulphur industry, that the action has lapsed, and that the claim for damages is not supported by sufficient evidence. The Court of Arbitration appointed one Arbitrator to investigate into the dispute. The arbitrator determined the schedule for further proceedings. Each party filed two detailed pleadings supported by evidence.

On April 22nd, 2005, a hearing was held before the Court of Arbitration at the International Chamber of Commerce in Paris, attended by the representatives and attorneys of Comexport and Ciech SA.. The sued sulphur mines in Tarnobrzeg and Grzybów did not participate in the arbitration procedure, nor did they appoint any attorneys. Ciech SA filed for Comexport's claim to be dismissed and for refund of the court fees, sustaining its allegations as described in the pleadings and the accompanying documentation. Comexport also sustained its pleadings. After closing of the proceedings, the arbitration proceedings ended.

On October 27th, 2005 Ciech SA received a court judgement, according to which all three defendants: Ciech and sulphur mines in Grzybów and Tarnobrzeg, shall jointly and severally pay the amount of 2,474,166 USD (equivalent of 8,069 thousand PLN) and the interest of 5% from September 17th, 2003, amounting as at 31.12.2005 383 thousand USD (equivalent of 924 thousand PLN) and 123 thousand USD (equivalent of 401 thousand PLN) as the cost of court proceedings. The awarded amount constitutes the lost profit moved for by Comexport.

On November 18th, 2005 Ciech issued an announcing complaint to the Appeal Court in Paris concerning the reversal of the Arbitration Court judgement decision. Subject of the complaint is a breach of rules by an arbitrator in an arbitration case by citing the Polish Supreme Court judgement decision of 1973 on the relevant issue concerning interruption of the operation of a time limit without prior permission to allow the parties to voice their opinions about the issue. In the view of the law office representing Ciech, the judgement decision of 1973 cited by the arbitrator does not apply to the arbitration proceedings.

#### Action by Enapharm

In June 2004, the Liquidator for Enapharm in Algeria filed a claim for 172,879.84 USD (equivalent to 564 thousand PLN) in damages concerning medication deliveries by Ciech SA between 1985 and 1991.

According to the claimant, Ciech SA did not replace expired medications that the claimant had not sold, in violation of the contract between the parties. Ciech SA claims that it was exempt from the replacement provision, in light of the claimant failing to make the payments due from its sales of the medications in the Algerian market.

The case is pending before an Algerian court. Ciech SA is represented by a local attorney, supervised by a well respected Paris law firm. At a hearing held in March 2005, the court agreed with the claimant and appointed an expert to assess whether the amount of the claimed damages is well-founded. The new date of the hearing was not established.

#### Employee claims

Two cases are currently pending against Ciech SA, filed by its former employees dismissed due to no fault of their own. The employees are demanding to be restored to work. The projections as to the result of those suits are good.

A reserve for the mentioned liabilities in the amount of 12,000 thousand PLN has been established in Ciech SA.

## **Ciech SA's (domestic and international) debt**

### Amounts receivable claimed in courts or courts of arbitration

Ciech SA filed eight civil suits against its domestic trade debtors for the total of 1,384 thousand PLN. The projections are good. The Company established a revaluation write-down on the above mentioned amount.

### Administrative claims

Ciech S.A filed a suit to the Chief Administrative Court for refunds of customs payments totalling 94,000 thousand PLN. The projections are good. The Company established a revaluation write-down on the above mentioned amount.

### Bankruptcy proceedings

The total of 17,792 thousand PLN is being claimed in sixty domestic bankruptcy proceedings.

Ciech SA is claiming USD 689,632 and EURO 434,116 (totalling 3,925 thousand PLN) via international bankruptcy proceedings, with the largest claims being the bankruptcy proceedings for Chemapol – Prague (1,103 thousand PLN), Euroftal N.V., Belgium (806 thousand PLN), Petrimex – Bratislava (734 thousand PLN), WMW – Novosibirsk (488 thousand PLN).

The projections as to the results of the bankruptcy proceedings are not good, as Ciech S.A's receivables are not privileged.

The Company created a revaluation write-down for all pending proceedings.

### Enforcement and composition proceedings

Ciech SA is claiming 26,962 thousand PLN from domestic debtors through thirty one enforcement proceedings. The largest claim (17,620 thousand PLN) is in the enforcement proceedings against Sur5Net initiated in August 2004. The enforcement officer dismissed the enforcement proceedings upon consideration that the enforcement is ineffective. In October 2005, Ciech filed complaint to the Circuit Court on dismissal of the enforcement. The projections as to the results of the other execution proceedings are different, depending on the debtors' assets.

The amount of 27,116 EURO (equivalent of 105 thousand PLN) is claimed in foreign enforcement proceedings. PLN 24,000 is claimed in three composition proceedings. The projections are good.

The Company established a 100% write-down on the above mentioned amounts.

The following exchange rates were adopted for translation of liabilities denominated in foreign currencies:

USD rate exchange	3.2613
EURO rate exchange	3.8598

## **II. Subsidiaries**

### **Soda Mątwy SA Group**

No claims were filed against Soda Mątwy SA or its subsidiaries that could significantly impact their business. Amounts receivable claimed via debt enforcement or court proceedings by Soda Mątwy S.A. and its subsidiaries amount to 21,907 thousand PLN, with the largest claim of 21,814 thousand PLN pending against the company B. Lepiarz for unpaid deliveries of goods. According to the information of Soda Mątwy SA– projections are not good.

Other claims of Soda Mątwy Capital Group include bankruptcy proceedings amounting to 1,736 thousand PLN and composition proceedings amounting to 133 thousand PLN.

The Soda Mątwy S.A. Group recognised impairment losses against all pending claims equal to 23,774 thousand PLN.

### **Group of Janikosoda SA**

No significant claims (liabilities) were filed against Janikosoda S.A. or its subsidiaries that could affect their business. Complaints are pending before the Supreme Administrative Court filed by Janikosoda SA against decisions issued between 1999 and 2000 by the Chief Environmental Protection Inspector, imposing penalties on Janikosoda SA for excessive emissions to the atmosphere in the total amount of 2,330 thousand PLN. The proceedings were suspended in 2002 on request of both parties. Currently, Janikosoda is expecting dismissal of these proceedings.

The Janikosoda Capital Group's claims against several dozen trade debtors total 321 thousand PLN. Debt enforcement proceedings are pending to recover the total of 2,120 thousand PLN, including the largest claim for

2,102 thousand PLN against B.Lepiarz. The amount of 668 thousand PLN is being claimed through bankruptcy proceedings, and 113 thousand PLN was reported for composition proceedings. The Group of Janikododa SA recognised an impairment loss of 3,670 thousand PLN.

#### **Vitrosilicon SA**

No claims (liabilities) were filed against the company that could affect its business.. The company is claiming the total of 1,347 thousand PLN from debtors for deliveries and services, including the largest claim pursued through enforcement proceedings for 601 thousand PLN, and 497 thousand PLN pursued through bankruptcy proceedings. Vitrosilicon SA recognised an impairment loss on all the proceedings pending.

#### **Group of Zakłady Chemiczne "Alwernia" SA**

No claims (liabilities) were filed against the Alwernia Group that could affect its business. The Alwernia SA Group is claiming trade receivables and damages in the total amount of 416 thousand PLN through court actions and enforcement proceedings. The amount of 675 thousand PLN was claimed in bankruptcy proceedings, and the amount of 63 thousand PLN was claimed in composition proceedings.

The Group of Zakłady Chemiczne Alwernia SA recognised impairment losses against all the proceedings pending.

#### **Chemana SA**

No claims (liabilities) were filed against Chemana SA that could affect its business. Chemana SA filed court cases against several dozen trade debtors for the total of 3,353 thousand PLN, including 1,703 thousand PLN claimed in enforcement proceedings and 1,169 thousand reported for bankruptcy and composition proceedings.

Chemana SA recognised an impairment loss on all the proceedings pending.

#### **Group of GZNF "Fosfory" Sp. z o.o.**

No claims (liabilities) were filed against the companies belonging to the Fosfory Group that could affect its business. The Fosfory Group is claiming the total of 4,782 thousand PLN in court actions, enforcement and bankruptcy proceedings from several dozens of debtors, and recognised an impairment loss on that amount.

#### **Group of Petrochemia – Blachownia SA**

No claims of material importance were filed against the Petrochemia Blachownia Group. Petrochemia-Blachownia SA instituted enforcement proceedings for debt from several debtors in connection with the conducted business activity for the total amount of 458 thousand PLN. Petrochemia-Blachownia SA reported the amount of 164 thousand PLN to bankruptcy proceedings.

It recognised an impairment loss on the total of the claims.

**22. Non-standard transactions with related parties concluded by Ciech SA or its subsidiary or its subsidiaries (as per the information submitted by the entities)**

Transaction party	Affiliation with the party to the transaction	Transaction	Material terms and conditions (PLN ,000)		Additional information
			Financial terms	Characteristic features of the contract deviating from generally applicable terms and conditions of similar agreements	
<b>Ciech S.A.</b>					
Chemia.com	Subsidiary	Organisation and co-operation in the implementation of the ERP system in IZCH Soda Małwy	PLN 900,000	none	Agreement is valid for the period from 01.06.2005 to 31.03.2006
Chemian S.A.	Subsidiary	Trade transactions for plastics and semi-finished-products for and on behalf of Ciech SA.	PLN 135,000	none	Agreement is valid for the period from 01.04.2005 to 31.12.2005
Chemian SA	Subsidiary	Sales agreement for various chemical goods between Ciech SA as the Seller and Chemian SA as the Buyer.	PLN 1,106,000	none	Agreement concluded on 15.04.2005
Chemian SA	Subsidiary	Sales agreement for various chemical goods between Ciech SA as the Seller and Chemian SA as the Buyer.	PLN 1,043,000	none	Agreement concluded on 18.04.2005
Chemian SA	Subsidiary	Discharge of receivables	4,892 thousand PLN	None	The discharged receivables were subject to a full revaluation write-off
Petrochemia Blachownia	Subsidiary	Sale of fixed assets	PLN 3,500,000	none	Sale of the right of perpetual usufruct of land, ownership right to the buildings located on that land, as well as to chattels related to the real estate property.
Ciech Polfa Sp. z o.o.	Subsidiary	Sale of property, plant and equipment	PLN 326,000	none	The sale was made in January and March
Soda Małwy S.A	Subsidiary	Agreement concerning co-operation with regard to the implementation of the ERP system based on the Oracle platform. Ciech SA as an investor will make the system be implemented in Soda Małwy by 31.05.2006	4,777 thousand PLN	none	Agreement concluded on 06.06.2005
Ciech Polfa Sp. z o.o.	Subsidiary	Sale of shares in Polcommerce Kft. Budapest	Sales price PLN 203,000	none	
Janikosoda SA	Subsidiary	Loan	Annual interest of 6.60%	none	A loan of 4,000 thousand PLN, taken on 09.05.2005, in order to finance the current operations of the company, repaid on 28.06.2005
Janikosoda SA	Subsidiary	Agreement concerning co-operation with regard to the implementation of the ERP system based	3,006 thousand PLN	none	Agreement concluded on 25.10.2005



Transaction party	Affiliation with the party to the transaction	Transaction	Material terms and conditions (PLN ,000)		Additional information
			Financial terms	Characteristic features of the contract deviating from generally applicable terms and conditions of similar agreements	
		on the Oracle platform. Ciech SA as an investor will have the system implemented in Janikosoda by 31.10.2006			
Soda Mątwy SA	Subsidiary	Loan	Annual interest of 6.60%	none	A loan of 4,500 thousand PLN, taken on 04.05.2005, repaid on 30.06.2005, the amount of interest paid to Ciech SA - 43,000 thousand PLN.
Z.Ch. Alwernia SA	Subsidiary	Loan	Annual interest of 6.60%	none	A loan of 4,500 thousand PLN, repayment by 31.03.2006
GZNF Fosfory SA	Subsidiary	Loan	Annual interest of 6.54%	none	A loan of 4,500 thousand PLN, repayment by 31.12.2005
GZNF Fosfory SA	Subsidiary	Loan	Annual interest of 6.54%	none	A loan of 4,500 thousand PLN, repayment by 30.11.2005
<b>Soda Mątwy</b>					
Transoda Sp. z o.o.	Subsidiary	Loan	T/N WIBOR + bank margin of 0.7% to 6% maximum	none	The loan granted in 2004 - repayment extended through the annex of June 08th, 2005 until 31.12.2005 and through the annex of 28.12.2005 extension of repayment until 30.06.2006, balance outstanding of the borrower as at 31.12.2005 is 600 thousand PLN

**23. Loan sureties or guarantees extended by Ciech S.A. or its subsidiaries (as per the information submitted by the entities)**

**Sureties and guarantees granted**

Obligee's name	Amount of loan covered by surety		Effective date of surety	Financial terms: surety fee due to the company	Principal	Affiliation between Ciech SA and the borrower
	currency	In PLN '000				
<b>Ciech SA</b>						
NFOŚiGW, Warsaw		4 185	by 31.03.2006	As part of the surety agreement, Ciech SA also stands surety for interest on a loan of 16,740 thousand PLN. According to the repayment schedule, the outstanding loan balance as at 31.12.2005 is 1,580 thousand PLN.	IZCH. Soda Mątwy SA	subsidiary
KREDYT BANK SA Sieradz Branch		4 500	by 31.08.2006	Payment to Ciech SA equal to 1% of the surety value	Chemana S.A - Warsaw	subsidiary
KREDYT BANK SA Sieradz Branch		3,750	by 31.08.2006	payment to Ciech SA equal to 1% of the surety value	Chemana S.A - Warsaw	subsidiary
BANK HANDLOWY SA		4 800	by 01.05.2005	payment to Ciech SA equal to 1% of the surety value	Ciech-Polfa Sp. z o.o.	subsidiary
PKN ORLEN SA		1 200	no fixed term	payment to Ciech SA equal to 1% of the surety value	Chemana S.A - Warsaw	subsidiary
BRE - MULTIBANK SA		136	none – the surety expires on final loan settlement		Employees of Ciech SA	
BANK PKO SA First Branch in Warsaw		6 000	by 31.08.2006	Payment to Ciech SA equal to 1% of the surety value (from 2 mln PLN) + PLN 10,000 on increase + 400 thousand PLN	Chemana SA	subsidiary
BANK PKO SA First Branch in Warsaw		2 000	by 20.01.2006	Payment of PLN 10,000 to Ciech SA	Chemana SA	subsidiary
<b>Total Ciech SA</b>		<b>26 571</b>				
<b>Petrochemia Białochowia SA</b>						
Bank PKO BP S.A.		300	30.08.2004 - 05.07. 2010	none	BL-Trans Sp. z o.o.	Indirect subsidiary
<b>Total Petrochemia Białochowia SA</b>		<b>300</b>				
<b>Soda Mątwy SA</b>						
ING BSK Leasing SA		826	by 31.03.2007	None (leasing agreement)	Transoda Sp. z o.o.	indirect subsidiary

Obligee's name	Amount of loan covered by surety		Effective date of surety	Financial terms: surety fee due to the company	Principal	Affiliation between Ciech SA and the borrower
	currency	In PLN '000				
<b>Total Soda Mątwy SA</b>		<b>826</b>				
<b>Janikosoda SA</b>						
BOŚ Poznań	EUR 2 268	8 754	to 16.11.2009	no fee	Vitrosilicon SA	subsidiary
<b>Total Janikosoda SA</b>		<b>8 754</b>				
<b>Total loans guaranteed</b>		<b>36 451</b>				

Obligee's name	Total amount of loans covered by surety		Effective date of surety	Financial terms: surety fee due to the company	Principal	Affiliation between Ciech SA and the borrower
	currency	In PLN '000				
<b>Soda Mątwy SA</b>						
National Fund for Environmental Protection and Water Management (NFOŚiGW)		800	to 31.12.2006	Real-estate taxes payable to the Town Office in Inowrocław constitute the collateral of the granted surety	Town Office in Inowrocław	none
<b>Total Soda Mątwy SA</b>		<b>800</b>				

#### 24. Additional information

When selecting entities for consolidation, the Management Board of the parent company applied the principle of relevance (as per the IFRS objectives) of their financial figures for compliance with the requirement of fair and reliable presentation of the financial standing and profit of the Group. It was assumed that entities whose balance-sheet totals and sales revenues and income from financing activities are irrelevant compared to the same items recorded by the parent company, and their combined figures are less than 5% of the relevant combined figures (of all subsidiaries of the Ciech Group), were irrelevant for compliance with the requirements of the standards.

Non-consolidated undertakings	Ciech SA's shares in the entity (indirect + direct)	Net income from sale of goods and materials and from financing activities **	Net profit / loss	Balance-sheet total of the undertaking/ Group**	Ciech SA's income (%)	Ciech SA's balance-sheet total (%)	Dependence on Ciech SA
1) Chemia.com S.A.	100.00%	4 066	92	1 047	0.25%	0.12%	Subsidiary
2) Polcommerce GmbH, Austria	100.00%	28 998	322	5 462	1.80%	0.60%	Subsidiary
3) Ciech-Service Sp. z o.o.	100.00%	4 440	24	1 159	0.28%	0.13%	Subsidiary
4) Boruta-Kolor Sp. z o.o.	100.00%	18 130	-1 198	21 444	1.12%	2.37%	Subsidiary
5) Ciech Polfa Capital Group							
5.1.) Polcommerc Ltd., Hungary	100.00%	46	0	1 176	0.00%	0.13%	Indirect subsidiary
6) Soda Mątwy Capital Group							
6.1.) Soda-Med. Sp. z o.o.	90.96%	1 012	37	2 857	0.06%	0.32%	Indirect subsidiary
7) Janikosoda Capital Group							
7.1.) Jantrans - Janikowo Sp. z o.o.	90.31%	14 200	41	11 184	0.88%	1.24%	Indirect subsidiary
8) Nordiska Unipol AB	97.78%	2 474	468	1 265	0.15%	0.14%	Subsidiary
9) Alwernia Capital Group							
9.1.) Alwernia Fosforany Sp. z o.o.*	73.75%	0	0	50	0.00%	0.01%	Indirect subsidiary
9.2.) Soc-Al. Sp. z o.o.	69.88%	1 984	1	1 724	0.12%	0.19%	Indirect subsidiary
10) Chemiepetrol GmbH	60.00%	35 109	886	6 485	2.18%	0.72%	Subsidiary
11) Danske UmipolA/S	55.00%	18 974	980	3 837	1.18%	0.42%	Subsidiary
12) InChem Sp. z o.o.	100.00%	9 329	7 830	2 543	0.58%	0.28%	Subsidiary
13) Ciech Finance Sp. z o.o.	100.00%	0	-6	45	0.00%	0.00%	Subsidiary

\* Out of business

\*\* Year-to-date income (1 January 2005 to 31 December 2005), balance-sheet total as at 31 December 2005.

\*\*\* Subsidiary InChem Sp. z o.o. generated a profit in 2005 after it sold 752,030 shares of Ciech S.A. On 14.04.2005, the Company bought back 2,700 treasury shares from PH Organika Sp. z o.o. InChem's General Assembly resolved to cancel those treasury shares, accounting for 50% of the company's share capital. Ciech SA wrote down the whole of impairment loss on the acquisition cost of the company. Ciech SA's Management resolved to commence to withdraw capital from that company.

Total value	Non-consolidated undertakings	Ciech Group (without eliminations)	% share
In balance-sheet totals	60 278	2 371 060	2.54 %
Net income from sale of goods and products and from financing activities	138 762	3 888 574	3.57 %

In addition, the equity accounting method was not applied to the indirect associate of the Ciech Group: Suomen Unipol Oy. Valuation of this entity is not crucial for the consolidated statement.

Undertakings not accounted for using the equity method	Ciech SA's direct shareholding in the entity	Ciech SA's share of the entity (indirect + direct)	Equity as at 31.12.2005 attributable to the Ciech Group (PLN ,000)	Acquisition cost (PLN ,000)	Impairment losses on the acquisition cost (PLN ,000)
1) Suomen Unipol Oy	15.00%	24.78%	803	132	0

Undertakings not accounted for using the equity method	Sales revenues and income from financing activities (PLN ,000)	Balance-sheet total of the undertaking (PLN ,000)	Net profit / (loss) (PLN ,000)
1) Suomen Unipol Oy	88 513	10 641	821

Ciech SA also holds shares in entities where its control has been restricted or lost:

- Calanda Polska Sp. z o.o. in liquidation, 95.70% shares/votes held directly by Ciech SA
- ZAO-Polfa Ciech, Russia, in liquidation, 65.00 % shares/votes held directly by Ciech SA
- Polsin-Karbid Sp. z o. o in liquidation, 22.76% total shares/votes held by Ciech SA, shares/votes (direct + indirect) via Ciech SA and Polsin Pte.Ltd.
- K. Foster & Son Ltd.- loss of control, 46.51%, shares/votes held indirectly by Ciech SA through Daltrade Plc.
- Polfa Nigeria - loss of control, no contact with the company, 20% share held directly by Ciech SA
- Zach-Ciech Sp. z o.o. in liquidation, 35.65% shares/votes held directly by Ciech SA, on 24 January 2006, the District Court in Katowice declared the Company bankrupt.

**25. Other information that the Management believes to be important to assess the HR, financial, economic situation, the profit, and any changes in those aspects of business, and information necessary to assess the Ciech Group's capacity to meet obligations.**

**Information necessary to assess the HR situation**

In the 4th quarter of 2005, the steps were undertaken in Ciech SA aimed at modernization of the incentive and employee awarding tools and systems. Management By Objectives system (MBO) - a key solution for the growth of employee motivation in Ciech SA were developed and initially implemented.

In the 4th quarter of this year, negotiations were initiated concerning new normalizations regulating collective work relations in the Company in relation to termination of the Company's Collective Labour Agreement on September 30th, 2005.

## **26. Factors that might potentially impact the next-quarter results**

### **Reversals of the positive economic growth rate trends in Poland**

Ciech SA's activity is associated with numerous segments of the chemical industry whose growth is directly correlated with the general standing of the economy. Presently, pace of economic growth in Poland rises up to a few GDP percentage points a year. Although the long-term forecasts show in general retention of high growth, one cannot exclude the risk of temporary downward trend in Poland (for instance due to low growth pace of internal demand and export attenuation). Possible attenuation of this branch of economy may affect indirectly the chemical sector. A weaker demand for chemical products may impact Ciech SA's revenues and impair its financial performance.

### **Economic situation in Europe and worldwide**

Ciech SA's commercial activities rely to a large extent on chemical product exports, the level and profitability of which depend on the global economic situation in Europe and worldwide. A global economic slump could affect the export trade volumes achieved in international markets, thus reducing the sales income in the individual segments of Ciech SA's operations.

### **Withdrawal from the trade cooperation with Ciech SA by some domestic manufacturers**

Export sales of the current contractors of Ciech SA based to large extent on their own sales offices and privatisation imposed on some of them in many cases may increase the risk of withdrawal from cooperation with various trading agents including Ciech SA as well. It gives rise to the risk of Ciech SA's loss of mark-up acquired through the sale of exported goods the risk of decrease in commercial activity results. Ciech SA takes part in privatisation processes in selected chemical companies.

### **Situation in the raw materials market**

A major portion of the Ciech SA's turnover is generated from imports of chemical raw materials to Poland. The raw-material markets are characterised by high cyclicity, prompted by fluctuations in the world economies. On the one hand, the growing prices of raw materials force the trading agents to lower their mark-ups and cause lower demand of the customers, while dropping prices, on the other hand, are usually a sign of declining demand and the onset of an economic slump. Raw materials are impacted by the same trends in the Polish market.

If the stable growth rate and steady prices of chemical raw materials continue, this will benefit the Company's imports of chemical raw materials. Large fluctuations in demand and prices caused either by high economic growth rate, or by an economic slump, will affect the Ciech SA's trade in chemical raw materials.

### **Increase of competition in the soda segment**

The main products of the Ciech Group include soda products manufactured in subsidiaries: JZS Janikosoda S.A. and IZCh Soda Maławy S.A., and sold by Ciech SA. The processes of concentration of production, which can be more and more often observed in Europe, contribute to the increase of competition from big, over-regional chemical corporations that manufacture soda ash. Ciech SA intends to take part in the concentration of production by making acquisitions of foreign soda industry manufacturers.

### **Consolidation on raw-material markets**

In November 2005, consolidation plans of manufacturers of potassium salt, being the main source of potassium raw material purchase for domestic industry (including the fertilizer industry), in the Eastern Europe were confirmed (Belarus, Russia; 35% of the global market). In future, these operations may result in a considerable increase of European prices of this salt used to mixed manufacture of fertilisers in the Ciech Group.

### **Project concerning new European Union provisions regarding registration and evaluation of chemicals (REACH system)**

Ciech SA follows closely the course of work on the REACH Regulation. The steps aimed at making an initial analysis of effects the implementation of the system might have on Ciech SA and its subsidiaries have been already undertaken. The efforts connected with this issue are in progress.

On November 17th, 2005 the European Parliament within the first reading passed the REACH Regulation adding several amendments to it. Chemical industry still awaits the second reading in the European Parliament, which may mean another year or two of fight for more favourable provisions of law.

### **Foreign exchange risk**

Approximately 44% of Ciech SA's income is from exports, mainly denominated in EUR. Low EUR/PLN exchange rates decrease the profitability of the product sales in foreign markets. Low EUR/PLN exchange rates are not good for export sales by Ciech SA's trade partners, which translates into a decrease in the Company's turnover. The export denominated in USD is of much lower importance for the results of the Company. The exchange rate of USD has no impact on the profit of the Company, because it is secured by a similar volume of import denominated in USD. The Company constantly monitors its foreign exchange risk, and utilizes hedging for large transactions denominated in foreign currencies, such as forward and future contracts and hedge option strategies.

## **27. Reconciliation of restated figures published in compliance with the Polish Accounting Standards (PAS) with the International Financial Reporting Standards.**

At the balance-sheet date, the Ciech Group used the best of its knowledge to identify material differences between the accounting principles applied by it, and IFRS. Certain areas were identified with potential quantitative differences and differences in presentation and disclosure. The quantitative differences include:

Revaluation of non-current assets: According to IFRS 1 "First-Time Adoption of the International Accounting Standards". The Ciech Group assumed the amount of its non-current assets used in a hyperinflationary economy to be the fair value of those assets (measured based on estimates by professional property appraisers). An adjustment of the carrying amount of the non-current assets resulted in a positive temporary difference between the tax values and the balance-sheet values. Presently, verification of fair value of the property, plant and equipment is under way. With reference to the above, we are not able to define the final impact of these actions on the presented consolidated financial report.

Non-current assets held for sale: According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", non-current assets held for sale are not subject to depreciation, therefore, an adjustment was made to eliminate the depreciation calculated for 2004.

Depreciation of investment property: The Ciech group carries its investment properties under assets at cost, not their fair value. According to IAS 40: "Investment Property", if this model is adopted, the assets should be depreciated. Therefore, the equity was adjusted to account for depreciation for the years 2002-2003.

Renovations spread over time: The Ciech Group recognises the expense on renovations spread over time under prepayments and accruals. According to IAS 16 "Property, Plant and Equipment", such expenses should be taken to profit and loss account if their reference to property, plant and equipment according to the mentioned IAS is not possible. Therefore, an appropriate adjustment of the consolidated profit was made.

Costs of launching of new production: the Ciech Group presents the costs of launching new production settled over time under prepayments and accruals. According to IAS 16 "Property, Plant and Equipment", such expenses should be taken to profit and loss at the time they are incurred. With regard to the above, the amount of activated costs of launching of new production was presented as a decrease of equity as at the day of starting to use IFRS.

Minority interest: Pursuant to the principles of presentation of financial statements prescribed in IAS 1 "Presentation of Financial Statements", the total consolidated equity comprises minority interest. Also the allocations of profit or loss in the income statement include the profit and loss attributable to minority interest.

Goodwill: Pursuant to IFRS 3 "Business combinations", the Ciech Group ceased to depreciate goodwill from January 1st, 2004. The value of write-downs was reversed in correspondence with the retained earnings. According to IAS 36 "Impairment of assets" the Ciech Group conducted tests concerning impairment of goodwill recognized under assets as at January 1st, 2004, and as at December 31st, 2004. The results of the tests led to impairments as at 01.01.2004 in the amount of 4,576 thousand PLN.

Negative goodwill: Pursuant to IFRS 1 "First time adoption of the International Financial Reporting Standards" and IFRS 3 "Business combinations", the negative goodwill recognized as at January 1st, 2004, was deducted in correspondence with equity. Revaluation write-down of negative goodwill for 2004 was reversed in correspondence with the profit and loss account.

Equity method measurement: with regard to the fact that the companies valuated using the equity method adjust their individual financial statements to IFRS requirements; the value of their shares was changed at the level of the consolidated financial statement.

Reclassification of the Privatisation Reserve to equity: the earmarked privatisation funds presented under short-term liabilities were reclassified on 01.01.2004 to equity (reserve capital).

Recognition of a deferred-tax asset and provision in the net assets: according to IAS 12 "Income tax" the set-off of deferred income tax assets has been made with reserves for deferred income tax on the level of individual financial statements.

Extraction of perpetual freehold rights from the records: with reference to the stance adopted in the Ciech Group that perpetual freehold rights acquired through administrative assignment complies with the operational leasing criteria according to IAS 17 "Leasing", it shall not be recognized in the books but it shall only be presented off-balance. With reference to the above, the adjustment of writing-off this perpetual freehold right value has been done in correspondence to the accrued and deferred income.

Recognition of non-current assets held for sale and of discontinued operations: according to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" the non-current assets held for sale amounts were identified and detached from property, plant and equipment to the current assets items. Additionally, discontinued operations have been separately shown in the profit and loss account.

Detachment of investment property: in the consolidated balance sheet fixed assets, which according to IAS 40: "Investment Property" shall be recognized in investment property, have been detached.

Reclassifications within equity: share premium reserve recognized in individual financial statements, supplementary capital and revaluation reserve of non-current assets established in accordance with Polish accounting standards have been reclassified to the retained earnings items. Capital/special purpose funds have been shown in the reserve capital items.

Extraordinary profit (loss): pursuant to the principles of presentation of financial statements prescribed in IAS 1 "Presentation of Financial Statements" extraordinary profit and loss recognized by the Group have been reclassified respectively to the items of other operating income and other operating expense.

Profit (loss) on sale of the whole or part of shares of subordinated undertakings: pursuant to the principles of presentation of financial statements prescribed in IAS 1 "Presentation of Financial Statements" reclassification of loss in sale of part of shares of subordinated undertakings recognized by the Group, has been made to financial expense items.

Advances on inventories: reclassification of advances on inventories, which according to PAS were shown in the "inventories" item and which according to IFRS are presented as short-term receivables items, has been made.

Accruals and deferred income: accruals and deferred income has been presented respectively in short-term receivables and short-term debt.

The table below shows:

- reconciliation of equity as at 31.12.2004 determined in accordance with the Polish Accounting Standards and the equity determined as of the same date in accordance with IFRS
- and
- reconciliation of the net profit for the period 01.01.-31.12.2004 determined in accordance with the Polish Accounting Standards and the net profit determined in accordance with IFRS.



specification	as at December 31st, 2004
<b>equity according to PAS previously published</b>	<b>551 377</b>
revaluation of fixed assets	132 220
goodwill – amortisation	6 897
goodwill - due to impairment loss	(4 576)
negative goodwill – depreciation	(6 089)
negative goodwill – written-off to retained earnings	37 916
minority interest	93 142
depreciation of investment property	(846)
reclassification of earmarked fund	-
valuation using equity method	231
other	79
<b>equity according to IFRS</b>	<b>810 351</b>
specification	for the period 01.01.- 31.12.2004
<b>net profit according to PAS published previously</b>	<b>79 250</b>
revaluation of fixed assets	(10 954)
goodwill	6 897
negative goodwill	(6 127)
minority interest	6 690
equity method measurement	105
renovation expenses	516
costs of new product launch	191
transfer from revaluation reserve	555
impairment losses in Zach-Ciech	(1 089)
other	(31)
<b>net profit according to IFRS</b>	<b>76 003</b>

\* A detailed description of the Auditor's adjustments has been presented in item 17 "Information concerning the change of accounting principles (policy)" of the Ciech Group's consolidated financial statement for the financial year 2004 (published on 16.05.2005)

Reconciliation of equity as of the day of the switch to IFRS (01.01.2004) and the reconciliation of equity and the net profit presented in the last annual financial statement prepared in accordance with the Polish Accounting Standards was presented in item 35 of the consolidated financial statement of the Ciech Group for the first half of 2005 prepared in accordance with IFRS (published on

**II. CONDENSED INDIVIDUAL FINANCIAL STATEMENT OF CIECH AS FOR Q4 OF 2005  
DRAWN UP IN ACCORDANCE WITH THE POLISH ACCOUNTING STANDARDS.**

**BALANCE SHEET**

	31.12.2005	30.09.2005	31.12.2004
<b>ASSETS</b>			
<b>I. Non-current assets</b>	<b>491 106</b>	<b>488 511</b>	<b>491 548</b>
1. Intangible assets, including:	9 097	10 192	10 314
- Goodwill	0	0	0
2. Property, plant and equipment	24 691	27 746	29 537
3. Long-term receivables	0	0	0
4. Long-term investments	448 506	444 516	447 166
4.1. Immovable property	10 961	11 133	11 246
4.2. Intangible assets	0	0	0
4.3. Long-term financial assets	437 545	433 383	435 920
4.4. Other long-term investments	0	0	0
5. Long-term prepayments and accrued income	8 812	6 057	4 531
5.1. Deferred tax assets	8 812	6 057	4 531
<b>II. Current assets</b>	<b>407 711</b>	<b>424 090</b>	<b>338 072</b>
1. Inventories	8 212	18 684	18 460
2. Short-term receivables	310 790	318 265	315 003
2.1. from affiliated undertakings	49 587	72 393	67 811
2.2. from other undertakings	261 203	245 872	247 192
3. Short-term investments	88 212	86 108	3 644
3.1. Short-term financial assets	88 212	86 108	3 644
a) in affiliated undertakings	38 815	9 047	0
b) in other undertakings	257	22 594	16
c) cash and other money assets	49 140	54 467	3 628
4. Short-term prepayments and accrued income	497	1 033	965
<b>Total Assets</b>	<b>898 817</b>	<b>912 601</b>	<b>829 620</b>

	31.12.2005	30.09.2005	31.12.2004
<b>EQUITY AND LIABILITIES</b>			
<b>I. Equity</b>	<b>588 926</b>	<b>585 085</b>	<b>356 022</b>
1. Share capital	140 001	140 001	98 982
2. Called up share capital (negative figure)	0	0	0
3. Own shares (negative figure)	0	0	(6 176)
4. Provisions	326 740	325 580	157 186
5. Revaluation reserve	(761)	398	432
6. Other reserve capital	76 199	76 199	82 375
7. Profit (loss) brought forward	0	0	3 778
8. Net profit (loss)	46 747	42 907	19 445
9. Write-offs from net profit during the financial year (negative figure)	0	0	0
<b>II. Liabilities and reserves for liabilities</b>	<b>309 891</b>	<b>327 516</b>	<b>473 598</b>
1. Reserves for liabilities	15 158	21 338	19 955

	31.12.2005	30.09.2005	31.12.2004
1.1. Reserves for deferred income tax	266	523	214
1.2. Reserves for pensions and similar benefits	2 169	2 295	2 502
a) long-term	1 607	2 102	2 194
b) short-term	562	193	308
1.3. Other reserves	12 723	18 520	17 239
a) long-term	0	0	0
b) short-term	12 723	18 520	17 239
2. Long-term liabilities	18 527	20 366	35 185
2.1. due to affiliates	0	0	0
2.2. due to other entities	18 527	20 366	35 185
3. Short-term liabilities	267 780	280 851	413 339
3.1. Towards affiliated undertakings	167 686	163 628	125 390
3.2. Towards other undertakings	99 495	116 801	287 373
3.3. Special funds	599	422	576
4. Accruals and deferred income	8 426	4 961	5 119
4.1. Negative goodwill	0	0	0
4.2. Other accruals and deferred income	8 426	4 961	5 119
a) long-term	0	0	0
b) short-term	8 426	4 961	5 119
<b>Total Liabilities</b>	<b>898 817</b>	<b>912 601</b>	<b>829 620</b>

Book value	588 926	585 085	356 022
Number of shares	28 000 000	28 000 000	19 796 016
Book value per share (in PLN)	21.03	20.90	17.98
Diluted number of shares	28 000 000	28 000 000	28 000 000
Diluted book value per share (in PLN)	21.03	20.90	12.72

#### OFF-BALANCE SHEET ITEMS

	31.12.2005	30.09.2005	31.12.2004
<b>1. Contingent receivables</b>	<b>0</b>	<b>2 000</b>	<b>0</b>
1.2. From other undertakings (as a result of)	0	2 000	0
- guarantees and bonds received	0	2 000	0
<b>2. Contingent liabilities</b>	<b>26 571</b>	<b>26 020</b>	<b>24 527</b>
1.1. Towards affiliated undertakings (as a result of)	26 435	25 391	24 527
- guarantees and bonds granted	26 435	25 391	24 527
1.2. Towards other undertakings (as a result of)	136	629	0
- guarantees and bonds granted	136	629	0
<b>3. Other (as a result of)</b>	<b>9 400</b>	<b>9 400</b>	<b>9 400</b>
- other trade sureties	9 400	9 400	9 400
<b>Total off-balance sheet items</b>	<b>35 971</b>	<b>37 420</b>	<b>33 927</b>

## PROFIT AND LOSS ACCOUNT

No.	Specification	4 quarters	4 quarters	4 quarters	4 quarters
		2005	year-to-date/ 2005	2004	year-to-date/ 2004
		01.10.2005- 31.12.2005	01.01.2005- 31.12.2005	01.10.2004- 31.12.2004	01.01.2004- 31.12.2004
<b>A.</b>	<b>Net income from sale of products, goods and materials, including:</b>	<b>361 304</b>	<b>1 588 892</b>	<b>370 465</b>	<b>1 470 007</b>
	<i>from affiliated undertakings</i>	58 508	345 955	91 630	359 244
I.	Net income from sale of products	21 548	78 960	17 109	57 984
II.	Net income from sale of goods and materials	339 756	1 509 932	353 356	1 412 023
<b>B.</b>	<b>Costs of product, goods and materials sold, including:</b>	<b>298 849</b>	<b>1 346 569</b>	<b>330 842</b>	<b>1 318 757</b>
	<i>to affiliated undertakings</i>	50 774	298 297	83 859	320 605
I.	Costs of manufacture of the products sold	99	382	170	419
II.	Value of goods and materials sold	298 750	1 346 187	330 672	1 318 338
<b>C.</b>	<b>Gross profit (loss) on sales</b>	<b>62 455</b>	<b>242 323</b>	<b>39 623</b>	<b>151 250</b>
<b>D.</b>	<b>Selling costs</b>	<b>31 247</b>	<b>118 763</b>	<b>18 271</b>	<b>66 821</b>
<b>E.</b>	<b>Administrative expenses</b>	<b>19 716</b>	<b>62 279</b>	<b>16 325</b>	<b>56 410</b>
<b>F.</b>	<b>Profit (loss) on sales</b>	<b>11 492</b>	<b>61 281</b>	<b>5 027</b>	<b>28 019</b>
<b>G.</b>	<b>Other operating income</b>	<b>11 224</b>	<b>20 584</b>	<b>21 248</b>	<b>30 501</b>
I.	Profit on sale of non-financial fixed assets	3 973	7 308	34	34
II.	Subsidies	0	0	0	0
III.	Other operating income	7 251	13 276	21 214	30 467
<b>H.</b>	<b>Other operating expenses</b>	<b>6 253</b>	<b>17 848</b>	<b>9 129</b>	<b>24 600</b>
I.	Loss on sale of non-financial fixed assets	0	0	-5	0
II.	Revaluation of non-financial assets	-2 273	1 532	-2 211	2 477
III.	Other operating costs	8 526	16 316	11 345	22 123
<b>I.</b>	<b>Profit (loss) on operating activity</b>	<b>16 463</b>	<b>64 017</b>	<b>17 146</b>	<b>33 920</b>
<b>J.</b>	<b>Finance income</b>	<b>749</b>	<b>23 430</b>	<b>403</b>	<b>23 946</b>
I.	Dividends and profit sharing, including:	251	15 041	282	20 151
	<i>from affiliated undertakings</i>	251	15 041	282	20 151
II.	Interest, including:	622	6 514	93	3 119
	<i>from affiliated undertakings</i>	-244	3 734	-188	73
III.	Profit on sale of investments	519	915	0	40
IV.	Revaluation of investments	-484	0	0	0
V.	Other	-159	960	27	635
<b>K.</b>	<b>Finance costs</b>	<b>13 752</b>	<b>33 781</b>	<b>23 825</b>	<b>36 482</b>
I.	Interest, including:	608	4 274	2 900	10 478
	<i>for affiliated undertakings</i>	0	0	-16	0
II.	Loss on sale of investments	0	0	0	0
III.	Revaluation of investments	11 673	18 973	8 707	9 717
IV.	Other	1 471	10 534	12 218	16 287
<b>L.</b>	<b>Profit (loss) on business activities</b>	<b>3 460</b>	<b>53 666</b>	<b>-6 277</b>	<b>21 383</b>
<b>M.</b>	<b>Result of extraordinary events</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
I.	Extraordinary gains	0	0	0	0
II.	Extraordinary losses	0	0	0	0

<b>N.</b>	<b>Gross profit (loss)</b>	<b>3 460</b>	<b>53 666</b>	<b>-6 277</b>	<b>21 383</b>
<b>O.</b>	<b>Income tax</b>	<b>-380</b>	<b>6 919</b>	<b>-879</b>	<b>1 938</b>
	current part	2 631	11 148	-363	2 333
	deferred part	-3 012	-4 229	-516	-395
	<b>Other obligatory reductions of profit</b>			0	
<b>P.</b>	<b>(increases of loss)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>R.</b>	<b>Net profit (loss)</b>	<b>3 840</b>	<b>46 747</b>	<b>-5 398</b>	<b>19 445</b>

	<b>01.10.2005- 31.12.2005</b>	<b>01.10.2004- 31.12.2004</b>
Net profit (loss) - annualised	46 747	19 445
Weighted average number of ordinary shares	26 966 073	19 796 016
Profit (loss) per ordinary share (in PLN)	1.73	0.98
Weighted average diluted number of ordinary shares	26 966 073	28 000 000
Diluted profit (loss) per ordinary share (in PLN)	1.73	0.69

## CASH FLOW STATEMENT

	<b>4 quarters 2005</b>	<b>4 quarters year-to-date/ 2005</b>	<b>4 quarters 2004</b>	<b>4 quarters year-to-date/ 2004</b>
	<b>01.10.2005- 31.12.2005</b>	<b>01.01.2005- 31.12.2005</b>	<b>01.10.2004- 31.12.2004</b>	<b>01.01.2004- 31.12.2004</b>
<b>A. Cash flows from operating activities</b>				
<b>I. Net profit (loss)</b>	<b>3 840</b>	<b>46 747</b>	<b>-5 398</b>	<b>19 445</b>
<b>II. Total adjustments</b>	<b>15 603</b>	<b>2 695</b>	<b>-7 938</b>	<b>-21 667</b>
1. Depreciation	1 637	7 152	2 860	8 917
2. Gains / (losses) on exchange differences	-630	-2 587	-1 430	-1 362
3. Interest and profit sharing (dividends)	-39	-12 145	3 720	-8 696
4. Investment profit (loss)	7 819	10 993	8 772	9 642
5. Movements in reserves	-6 180	-4 797	4 374	9 878
6. Changes in inventories	10 472	10 248	1 085	9 380
7. Changes in receivables	10 112	2 134	182	-37 367
8. Changes in short-term liabilities except for loans and credits	-9 126	-7 969	-28 322	-13 510
9. Movements in prepayments and accruals	1 248	-505	510	1 451
10. Other adjustments	290	171	311	0
<b>III. Net cash flow from operating activities (I+/-II)</b>	<b>19 443</b>	<b>49 442</b>	<b>-13 336</b>	<b>-2 222</b>

## B. Cash flows from investing activities

<b>I. Inflows</b>	<b>28 589</b>	<b>81 879</b>	<b>8 286</b>	<b>22 698</b>
1. Sale of intangible assets and tangible fixed assets	6 886	11 574	40	140
2. Sale of investments in immovable property and intangible assets	0	0	0	0
3. From financial assets, including:	21 703	61 805	8 246	22 558
a) in affiliated undertakings	849	15 951	8 246	22 451
disposal of financial assets	300	503	0	2 300
interest	161	407	0	0
dividend and profit sharing	388	15 041	8 246	20 151

	4 quarters 2005	4 quarters year-to-date/ 2005	4 quarters 2004	4 quarters year-to-date/ 2004
	01.10.2005- 31.12.2005	01.01.2005- 31.12.2005	01.10.2004- 31.12.2004	01.01.2004- 31.12.2004
b) in other undertakings	20 854	45 854	0	107
sale of financial assets	20 854	45 854	0	107
interest	0	0	0	0
4. Other investment inflows	0	8 500	0	0
<b>II. Outflows</b>	<b>46 963</b>	<b>116 225</b>	<b>5 020</b>	<b>9 523</b>
1. Purchase of intangible assets and tangible fixed assets	1 118	6 559	1 121	4 561
2. Investments in immovable property and intangible assets	0	0	0	0
3. On financial assets, including:	41 345	87 666	3 899	4 962
a) in affiliated undertakings	41 345	41 410	3 899	4 962
purchase of financial assets	41 345	41 410	3 899	4 962
b) in other undertakings	0	46 256	0	0
purchase of financial assets	0	46 256	0	0
4. Other investment outflows	4 500	22 000	0	0
<b>III. Net cash flow from investing activities (I-II)</b>	<b>-18 374</b>	<b>-34 346</b>	<b>3 266</b>	<b>13 175</b>

#### C. Cash flows from financial activities

<b>I. Inflows</b>	<b>590</b>	<b>250 483</b>	<b>63 125</b>	<b>217 237</b>
1. Net inflows from issue of shares and other equity instruments, and additional contributions to equity	0	192 875	0	0
2. Credits and loans	590	55 399	78 115	132 719
3. Issue of debt securities	0	0	-14 990	84 518
4. Other financial inflows	0	2 209	0	0
<b>II. Outflows</b>	<b>7 226</b>	<b>220 137</b>	<b>55 914</b>	<b>231 480</b>
1. Purchase of own shares	0	0	2 055	6 176
2. Dividends paid and other payments to equity holders	0	8 400	0	990
3. Other outflows under distribution of profit than payments to shareholders	0	0	0	0
4. Repayment of credits and loans	6 828	192 940	54 841	115 945
5. Redemption of debt securities	0	15 000	-4 249	98 000
6. Other financial liabilities	0	0	0	0
7. Payment of finance lease liabilities	0	149	502	502
8. Interest	398	3 648	2 765	9 867
9. Other financial outflows	0	0	0	0
<b>III. Net cash flow from financing activities (I-II)</b>	<b>-6 636</b>	<b>30 346</b>	<b>7 211</b>	<b>-14 243</b>
<b>D. Total net cash flows (A.III+/-B.III+/-C. III)</b>	<b>-5 567</b>	<b>45 442</b>	<b>-2 859</b>	<b>-3 290</b>
<b>E. Balance sheet movements in cash and cash equivalents, including:</b>	<b>-5 328</b>	<b>45 511</b>	<b>-2 926</b>	<b>-3 484</b>
Changes in cash due to foreign exchange differences	-239	-69	-67	-194
<b>F. Cash at beginning of period</b>	<b>54 637</b>	<b>3 628</b>	<b>6 681</b>	<b>7 112</b>
<b>G. Cash and cash equivalents at the end of period (F+/- D),</b>	<b>49 070</b>	<b>49 070</b>	<b>3 822</b>	<b>3 822</b>

	4 quarters 2005	4 quarters year-to-date/ 2005	4 quarters 2004	4 quarters year-to-date/ 2004
	01.10.2005- 31.12.2005	01.01.2005- 31.12.2005	01.10.2004- 31.12.2004	01.01.2004- 31.12.2004
including:				
not fully disposable	216	260	16	211

## CHANGES IN EQUITY

	4 quarters 2005	4 quarters year- to-date/2005	2004
	01.10.2005- 31.12.2005	01.01.2005- 31.12.2005	01.01.2004- 31.12.2004
<b>I. Equity at the beginning of the period (opening balance)</b>	<b>585 085</b>	<b>356 022</b>	<b>334 080</b>
a) changes of the adopted accounting principles (policy)	0	0	3 487
<b>I.a. Equity at the beginning of the period (opening balance), after reconciliation to comparable data</b>	<b>585 085</b>	<b>356 022</b>	<b>337 567</b>
<b>1. Share capital at the beginning of the period</b>	<b>140 001</b>	<b>98 982</b>	<b>98 982</b>
1.1. Changes in share capital	0	41 019	0
a) increases (as a result of)	0	41 019	0
- issue of shares	0	41 019	0
<b>1.2. Share capital at the end of the period</b>	<b>140 001</b>	<b>140 001</b>	<b>98 982</b>
<b>2. Called up share capital at the beginning of period</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1. Changes in called up capital	0	0	0
a) increases (as a result of)	0	0	0
b) decreases (as a result of)	0	0	0
<b>2.2. Called up share capital at the end of period</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>3. Own shares at the beginning of period</b>	<b>0</b>	<b>-6 176</b>	<b>0</b>
3.1. Changes in own shares	0	6 176	-6 176
a) increases (as a result of)	0	0	6 176
- purchase	0	0	-6 176
b) decreases (as a result of)	0	6 176	0
- sale	0	6 176	0
<b>3.2. Own shares at the end of period</b>	<b>0</b>	<b>0</b>	<b>-6 176</b>
<b>4. Capital reserve at the beginning of period</b>	<b>325 580</b>	<b>157 186</b>	<b>151 157</b>
4.1. Changes in capital reserve	1 160	169 554	6 029
a) increases (as a result of)	1 180	169 941	6 118
- issue of shares at a premium	1	151 329	0
- distributable profit	0	14 823	6 105
- positive difference from revaluation of fixed assets	1 179	1 580	13
other increases	0	2 209	0
b) decrease (as a result of)	20	387	89
- negative difference from revaluation of fixed assets	20	387	89
<b>4.2. Capital reserve at the end of period</b>	<b>326 740</b>	<b>326 740</b>	<b>157 186</b>
<b>5. Revaluation reserve at the beginning of period</b>	<b>398</b>	<b>432</b>	<b>648</b>
a) changes of the adopted accounting principles (policy) (transformation balance sheet)	0	0	-292
5.a Revaluation reserve after reconciliation to comparable data	398	432	356
5.1. Changes in revaluation reserve	-1 159	-1 193	76

	4 quarters 2005 01.10.2005- 31.12.2005	4 quarters year- to-date/2005 01.01.2005- 31.12.2005	2004 01.01.2004- 31.12.2004
a) increases (as a result of) -transfer of the re-valued fixed assets with regard to their liquidation or sale	20	387	89
b) decreases (as a result of) -transfer of the re-valued fixed assets with regard to their liquidation or sale	1 179	1 580	13
<b>5.2. Revaluation reserve at the end of period</b>	<b>-761</b>	<b>-761</b>	<b>432</b>
<b>6. Other reserves at the beginning of period</b>	<b>76 199</b>	<b>82 375</b>	<b>76 199</b>
6.1. Changes in other reserves	0	-6 176	6 176
a) increases (as a result of) - other increases	0	0	6 176
b) decreases (as a result of) - disposal of treasury shares	0	6 176	0
<b>6.2. Other reserves at the end of period</b>	<b>76 199</b>	<b>76 199</b>	<b>82 375</b>
<b>7. Profit (loss) brought forward at the beginning of period</b>	<b>42 907</b>	<b>23 223</b>	<b>7 094</b>
7.1. Profit brought forward at the beginning of period	42 907	23 223	7 094
a) changes of the adopted accounting principles (policy)	0	0	3 778
7.2. Profit brought forward at the beginning of period, after reconciliation to comparable data	42 907	23 223	10 872
a) increases (as a result of)	0	0	0
b) decreases (as a result of) - distribution of profit brought forward - dividend	0	23 223	7 094
7.3. Profit brought forward at the end of period	42 907	0	3 778
7.4. Loss brought forward at the beginning of period	0	0	0
7.5. Loss brought forward at the beginning of period, after reconciliation to comparable data	0	0	0
a) increases (as a result of)	0	0	0
b) decreases (as a result of)	0	0	0
7.6. Loss brought forward at the end of period	0	0	0
7.7. Profit (loss) brought forward at the end of period	42 907	0	3 778
<b>8. Net result</b>	<b>3 840</b>	<b>46 747</b>	<b>19 445</b>
a) net profit	3 840	46 747	19 445
<b>II. Equity at the end of period (closing balance)</b>	<b>588 926</b>	<b>588 926</b>	<b>356 022</b>
<b>III. Equity after adjustments for the proposed distribution of profit (coverage of loss)</b>	<b>560 926</b>	<b>560 926</b>	<b>352 102</b>

## 1. Provisions and impairment of Ciech SA's assets – from 01.01.2005 to 31.12.2005

The Ciech SA's condensed financial statement for the fourth quarter of 2005 showed the following adjustments for recognition and reversal of provisions and impairment of assets.

Provisions recognised in Q4 2005	In PLN '000
Provision for employee benefits	3 588
Provision for expenses	320
Provision for expected losses	114



<b>Total</b>	<b>4 022</b>
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<b>Provisions reversed in Q4 2005</b>	<i>In PLN '000</i>
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Provision for employee benefits	127
Provision for expenses	748
Provision for expected losses	4 880
Restructuring provision	55
Provision for commitments	976
Deferred tax provision	257

<b>Total</b>	<b>7 043</b>
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<b>Impairment losses on assets (increase) recognised in Q4 2005</b>	<i>In PLN '000</i>
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Impairment losses on long-term financial assets	11 673
Impairment losses on intangible assets	154
Impairment losses on receivables	208

<b>Total</b>	<b>12 035</b>
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<b>Impairment losses on assets (increase) recognised in Q4 2005</b>	<i>In PLN '000</i>
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Impairment losses on long-term financial assets	
Impairment losses on inventories	557
Impairment losses on receivables	3 172

<b>Total</b>	<b>3 729</b>
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<b>Deferred tax assets in Q4 2005</b>	<i>In PLN '000</i>
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Increases	2 755
Decreases	0

## 2. Financial assets of Ciech SA

<b>CHANGES IN LONG-TERM FINANCIAL ASSETS</b> <i>in thousands of Polish zlotys</i>	<b>01.10.2005- 31.12.2005</b>	<b>01.01.2005- 31.12.2005</b>	<b>01.10.2004- 31.12.2004</b>	<b>01.01.2004- 31.12.2004</b>
<b>Balance at the beginning of period</b>	<b>433 383</b>	<b>435 920</b>	<b>442 922</b>	<b>442 101</b>
<b>a) increases (as a result of)</b>	41 812	46 778	0	5 822
share purchases	40 494	40 560	0	1 062
capital increase	0	4 900	0	4 000
contribution in kind	0	0	0	760
transfer from short-term financial assets	1 318	1 318	0	0
<b>b) decreases (as a result of)</b>	37 650	45 153	7 002	12 003
liquidation of the company	0	0	0	105
sale of shares	600	803	0	2 286
transfer to short-term financial assets	25 243	25 243	0	1 705
other	134	134	0	0
revaluation write-down	11 673	18 973	7 002	7 907
<b>Balance at the end of period</b>	<b>437 545</b>	<b>437 545</b>	<b>435 920</b>	<b>435 920</b>

<b>CHANGES IN SHORT-TERM FINANCIAL ASSETS</b> <i>in thousands of Polish zlotys</i>	<b>01.10.2005- 31.12.2005</b>	<b>01.01.2005- 31.12.2005</b>	<b>01.10.2004- 31.12.2004</b>	<b>01.01.2004- 31.12.2004</b>
<b>Balance at the beginning of period</b>	<b>86 108</b>	<b>3 644</b>	<b>8 258</b>	<b>7 193</b>
- shares and stocks	1 318	0	1 705	81
- other securities	21 276	16	0	0
- granted loans	9 047	3 628	0	0
- other cash	54 467	0	6 553	7 112
b) increases (as a result of)	29 768	84 568	16	16
- shares and stocks	25 243	25 243	0	0
- other securities		241	16	16
- granted loans	4 525	13 572	0	0
- other cash	0	45 512	0	0
c) decreases (as a result of)	27 664	0	4 630	3 565
- shares and stocks	1 318	0	0	81
- other securities	21 019	0	0	0
- other cash	5 327	0	2 925	3 484
- revaluation write-down	0	0	1 705	0
<b>Balance at the end of period</b>	<b>88 212</b>	<b>88 212</b>	<b>3 644</b>	<b>3 644</b>

### 3. Ciech SA's transactions with consolidated undertakings.

#### List of transactions with consolidated undertakings as at 31.12.2005

<b>Name of the company</b>	<b>Sale of goods and services</b>	<b>Purchase of goods and services</b>	<b>Other operating income</b>	<b>Financial income (interest)</b>	<b>Financial income (dividends)</b>
Agrochem Sp. z o.o. Dobrze Miasto	-	341	-	-	-
CIECH-Polfa Sp. z o.o.	919	342	597	-	290
Daltrade Plc.	21 459	2	-	-	-
Elektrociepłownia Kujawskie Sp. z o.o. Gdańskie Zakłady Nawozów	1 684	-	-	-	-
Fosforowych "FOSFORY" Sp. z o.o. Inowrocławskie Zakłady Chemiczne	64 155	10 971	-	359	1 455
SODA MĄTWY S.A.	1 599	313 239	-	43	2 033
Janikowskie Zakłady Sodowe JANIKOSODA S.A.	1 153	334 682	-	37	6 658
Petrochemia-Blachownia S. A.	54 263	144 884	3 735	-	2 150
Polsin Pte. Ltd. Przedsiębiorstwo Chemiczne Cheman	1 060	2033	-	-	251
S.A.	36 928	169	1166	34	-
Transoda Sp. z o.o.	-	8 215	-	-	-
VITROSILICON S.A.	17 644	36 224	-	-	550
Zakłady Chemiczne "Alwernia" S.A.	101 763	17 413	-	52	303

### List of transactions with consolidated undertakings as at 30.09.2005

Name of the company	Sale of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividend)
Agrochem Sp. z o.o. Dobre Miasto	-	255	-	-	-
CIECH-Polfa Sp. z o.o.	687	249	237	-	290
Daltrade Plc.	15 183	2	-	-	-
Elektrociepłownie Kujawskie Sp. z o.o.	1 184	-	-	-	-
Gdańskie Zakłady Nawozów Fosforowych "FOSFORY" Sp. z o.o.	63 849	8 966	-	214	1 455
Inowrocławskie Zakłady Chemiczne SODA MAŁY S.A.	708	233 799	-	43	2 033
Janikowskie Zakłady Sodowe JANIKOSODA S.A.	592	248 893	-	37	6 658
Petrochemia-Blachownia S. A.	35 510	109 056	3 518	-	2 150
Polsin Pte. Ltd.	865	909	-	-	-
Przedsiębiorstwo Chemiczne Cheman S.A.	29 070	90	218	300	-
Transoda Sp. z o.o.	-	6 217	-	-	-
VITROSILICON S.A.	13 169	28 221	-	-	550
Zakłady Chemiczne "Alwernia" S.A.	93 002	13 258	-	175	303

### List of transactions with consolidated undertakings as at 31.12.2004

Name of the company	Sale of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividends)
Agrochem Sp. z o.o. Dobre Miasto	-	436	-	-	-
CIECH-Polfa Sp. z o.o.	988	132	325	-	75
Daltrade Plc.	29 746	13	-	-	-
Elektrociepłownie Kujawskie Sp. z o.o.	76 927	1 470	-	-	-
Gdańskie Zakłady Nawozów Fosforowych "FOSFORY" Sp. z o.o.	78 406	13 642	-	1	1 201
Inowrocławskie Zakłady Chemiczne SODA MAŁY S.A.	1 551	226 079	-	-	5 895
Janikowskie Zakłady Sodowe JANIKOSODA S.A.	2 369	217 585	-	-	11 863
Petrochemia-Blachownia S. A.	44 121	165 632	353	-	28
Polsin Pte. Ltd.	2 299	160	-	-	282
Przedsiębiorstwo Chemiczne Cheman S.A.	11 148	-	53	29	-
Transoda Sp. z o.o.	-	3	-	-	-
VITROSILICON S.A.	602	34 903	-	-	80
Zakłady Chemiczne "Alwernia" S.A.	76 708	25 725	-	22	34

### List of transactions with consolidated undertakings as at 30.09.2004

Name of the company	Sale of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividends)
Agrochem Sp. z o.o. Dobre Miasto	-	289	-	-	-
CIECH-Polfa Sp. z o.o.	761	91	234	2	75
Daltrade Plc.	23 239	11	-	-	-
Elektrociepłownie Kujawskie Sp. z o.o.	46 435	1 160	-	-	-

Name of the company	Sale of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividends)
Gdańskie Zakłady Nawozów Fosforowych "FOSFORY" Sp. z o.o.	67 394	9 434	-	1	1 201
Inowrocławskie Zakłady Chemiczne SODA MATWY S.A.	444	167 237	-	-	5 895
Janikowskie Zakłady Sodowe JANI-KOSODA S.A.	960	169 413	-	-	6 658
Petrochemia-Blachownia S. A.	33 466	119 395	265	-	28
Polsin Pte. Ltd.	1 475	56	-	-	-
Przedsiębiorstwo Chemiczne Cheman S.A.	8 215	-	-	174	-
VITROSILICON S.A.	485	25 394	-	-	80
Zakłady Chemiczne "Alwernia" S.A.	60 076	20 159	-	63	34

#### 4. Additional information for the fourth quarter ending on 31.12.2005

##### Accounting standards applicable in preparation of periodical report for the fourth quarter ending on 31.12.2005

The quarterly report of Ciech SA was prepared in accordance with applicable accounting principles, with the use of calculation of assets and liabilities and measurement of the net financial result as at the balance-sheet day, including adjustments due to provisions.

Detailed information regarding principles and methods of valuation of assets and liabilities and measurement of the financial result as well as a method of preparation of financial statements and comparable data in Ciech SA was included in the introduction to the Half Year Report prepared as at 30th June 2005, publicly disclosed on 30th September 2005.

### III. Management Board's Statement.

This extended consolidated quarterly report of the Ciech Group for the fourth quarter was approved by the Management Board in its headquarters on March 1st, 2006.

Warsaw, March 1st, 2006.

.....  
**Ludwik Klincosz – President of the Management Board of Ciech SA**

.....  
**Stefan Rojewski – Member of the Management Board of Ciech SA**

.....  
**Jerzy Golis – Member of the Management Board of Ciech SA**

.....  
**Kazimierz Przelomski – CFO, Commercial Representative of Ciech SA**