

## B. ADDITIONAL NOTES

### I. Information on financial instruments

#### 1.1. Division of financial instruments

##### Change in financial assets as at 31.12.2005

Portfolio	Opening balance	Additions in respect of:		Deductions in respect of:		Closing balance
Financial assets held for trading	3 628	change in cash	45 512	-	-	49 140
	16	valuation	241	-	-	257
Financial assets available for sale	123	purchase	1 062	-	-	1 185
Loans granted and own receivables	-	loan	13 572	-	-	13 572
Financial assets held to maturity	-	-	-	-	-	-

##### Change in financial assets as at 31.12.2004

Portfolio	Opening balance	Additions in respect of:		Deductions in respect of:		Closing balance
Financial assets held for trading	7 112	.		change in cash	3 484	3 628
	81	valuation	16	sales	81	-
Financial assets available for sale	123	-	-	-	-	123
Loans granted and own receivables	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-

##### Financial assets according to the division included in the balance sheet as at 31.12.2005

Item	Financial assets held for trading	Financial assets available for sale	Loans granted and own receivables	Financial assets held to maturity
Long-term financial assets in affiliates: – stocks or shares*) – other securities – loans granted – other long-term financial assets				
Long-term financial assets in other entities: – stocks or shares – other securities – loans granted – other long-term financial assets	-	1 185	-	-
Short-term financial assets in affiliates: – stocks or shares*) – other securities – loans granted – other short-term financial assets	-	-	13 572	-
Short-term financial assets in other entities:				

Item	Financial assets held for trading	Financial assets available for sale	Loans granted and own receivables	Financial assets held to maturity
– stocks or shares				
– other securities				
– loans granted				
– other short-term financial assets				
	257			
Cash	49 140			

**Financial assets according to the division included in the balance sheet as at 31.12.2004**

Item	Financial assets held for trading	Financial assets available for trade	Loans granted and own receivables	Financial assets held to maturity
Long-term financial assets in affiliates:				
– stocks or shares*)				
– other securities	-	-	-	-
– loans granted				
– other long-term financial assets				
Long-term financial assets in other entities:				
– stocks or shares				
– other securities	-	123	-	-
– loans granted				
– other long-term financial assets				
Short-term financial assets in affiliates:				
– stocks or shares*)				
– other securities	-	-	-	-
– loans granted				
– other short-term financial assets				
Short-term financial assets in other entities:				
– stocks or shares				
– other securities		-	-	-
– loans granted				
– other short-term financial assets				
	16			
Cash	3 628	-	-	-

\*) this item does not present stocks or shares in subordinate entities

**Change in financial liabilities as at 31.12.2005**

Portfolio	Opening balance	Additions in respect of:		Deductions in respect of:		Closing balance
Financial liabilities held for trading	124	valuation	1 670	-	-	1 794
Other financial liabilities						
-loans	173 235	contracted	38 918	repayment	164 981	33 573
- bills of exchange	14 744		-	repayment	14 744	-

**Change in financial liabilities as at 31.12.2004**

Portfolio	Opening balance	Additions in respect of:		Deductions in respect of:		Closing balance
Financial liabilities held for trading	-	valuation	124	-	-	124
Other financial liabilities						
-loans	157 990	contracted	84 909	repayment	69 664	173 235
- bills of exchange	26 650				11 906	14 744

**Financial liabilities according to the division included in the balance sheet as at 31.12.2005**

Item	Financial liabilities held for trading	Other financial liabilities
Long-term liabilities towards affiliates	-	-
Long-term liabilities towards other entities:		
- loans and borrowings	-	18 527
- in respect of issue of debt securities		
- other financial liabilities		
Short-term liabilities towards affiliates	-	-
Short-term liabilities towards other entities:		
- loans and borrowings	-	15 046
- in respect of issue of debt securities		
- other financial liabilities	1 794	

**Financial liabilities according to the division included in the balance sheet as at 31.12.2004**

Item	Financial liabilities held for trading	Other financial liabilities
Long-term liabilities towards affiliates	-	-
Long-term liabilities towards other entities:		
- loans and borrowings	-	35 185
- in respect of issue of debt securities		
- other financial liabilities		
Short-term liabilities towards affiliates	-	-
Short-term liabilities towards other entities:		
- loans and borrowings		138 050
- in respect of issue of debt securities		14 744
- other financial liabilities	124	-

### 1.2.1 a) Description of financial instruments

#### Description of financial instruments as at 31.12.2005

Portfolio	Description	Value	Percentage	Terms & Conditions, Dates
Financial assets held for trading	Cash	49 140	-	-
	Other short-term financial assets	257		
Financial assets available for sale	Stocks and shares in other entities	1 185	1.17% 0.17% 0.04%	Andropom Police Intertext
Loans granted and own receivables	Loans granted	13 572	-	-
Financial assets held to maturity	-	-	-	-
Financial liabilities held for trading	Measurement of financial instruments	1 794	-	-
Other financial liabilities	Long-term and short-term loans and borrowings	33 573	-	See notes 19d, 20c

#### Description of financial instruments as at 31.12.2004

Portfolio	Description	Value	Percentage	Terms & Conditions, Dates
Financial assets held for trading	Cash	3 628		
Financial assets available for sale	Stocks and shares in other entities	123	1.17% 0.04%	Andropol Intertext
Loans granted and own receivables	-	-	-	-
Financial assets held to maturity	-	-	-	-
Financial liabilities held for trading	Measurement of financial instruments	124	-	-
Other financial liabilities	Long- and short-term loans and borrowings plus promissory notes issued	187 979	-	-

#### Description of derivatives as at 31.12.2005

##### FX transactions

No.	Type of instrument	Purpose	Currency	Base amount for future payment calculations	Instrument exercise price or price range	Total future cash receipts or disbursements	Instrument pricing, maturity, expiration, or exercise date
1	Forward	Hedging	EUR	23	3,9494	90	2006-01-10
2	Forward	Hedging	EUR	37	4,0300	149	2006-01-10
3	Forward	Hedging	EUR	36	4,0300	143	2006-01-10
4	Forward	Hedging	EUR	32	4,0347	130	2006-01-20
5	Forward	Hedging	EUR	28	3,8538	107	2006-01-17
6	Forward	Hedging	EUR	1 000	3,8363	- 3 836	2006-01-16
7	Forward	Hedging	EUR	413	3,8620	- 1 595	2006-02-20
8	Forward	Hedging	EUR	107	3,8689	- 415	2006-03-23
9	Forward	Hedging	EUR	476	3,9610	- 1 887	2006-03-08
10	Forward	Hedging	EUR	61	3,9129	- 240	2006-02-03
11	Forward	Hedging	EUR	301	3,9225	- 1 182	2006-01-06

No.	Type of instrument	Purpose	Currency	Base amount for future payment calculations	Instrument exercise price or price range	Total future cash receipts or disbursements	Instrument pricing, maturity, expiration, or exercise date
12	Forward	Hedging	EUR	185	3,8936	- 721	2006-01-20
13	Forward	Hedging	EUR	1 455	3,8364	- 5 582	2006-01-16
14	Forward	Hedging	EUR	1 695	3,8299	- 6 492	2006-01-20
15	Forward	Hedging	EUR	1 000	3,8617	- 3 862	2006-01-18
16	Forward	Hedging	EUR	1 000	3,8612	- 3 861	2006-01-19
17	Forward	Hedging	USD	2 201	3,2245	7 097	2006-03-01
18	Forward	Hedging	USD	650	3,2610	- 2 118	2006-02-24
19	Parforward	Hedging	EUR	160	3,9940	639	from 2006-01-02 till 2006-01-31
20	Parforward	Hedging	EUR	1 500	3,9065	5 860	from 2006-01-02 till 2006-01-31
21	Parforward	Hedging	EUR	1 600	3,8591	6 175	from 2006-01-02 till 2006-01-31
22	Parforward	Hedging	EUR	350	3,8591	1 351	from 2006-01-02 till 2006-01-31
23	Parforward	Hedging	EUR	200	3,8613	772	from 2006-01-16 till 2006-02-15
24	Parforward	Hedging	EUR	1 400	3,8633	5 409	from 2006-02-01 till 2006-02-28
25	Parforward	Hedging	EUR	200	3,9080	782	from 2006-02-01 till 2006-02-28

No.	Early settlement option (period or date), if any	Option to swap for another asset or liability	Interest rate or interest amount, dividend, or other income, with payment dates	Additional existing or assumed collaterals associated with the instrument (also for the instrument for which instrument in question can be swapped)	Other terms and conditions applicable to the instrument	Risk related with the instrument	Total existing liabilities from items held in the instruments
1	Repo transaction	-	-	-	-	FX risk	
2	Repo transaction	-	-	-	-	FX risk	
3	Repo transaction	-	-	-	-	FX risk	
4	Repo transaction	-	-	-	-	FX risk	
5	Repo transaction	-	-	-	-	FX risk	
6	Repo transaction	-	-	-	-	FX risk	
7	Repo transaction	-	-	-	-	FX risk	
8	Repo transaction	-	-	-	-	FX risk	
9	Repo transaction	-	-	-	-	FX risk	
10	Repo transaction	-	-	-	-	FX risk	
11	Repo transaction	-	-	-	-	FX risk	
12	Repo transaction	-	-	-	-	FX risk	
13	Repo transaction	-	-	-	-	FX risk	
14	Repo transaction	-	-	-	-	FX risk	
15	Repo transaction	-	-	-	-	FX risk	
16	Repo transaction	-	-	-	-	FX risk	
17	Repo transaction	-	-	-	-	FX risk	
18	Repo transaction	-	-	-	-	FX risk	
19	Repo transaction	-	-	-	-	FX risk	
20	Repo transaction	-	-	-	-	FX risk	
21	Repo transaction	-	-	-	-	FX risk	
22	Repo transaction	-	-	-	-	FX risk	
23	Repo transaction	-	-	-	-	FX risk	
24	Repo transaction	-	-	-	-	FX risk	
25	Repo transaction	-	-	-	-	FX risk	

### CURRENCY AND INTEREST RATE SWAPS

	Transaction	Interest rate payable	Interest rate receivable	Settlement date	PLN	EUR	Amortisation of the principal amount against which interest is calculated	Exchange rate
CCIRS EUR / PLN	Principal and interest swap on the last business day of each quarter ending March, June, September, December	3M WIBOR +0.08 %	3M EURIBOR	30 <sup>th</sup> June 2006	- 6 119	1 500	Straight-line	4,0795
CCIRS EUR / PLN	Principal and interest swap on the last business day of each quarter ending March, June, September, December	3M WIBOR +0,08 %	3M EURIBOR	31 <sup>st</sup> December 2009	- 27 741	6 800	Straight-line	4,0795

#### Description of derivatives as at 31.12.2004

##### FX transactions

No.	Type of instrument	Purpose	Currency	Base amount for future payment calculations	Instrument exercise price or price range	Total future cash receipts or disbursements	Instrument pricing, maturity, expiration, or exercise date
1	forward	hedging	EUR/PLN	19	4,1863	81	2005-01-03
2	forward	hedging	EUR/PLN	1 241	4,0778	5 061	2005-01-05
3	forward	hedging	EUR/PLN	102	4,1080	419	2005-01-18
4	forward	hedging	EUR/PLN	23	4,2330	95	2005-01-31
5	forward	hedging	EUR/PLN	20	4,2460	85	2005-01-31
6	forward	hedging	EUR/PLN	22	4,2470	92	2005-01-31
7	forward	hedging	USD/PLN	1 065	2,9881	3 182	2005-01-11
8	forward	hedging	EUR/PLN	248	4,2490	-1 056	2005-01-06
9	forward	hedging	EUR/PLN	352	4,2539	-1 498	2005-01-21

No.	Early settlement option (period or date), if any	Option to swap for another asset or liability	Interest rate or interest amount, dividend, or other income, with payment dates	Additional existing or assumed collaterals associated with the instrument (also for the instrument for which instrument in question can be swapped)	Other terms and conditions applicable to the instrument	Risk related with the instrument	Total existing liabilities from items held in the instruments
1	repo transaction	-	-	-	-	FX risk	-
2	repo transaction	-	-	-	-	FX risk	-
3	repo transaction	-	-	-	-	FX risk	-
4	repo transaction	-	-	-	-	FX risk	-
5	repo transaction	-	-	-	-	FX risk	-
6	repo transaction	-	-	-	-	FX risk	-
7	repo transaction	-	-	-	-	FX risk	-
8	repo transaction	-	-	-	-	FX risk	-
9	repo transaction	-	-	-	-	FX risk	-

### Currency and Interest Rate Swaps

	Transaction	Interest rate payable	Interest rate receivable	Final settlement date	PLN	EUR	Amortisation of the principal amount against which interest is calculated	Exchange rate
CCIRS EUR / PLN	Principal and interest swap on the last business day of each quarter ending March, June, September, December	3M WIBOR + 0.08%	3M EURIBOR	31.06.2006	-12 238	3 000	Straight-line	4,0795
CCIRS EUR / PLN	Principal and interest swap on the last business day of each quarter ending March, June, September, December	3M WIBOR + 0.08%	3M EURIBOR	31.12.2009	-32 636	8 000	Straight-line	4,0795

#### 1.2.1 b) Methods and material assumptions applied in calculating the fair value of financial assets and liabilities measured at fair value

Fair value is the amount for which an asset could be exchanged, and a liability settled as a market transaction between willing and knowledgeable parties. Fair value is used to measure:

- Derivatives
- Other financial assets and liabilities held for trading
- Financial assets available for sale, except when the fair value cannot be determined because the shares are not listed in an active market

Fair value is measured by:

- valuation of a financial instrument at the price quoted on an active regulated market where financial instruments are publicly traded, and the price is known to the general public (assets held for trading and sale)
- valuation of a financial instrument using generally acknowledged estimation methods

#### 1.2.1. c) Recognition of the revaluation effects of financial assets available for sale

The effects of revaluation of financial assets available for sale are carried against the financial income and costs of the current period.

#### 1.2.1 d) Principles of posting financial assets purchased on a regulated market

Financial assets purchased on a regulated market are posted as at the transaction settlement date. This approach is also used in accounting for financial assets sold on a regulated market.

#### 1.2.1 e) Interest rate risk

##### Exposure to interest rate risk by types of financial instruments

Financial instrument	Carrying amount	Redemption or revaluation date	Effective interest rate	Risk type
Working capital loan	4 181	30.06.2006	3,44	Cash flow risk
Working capital loan	26 501	31.12.2009	3,64	Cash flow risk
Investment loan	5 000	31.05.2006	5,94	Cash flow risk

A sensitivity analysis showed that a shift in the market interest rates by one percentage point will change the 2006 result and the 2006 future cash flows by 357 000.

### 1.2.1. f) Credit risk related to financial instruments

CIECH SA is not exposed to any material credit risk related to financial instruments.

### 1.2.2 Financial assets held for trading or available for sale the fair value of which cannot be reliably determined

As at 31 December 2005, the Company held the following financial assets held for trading or available for sale, held at purchase cost, or adjusted purchase cost since the fair value cannot be reliably determined:

As at 31.12.2005

Financial instrument	Carrying amount	Reason why the fair value cannot be reliably measured	Estimated fair value range
Shares in 'Andropol'	121	Instrument not listed on an active regulated market	No data available
Shares in 'Intertext'	2	Instrument not listed on an active regulated market	No data available

As at 31.12.2004

Financial instrument	Carrying amount	Reason why the fair value cannot be reliably measured	Estimated fair value range
Shares in 'Andropol'	121	Instrument not listed on an active regulated market	No data available
Shares in 'Intertext'	2	Instrument not listed on an active regulated market	No data available

### 1.2.3 Financial assets and liabilities not held at fair value

Fair value of financial instruments measured at (adjusted) purchase cost

As at 31.12.2005

Financial instrument	Carrying amount	Fair value
Loans and borrowings	33 573	33 573

As at 31.12.2004

Financial instrument	Carrying amount	Fair value
Loans and borrowings	173 234	173 235
Bills of exchange	14 744	14 744

### 1.2.4. Transactions resulting in conversion of financial assets to securities or repo agreements

Not applicable.

### 1.2.5. Re-qualification of financial assets held at fair value as financial assets measured at adjusted purchase cost

Not applicable.



### 1.2.6. Impairment write-downs for financial assets

In 2005, the Company established a write-down for the acquisition cost of Police SA shares, amounting to 256 000 PLN.

### 1.2.7. Interest income from debt financial instruments, plus loans granted and own receivables

Between 01.01.-31.12.2005 the Company recorded interest income from granted loans amounting to 479 000 PLN.

### 1.2.8. Interest on financial assets written-down

Not applicable.

### 1.2.9 Interest expense on financial liabilities

The interest expense on financial liabilities calculated applying the interest rates arising from the contracts concluded, due in the period between 01.01.2005 and 31.12.2005 was as follows:

Financial instrument	Realised interest	Unrealised interest			Total
		Up to 3 months	3 to 12 months	Over 12 months	
Financial liabilities held for trading	-	-	-	-	-
Other short-term financial liabilities	3 648	-	-	-	3 648
Long-term financial liabilities	-	-	-	-	-

Interest expense on financial liabilities calculated applying the interest rates arising from the contracts concluded, due in the period between 01.01.2004 and 31.12.2004 was as follows:

Financial instrument	Realised interest	Unrealised interest			Total
		Up to 3 months	3 to 12 months	Over 12 months	
Financial liabilities held for trading	-	-	-	-	-
Other short-term financial liabilities	9 799	-	-	-	9 799
Long-term financial liabilities	-	-	-	-	-

### 1.2.10. Risk management objectives and policy (if entity applies hedge accounting)

No hedges were applied within the meaning of hedge accounting as defined in the Regulation of the Minister of Finance of 12 December 2001, concerning detailed principles of recognition, valuation method, area of disclosure and presentation method for financial instruments.

### 1.2.11. Hedging of planned transactions and probable future liabilities

No hedges were applied within the meaning of hedge accounting as defined in the Regulation of the Minister of Finance of 12 December 2001, concerning detailed principles of recognition, valuation method, area of disclosure and presentation method for financial instruments.

### 1.2.12. Gains and losses on hedging instruments recognised in equity (revaluation reserve)

There were no changes in the revaluation reserve resulting from the valuation of hedging instruments in the case of cash flow hedging.

## 2. Off-balance sheet items

### 2.1. Sureties and guarantees

Information concerning sureties and guarantees granted by CIECH SA to affiliates is included in Note 23. Total sureties granted as at 31.12.2005 is as follows:

- sureties 26 571 000 PLN

The Company has no liabilities resulting from guarantees granted to other entities.

The sureties comprise sureties granted as loan collaterals:

- Zakłady Chemiczne SODA MĄTWY S.A. 4 185 000 PLN
- Ciech Polfa Sp. z o.o. 4 800 000 PLN
- CHEMAN S.A. 17 450 000 PLN
- Employees of Ciech SA 136 000 PLN

### 2.2. Economic and financial position of the subsidiary Cheman S.A.

Cheman S.A. is a subsidiary with 100% of shares held by Ciech S.A. In 2005, Cheman recorded poor financial results and problems with the financial liquidity. Loss on sales amounted to 5.059 000 PLN, with realised sales income amounting to 157.293 000 PLN. Net loss amounted to 10.858 000 PLN. Multiple factors influenced final net losses and the sales loss. Major factors include a take-over of Ciech Petrol by Cheman in the middle of 2004 that recorded losses.

Upon the merger, the return on sales decreased due to the worse sales structure (take-over of unprofitable goods). Ciech Petrol dealt with the distribution and retail sale of fuels, unprofitable in the last years of the Company's operation on the market, which resulted in the deterioration of the Company's financial position. Within the project of withdrawal from the petrochemical industry by the Ciech Group, during the take-over of Ciech Petrol, Cheman was obliged to restructure and liquidate the fuel-related activity. By the end of 2004, Cheman was engaged in the take-over of Ciech Petrol profile of activity and selection of part of the activity to be terminated. The process was completed in 2005 and estimates concerning the cost of final activity termination were developed. Restructuring costs were included in the 2005 result, which brought about an increase in the net loss. The following factors affected the result in particular:

- write-down for tangible assets regarding fuels – 2.324 000 PLN
- write-down for reserves regarding fuels – 178 000 PLN
- write-downs for receivables – 2.474 000 PLN
- provision for restructuring fuel-related activity – 3. 863 000 PLN

Moreover, the Company recorded a loss in income and profitability in respect of operating problems (loss of products, high personnel turnover, mismanagement of sales and delivery chain, situation on the FX market, sudden change in the economic situation of imported goods).

A jump in sales in 2005 brought about by a merger with Ciech Petrol and the take-over from Ciech S.A. of the distribution of plastics and reagents with extended payment periods resulted in increased demand of working capital. Additional problem appeared related to timely payments by consumers and effective debt recovery. These factors were an immediate cause of the problems with the Company's financial liquidity.

The take-over of the distribution of goods from Ciech S.A. by Cheman strengthened mutual commercial relationships. Due to the strategy pursued by Grupa Chemiczna, Ciech S.A. supported the restructuring process in Cheman SA. As at 31 December 2005, amounts due by Cheman S.A. to Ciech S.A. were 18.140 000 PLN, including 12 337 000 PLN overdue by up to 180 days. The amount of 6.979 000 PLN was repaid by the audit date (15 March). Moreover, Ciech S.A. extended a surety for loans taken by Cheman S.A. to finance current operations, up to the amount of 17.450 000 PLN. As at the balance sheet date, the amount of the credit surety used is lower than the maximum surety granted.

In May 2005, the composition of Cheman Management Board changed. A new Management Board ordered an operating audit with a certified auditing company. Advisor report was developed in September 2005.

Based on the recommendations included in the Report, the Management Board developed a Corporate Recovery Programme for 2006-2009. Upon approval of the programme, in the 4<sup>th</sup> quarter of 2005 Ciech S.A. redeemed overdue receivables from Cheman S.A. amounting to 6.754 000 PLN, and increased Cheman S.A. equity by 850 000 PLN.

Cheman S.A. recovery programme is based on the following assumptions:

- conversion of overdue liabilities towards Ciech S.A. to a long-term loan amounting to 9 000 000 PLN for the period of 5 years, and the 2-year principal payment grace with the interest rate based on market conditions
- change in the profile of the company operation and adaptation of a new organisational structure focused on sales intensification
- change in the sales structure by way of termination of the distribution of unprofitable goods to the benefit of profitable ones
- increase in sales of soda products
- termination in 2006 of unprofitable fuel-related activity, including sales and liquidation of property used for fuel-related activity
- development of trade network in selected domestic regions
- improvement regarding debt recovery
- optimisation with regard to allocation of goods in warehouses, and optimisation of warehousing locations
- reduction of transportation costs by a limited number of links in the chain of delivery to a final user

A long-term financial forecast based on the afore-mentioned programme includes an improvement of Cheman financial liquidity in 2006, reduction of sales costs and profit on net sales, and in the years to follow a steady improvement of net return on sales. That being so, as at the balance sheet date the Management Board of Ciech S.A. did not establish write-downs on Cheman S.A. receivables on the basis of anticipated improvement of the Company's financial position and liquidity plus mitigation of the risk of failure to pay Ciech S.A. receivables resulting from the implementation of the Recovery Programme.

### **2.3. Liabilities of Ciech SA (domestic and foreign) claimed in court or arbitration proceedings as at 31 December 2005.**

#### Claim by Petro Carbo Chem Aktiengesellschaft (PCC)

PCC AG filed an action in 2000, claiming a compensation in the amount of 21,364,000 PLN and 13,861.45 EUR (equivalent to 54,000 PLN) for failure to execute the agreement to transfer the shares of Petrochemia Blachownia Sp. z o.o. as stipulated in the preliminary agreement of 09 July 1999. On 27 May 2003, the District 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 compensation itself. Ciech SA appealed against the preliminary judgment on 19 September 2003, because the preliminary judgment was issued based on 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 August 2004, the Court of Appeal upheld the District Court's preliminary judgment, confirming that PCC's claims were justified, without stating the amount of compensation to be the subject of 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 19 April 2005, Ciech S.A. received a final decision of the Supreme Court dismissing the appeal.

Because the appeal was dismissed, the case returned before the District Court that continued the proceedings by determining the amount of compensation for PCC AG.

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

- 16,391,000 PLN due to the lost dividend for the years 1999 and 2000 with statutory interest that as at 31<sup>st</sup> December 2005 amount to 14,653 000 PLN
- 14,200 000 PLN, that constitutes the equivalent of 72.33 % of the value of Petrochemia-Blachownia Sp. z o.o. according to the balance sheet as at 30 November 2000, gross of the value of income from one-year treasury bills for the period from 1<sup>st</sup> December 2000 to the payment date, that amount to 6,819 000 PLN as at 31 December 2005

- 13,861.44 EUR (equivalent of 54,000 PLN) that constitutes a compensation in respect of exchange differences arisen when repaying the advance payment with statutory interest from 22 July 1999, that amount to 63 000 PLN as at 31<sup>st</sup> December 2005

On 10 November 2005, the District Court judged against PCC. On 6 March 2006, the Claimant appealed against the unfavourable judgement.

#### Claim 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 SA and the sulphur mines in Tarnobrzeg and Grzybów. The amount of claim was 3 872 943 USD (equivalent of 12 631 000 PLN), and statutory interest according to the Polish law, calculated from 16 September 2003, which as at 31 December 2005 constituted the amount of PLN 3 655 000 PLN. In addition, Comexport demanded reimbursement of the cost of court proceedings and the cost of legal service in the amount of 204 436 26 EUR (equivalent of 789 000 PLN).

The principal claim amount consisted of; Comexport's lost profits on contractual quantities not delivered to Brazilian customers, losses from overstated freight costs, etc. In November 2003, Ciech SA replied to 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 22 April 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 reimbursement 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 27 October 2005 Ciech SA received a court judgement, according to which all three defendants: Ciech and sulphur mines in Grzybów and Tarnobrzeg were jointly and severally pay the amount of 2 474 166 USD (equivalent of 8,069,000 PLN) plus the interest of 5%, from 17 September 2003, amounting as at 31st December 2005 to 283 000 USD (equivalent of 924 000 PLN) and 123 000 USD (equivalent of 401 000 PLN) in respect of the cost of court proceedings. The adjudged amount constitutes the lost profit claimed by Comexport.

On 18 November 2005, Ciech submitted an announcement of a complaint at the Court of Appeal in Paris, to revoke the judgement of the Court of Arbitration. The basis for lodging a complaint is the violation of the principle of the proper course of arbitration proceedings by the arbitrator, by referring to the judgement of the Polish Supreme Court of 1973 concerning a vital issue of termination of the lapse course, without enabling the parties to express their opinion on that. According to the opinion of the law office representing Ciech, the judgement form 1973 referred to by the arbitrator is not applicable in the case of arbitration proceedings.

#### Claim by Enapharm

In June 2004, the Liquidator for Enapharm in Algeria filed a claim for 172 879 84 USD (equivalent to 564 000 PLN) constituting damages for deliveries of medications by Ciech SA between 1985 and 1991.

According to the claimant, Ciech S.A. did not replace expired medications that the claimant had not sold, in violation of the agreement between the parties. Ciech S.A. claims that it was exempt from the replacement provision, in light of the claimant's failure to make payments for sold medications in the Algerian market.

The case is pending before an Algerian court. Ciech S.A. is represented by a local attorney, supervised by a well-respected law office based in Paris. 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.

Ciech S.A established a provision amounting to 17 500 000 PLN for the afore-mentioned liabilities.

## 2.4. Other obligations

CIECH SA has the following additional tasks and obligations imposed by the Ministry of Privatisation, resulting from the purchase of shares of Inowrocławskie Zakłady Chemiczne "Soda Mątwy" S.A. and Janikowskie Zakłady Sodowe "Janikosoda" S.A.

- investment obligations,

By 10<sup>th</sup> anniversary of the signature of agreements (28 August 2006), CIECH S.A. has to ensure the completion of investments by the Companies of the minimum value of:

Entity	Investment obligations	Investment obligations fulfilled by 31st December 2005	Investment obligation performance in %
IZCH "Soda Mątwy" S.A.	65.01 million USD	81.93 million USD	126.03%
JZS "Janikosoda" S.A.	63.49 million USD	69.34 million USD	109.21%

- investment obligations regarding environmental protection,

Using the investment funds specified above, by the tenth anniversary of the agreements (28 August 2006) CIECH has to ensure the completion of investments by the Companies regarding environmental protection, of the minimum value of:

Entity	Investment obligations	Investment obligations fulfilled by 31 December 2005	Investment obligation performance in %
IZCH "Soda Mątwy" S.A.	8.27 million USD	19.33 million USD	233.70%
JZS "Janikosoda" S.A.	17.27 million USD	21.42 million USD	124.03%

- obligations resulting from the investment nature of the purchase of shares

Within the period of 10 years of the date of the signature of agreements (i.e. 28 August 2006), CIECH is obliged not to vote for the decrease of the companies' equity or the dissolution of the Companies.

## 3. Data concerning liabilities towards the state budget or territorial authorities due to obtaining the property right to buildings and structures

In 2005, and in the presented comparable period, there were no liabilities in respect of property right to buildings and structures towards the state budget or territorial authorities.

## 4. Information on income, costs, and results of discontinued operations in a given period or planned to be discontinued in the period to follow

In April 2005, the Company began the process of transfer of trade in plastics and auxiliary agents to its subsidiary - Cheman SA. This process was completed by the end of the reporting period. The total income from sales of those goods in 1st quarter of 2005 amounted to 9 111 000 PLN, and the net trade margin amounted to 546 000 PLN.

In 2004, national trading of organic goods (dyes) was transferred to Boruta Color Sp. z o.o.

Income from domestic trading in dyes amounted to	163 000 PLN
Costs of the above income	181 000 PLN
Result on discontinued operations	18 000 PLN

#### 5. Cost of construction of tangible assets under construction, tangible assets for own needs

Due to the type of activity, there are no such costs at CIECH S.A.

#### 6. Investment incurred and planned for the next 12 months as of the balance sheet date, including non-financial fixed assets

Investment incurred in 2005.

	31.12.2005
Total investments incurred	49 593
including investments for non-financial fixed assets	6 865
Investments incurred for environmental protection	-

Additional specification of total investments:

	31.12.2005
Intangible assets	3 604
Property, plant and equipment (PPE)	3 261
Capital investments	42 728
<b>Total investments incurred</b>	<b>49 593</b>

Investments planned for the 12-month period after 31.12.2005.

	31.12.2006
Total planned investments	5 535
including investments for non-financial fixed assets	5 535
Planned investments for environmental protection	-

Additional specification of total planned investments:

	31.12.2006
Intangible assets	4 001
Property, plant and equipment (PPE)	1 534
Capital investments*	-
Other investments	-
<b>TOTAL INVESTMENTS PLANNED</b>	<b>5 535</b>

## 7. Figures concerning affiliates (in thousand PLN)

List of transactions with affiliates in 2005								
	Name of the company	Sales of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividends)	Receivables	Liabilities
<b>A.</b>	<b>SUBSIDIARIES</b>							
	Agrochem Sp. z o.o. Dobre Miasto	-	341	-	-	-	-	45
	Boruta-Kolor Sp. z o.o.	2 591	73	12	-	400	51	
	Chemia.com S.A.	20	2 277	204			9	366
	Chemiepetrol GmbH	-	818	-	-	382	-	99
	InChem Sp. z o.o.	-	-	20	3 196	-	-	-
	CIECH-Polfa Sp. z o.o.	919	342	597	-	290	109	47
	CIECH-SERVICE Sp. z o.o.	16	3 274	120	-	-	308	323
	Ciech Finance Sp. z o.o.	-	-	-	-	-	1	-
	Daltrade Plc.	21 459	2	-	-	-	515	2
	Danske Unipol A/S	7 060	826	-	-	228	1436	20
	Elektrociepłownie Kujawskie Sp. z o.o.	1 684	-	-	-	-	401	-
	Gdańskie Zakłady Nawozów Fosforowych "FOSFOR" Sp. z o.o.	64 155	10 971	-	359	1 456	198	1 157
	Inowrocławskie Zakłady Chemiczne SODA MAŹWY S.A.	1 599	313 239	-	43	2 033	424	69 549
	Janikowskie Zakłady Sodowe JANIKOSODA S.A.	1 153	334 682	-	37	6 658	716	73 815
	Jantrans Janikowo	-	-	-	-	-	1	587
	Nordiska Unipol AB	225	1333	1	-	-	20	435
	Petrochemia-Błachownia S.A.	54 263	144 884	3 735	-	2 150	13 113	13 268
	Polcommerce GmbH Wiedeń	7 680	317	-	-	-	1021	187
	Polcommerce Ltd. Budapeszt	-	102	-	-	123	-	6
	Polsin Pte. Ltd.	1 060	2 033	-	-	258	-	3
	Przedsiębiorstwo Chemiczne Cheman S.A.	36 928	169	1 166	34	-	18 140	41
	SODA MED. Sp. z o.o.	-	17	-	-	-	-	2
	Transoda Sp. z o.o.	-	8 215	-	-	-	6	563
	VITROSILICON S.A.	17 644	36 224	-	-	550	1 659	3 792
	Zakłady Chemiczne "Alwernia" S.A.	101 763	17 413	-	52	303	8 038	2 424
<b>B.</b>	<b>CO-SUBSIDIARIES AND ASSOCIATES</b>							
	Przedsiębiorstwo Transportowo-Uslugowe TRANSCLEAN Sp. z o.o.		3 992	-	-	171	-	730
	Suomen Unipol Oy	25 736	1 909	-	-	62	2543	229

List of transactions with affiliates in 2005								
	Name of the company	Sales of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividends)	Receivables	Liabilities
	Zach-Ciech Sp. z o.o.	-	-	-	13	-	-	-

## 7. Figures concerning affiliates (in thousand PLN)

List of transactions with affiliates in 2004								
	Name of the company	Sales of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividends)	Receivables	Liabilities
<b>A.</b>	<b>SUBSIDIARIES</b>							
	Agrochem Sp. z o.o. Dobre Miasto	-	436	-	-	-	-	100
	Boruta-Kolor Sp. z o.o.	6 167	5 468	-	-	222	1 118	128
	Chemia.com S.A.	2	667	44	-	-	7	244
	Chemiepetrol GmbH	-	945	-	-	41	-	116
	InChem Sp. z o.o.	1	-	14	-	-	11 855	-
	CIECH-Polfa Sp. z o.o.	988	132	325	-	75	32	-
	CIECH-SERVICE Sp. z o.o.	11	3 720	119	-	-	10	416
	Daltrade Plc.	29 746	13	-	-	-	1 242	2
	Danske Unipol A/S	5 934	967	-	-	88	604	202
	Elektrociepłownie Kujawskie Sp. z o.o.	76 927	1 470	-	-	-	14 571	110
	Gdańskie Zakłady Nawozów Fosforowych "FOSFORY" Sp. z o.o.	78 406	13 642	-	1	1 201	2 802	1 811
	Inowrocławskie Zakłady Chemiczne SODA MAŹTWE S.A.	1 551	226 079	-	-	5 895	626	45 428
	Janikowskie Zakłady Sodowe JANIKOSODA S.A.	2 369	217 585	-	-	11 863	620	40 027
	Nordiska Unipol AB	13	1 181	-	-	-	257	309
	Petrochemia-Blachownia S.A.	44 121	165 632	353	-	28	14 619	27 353
	Polcommerce GmbH Wiedeń	5 712	324	-	3	-	927	111
	Polcommerce Ltd. Budapeszt	-	173	-	-	178	-	32
	Polsin Pte. Ltd.	2 299	160	-	-	282	443	-
	Przedsiębiorstwo Chemiczne Cheman S.A.	11 148	-	53	29	-	5 725	-
	SODA MED. Sp. z o.o.	-	1	-	-	-	-	1
	Transoda Sp. z o.o.	-	3	-	-	-	-	2
	VITROSILICON S.A.	602	34 903	-	-	80	95	3 960
	Zakłady Chemiczne "Alwernia" S.A.	76 708	25 725	-	22	34	4 968	3 938



List of transactions with affiliates in 2004								
	Name of the company	Sales of goods and services	Purchase of goods and services	Other operating income	Financial income (interest)	Financial income (dividends)	Receivables	Liabilities
<b>B</b>	<b>CO-SUBSIDIARIES AND ASSOCIATES</b>							
	Przedsiębiorstwo Transportowo-Uslugowe TRANSCLEAN Sp. z o.o.		4 331	-	-	100	-	695
	Suomen Unipol Oy	15 215	1 501	-	-	64	2 390	405
	Zach-Ciech Sp. z o.o.	239	-	-	1	-	-	-
	Zakłady Tworzyw i Farb Sp. z o.o.	1 085	-	-	17	-	-	-

**Information on the transactions of the issuer with affiliates, concerning the transfer of rights and obligations**

2005 (in thousand PLN) - significant transactions				
No.	Party to a transaction	subject of the transaction	value in thousand PLN	information
1.	<b>Soda Małwy</b>	Purchase of goods, materials and products	312 477	Framework agreement regarding the purchase for own account of 2 January 1997
		Purchase of services	762	Rental of premises, courier services
		Sales of goods	189	Framework agreement
		Sales of services	1 410	Including 12 for using the trademark – 1% of income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
		Implementation of the ERP IT system	4 777	Ciech acts as an investor, the implementation date is by 31 May 2006.
		Loan	4 500	Loan granted on 4 May 2005, repaid on 28 June 2005, with the annual interest rate of 6.6%
		2.	<b>Ciech Service</b>	Sales of services
3.	<b>Janikosoda</b>			Sales of services
		Sales (re-invoices)	18 976	*
		Purchase of services	518	Rent, other
		Purchase of goods, materials and products	334 163	Framework agreement regarding the purchase for own account of 2 January 1997.
		Loan	4 000	Loan granted on May 4, 2005, repaid on June 28, 2005, with the annual interest rate of 6.6%
4.	<b>Alwernia</b>	Purchase of goods, materials and products	17 411	Contracts; Co-operation agreement of 1 December 2003
		Loan	4 500	Repayment by 31 March 2006 with the annual interest rate of 6.0%
		Sales of goods, materials, and products	101 084	Sales agreement of 18 December 2003
		Sales of services	679	for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
		Sales of services (re-invoices)	841	*
5.	<b>Vitrosilicon</b>	Sales of services	995	for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 2 February 2003
		Sales of services (re-invoices)	692	*
		Sales of goods	16 649	contracts
		Purchase of goods, materials and products	36 219	Agreement regarding the purchase for own account of 4 July 2000.
6.	<b>GZNF Fosfory</b>	Purchase of goods, materials and products	4 921	Agreement regarding the purchase of fertilizers and sulphuric acid of 1 August 2002
		Purchase of services	6 008	Framework agreement concerning handling services
		Purchase of re-invoice	41	**

		Sales of goods, materials, and products	62 482	For production of fertilizers
		Sales of services	1 673	Including 1673 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
		Sales of re-invoice	109	*
		Loan	4 500	Repayment by 30 November 2005 with the annual interest rate of 6.54%
		Loan	4 500	Repayment by 31 December 2005 with the annual interest rate of 6.54%
7.	<b>Petrochemia Blachownia</b>	Purchase of goods, materials and products	144 883	Trading co-operation agreement of 26 March 2002
		Sales of goods, materials, and products	52 908	Trading co-operation agreement of 26 March 2002
		Sales of tangible assets	3 500	
		Sales of services	1 590	Including 766 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
8.	<b>Boruta-Kolor</b>	Purchase of services	73	Rental of warehousing area
		Sales of goods, materials, and products	2 036	Co-operation agreement concerning import, export and domestic trading of 28 June 2002
		Sales of services	555	Including 268 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
9.	<b>Chemana S.A.</b>	Sales of services	983	Rental of office area; using the trademark of the Ciech Capital Group, according to the agreement of 10 April 2003
		Sales of services (re-invoices)	1 162	*
		Sales of goods, materials, and products	36 294	Agreement of 21 December 1999 - for indefinite period of time
		Sales of investments	817	IT and implementation work
		Purchase of services	169	Other
10.	<b>Elektrociepłownie Kujawskie</b>	Sales of services	1 715	Transportation services
11.	<b>Polsin Pte Ltd.</b>	Sales of goods, materials, and products	2 299	Agreement on delivery of TDI, concluded for a year
		Purchase of services	57	Agent's commission
12.	<b>Daltrade Plc.</b>	Sales of goods, materials, and products	29 746	Contracts
		Purchase of services	13	Agent's commission
13.	<b>Danske Unipol</b>	Sales of goods, materials, and products	7 059	Contracts
		Purchase of services	826	Agent's commission
14.	<b>Agrochem Dobre Miasto</b>	Purchase of goods, materials and products	341	Short-term orders
15.	<b>Transclean.</b>	Purchase of services	3 992	Transportation services
16.	<b>Ciech Polfa</b>	Sales of services	882	Office area rental agreement; for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
		Sales of goods	38	Short-term orders
		Sales of services (re-invoices)	265	*
		Sales of property, plant and equipment	328	Sales of tangible assets
		Sales of shares in Polcommerce Kft. Budapest	203	
		Purchase of services	341	Contract support

17.	<b>Polcommerce GmbH</b>	Sales of goods, materials, and products	7 660	Contracts
		Purchase of services	317	Agent's commission
18.	<b>Suomen Unipol Oy</b>	Sales of goods, materials, and products	25 735	Contracts
		Purchase of services	1 909	Agent's commission, other
19.	<b>Chemia.com</b>	Organisation and co-operation in the implementation of the ERP system at IZCH Soda Małwy	900	Term of the agreement: 1 June 2005 – 31 March 2006
		Purchases of products and services	2 277	Agreement regarding IT support
20.	<b>Transoda</b>	Purchase of services	8 215	Transportation services
		Sales (re-invoices)	70	*

\* costs incurred re-invoiced to the Companies, with no influence on Ciech SA income and costs

\*\* purchasing re-invoiced to other entities, with no influence on Ciech SA income and costs

2004 (in thousand PLN) significant transactions				
No.	Party to the transaction	subject of the transaction	value in thousand PLN	information
1.	<b>Soda Małwy</b>	Purchase of goods, materials and products	225 882	Framework agreement regarding the purchase for own account of 2 January 1997.
		Purchase of services	74	Rental of premises, courier services
		Sales of services	3 146	Including 609 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
2.	<b>Ciech Service</b>	Sales of services	4	For using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
3.	<b>Janikosoda</b>	Sales of services	3 968	Including 1286 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 2 January 2003
		Purchase of services	65	Rent, other
		Purchase of goods, materials and products	217 521	Framework agreement regarding the purchase for own account of 2 January 1997
4.	<b>Petrochemia Blachownia</b>	Purchase of goods, materials and products	165 632	Contracts; Co-operation agreement of 1 December 2003
		Sales of goods, materials, and products	42 831	Sales agreement of 18 December 2003
		Sales of services	1 649	Office area rental agreement; for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
5.	<b>Vitrosilicon</b>	Sales of services	1 026	Including 603 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 2 February 2003
		Purchase of goods, materials and products	34 903	Agreement regarding the purchase for own account of 4 July 2000.
6.	<b>GZNF Fosfory</b>	Purchase of goods, materials and products	12 406	Agreement regarding the purchase of fertilizers and sulphuric acid of 1 August 2002

		Purchase of services	1 235	Framework agreement concerning handling services
		Sales of goods, materials, and products	77 194	For production of fertilizers
		Sales of services	1 281	Including 1 212 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2003
7.	<b>Alwernia</b>	Purchase of goods, materials and products	25 725	Trading co-operation agreement of 26 March 2002
		Sales of goods, materials, and products	75 956	Trading co-operation agreement of 26 March 2002
		Sales of services	1 295	Including 752 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2003
8.	<b>Boruta-Kolor</b>	Purchase of goods, materials and products	5 233	Co-operation agreement concerning import, export and domestic trading of 28 June 2002
		Purchase of services	235	Rental of warehousing area
		Sales of goods, materials, and products	5 597	Co-operation agreement concerning import, export and domestic trading of 28 June 2002
		Sales of services	670	Including 164 for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
9.	<b>Chemian S.A.</b>	Sales of services	292	Rental of the office area
		Sales of goods, materials, and products	10 972	Agreement of 21 December 1999 - for indefinite period of time
		Acquisition of shares in the increased share capital of the company	4 000	According to the registration in the National Court Register (KRS) of 4 March 2004
10.	<b>ChemiaCom</b>	Purchase of company shares	1 010 (acquisition cost)	According to the sales agreement of 2 June 2004
11.	<b>Zach-Ciech</b>	Sales of goods, materials, and products	239	Short-term order
12.	<b>ZTIF in Zloty Stok</b>	Sales of goods, materials, and products	1 086	Contracts
13.	<b>Elektrociepłownie Kujawskie</b>	Sales of goods, materials, and products	76 927	Agreement of 7 April 2004.
		Purchase of services	1 470	Transportation services
14.	<b>Polsin Pte Ltd.</b>	Sales of goods, materials, and products	2 299	Agreement on delivery of TDI, concluded for a year
15.	<b>Daltrade Plc.</b>	Sales of goods, materials, and products	29 746	Contracts
16.	<b>Danske Unipol</b>	Sales of goods, materials, and products	5 920	Contracts
		Purchase of services	967	Agent's commission
17.	<b>Agrochem Dobre Miasto</b>	Purchase of goods, materials and products	436	Short-term orders
18.	<b>Transclean.</b>	Purchase of goods, materials, and products	4 329	
19.	<b>Ciech Polfa</b>	Sales of services	1 395	Office area rental agreement; for using the trademark – 1% of the income from sales to entities other than the entities belonging to the Ciech Capital Group, according to the agreement of 5 December 2002
		Purchase of services	133	Contract support
		Increase in initial capital	760	According to the notarial act of 31 March 2004
20.	<b>Polsin Karbid*</b>	Purchase of company products	5 292	According to the trading agreement

\* The company ceased to be an affiliate on 9<sup>th</sup> June 2004 - declaration of bankruptcy

## 8. Information on joint ventures that are not subject to consolidation

As at 31 December 2005, and in the presented comparable period, Ciech SA was not a party to joint ventures.

## 9. Information on the average level of employment by professional groups

Average employment in 2005		Total	Females	Males
1.	Total number of employees, including:	256	160	96
	white-collar employees	252	160	92
	blue-collar employees	4	-	4
2.	Employees of foreign representative offices	1	-	1
3.	Employees on leave, including:	12	4	8
	extended maternity leave	4	4	
	unpaid leave	8		8

Until 31 December 2005, the composition of the Management Board of CIECH SA remained unchanged and comprised the following members:

Ludwik Klinkosz	President of the Management Board
Jerzy Golis	Member of the Management Board
Stefan Rojewski	Member of the Management Board

Until 29 June 2005, the composition of the Supervisory Board of CIECH SA for the 4th term was as follows:

Zygmunt Bosiakowski	President of the Supervisory Board
Andrzej Buczak	Vice President of the Supervisory Board
Agnieszka Małocha	Member of the Supervisory Board
Janusz Wiśniewski	Member of the Supervisory Board
Dariusz Krajowski – Kukiel	Member of the Supervisory Board
Bożena Dyjak	Member of the Supervisory Board
Edmund Kozak	Member of the Supervisory Board
Krzysztof Jasiński	Member of the Supervisory Board
Olgierd Cieślik	Member of the Supervisory Board

The Supervisory Board ceased to perform its tasks in the current composition due to the end of the 4th term.

On 29 June 2005, the Ordinary General Meeting of Shareholders of CIECH SA appointed the Supervisory Board of CIECH SA for the 5th term in the following composition:

Edmund Pietrzak	President of the Supervisory Board
Elżbieta Boniuszko	Vice President of the Supervisory Board
Magdalena Bąkowska	Member of the Supervisory Board
Zygmunt Bosiakowski	Member of the Supervisory Board
Andrzej Buczak	Member of the Supervisory Board
Dariusz Krajowski – Kukiel	Member of the Supervisory Board
Edmund Kozak	Member of the Supervisory Board
Ireneusz Król	Member of the Supervisory Board

On 17 February 2006, by means of a resolution of the Extraordinary Meeting of Shareholders of CIECH SA, the following persons were dismissed from the Supervisory Board of CIECH SA:

Elżbieta Boniuszko  
 Zygmunt Bosiakowski  
 Andrzej Buczak  
 Edmund Kozak  
 Ireneusz Król

On the same date, the following persons were appointed as members of the Supervisory Board of CIECH SA by way of a resolution of the Extraordinary General Meeting of Shareholders:

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

**10. INFORMATION CONCERNING THE TOTAL VALUE OF REMUNERATIONS, BONUSES OR BENEFITS (IN CASH, IN KIND, OR ANY OTHER FORM), PAID OR DUE, SEPARATELY FOR EACH OF THE PERSONS MANAGING AND SUPERVISING THE ISSUER IN THE ISSUER'S COMPANY**

**CIECH SA MANAGEMENT BOARD**

**between 01.01-31.12.2005**

No.	First name and surname	Basic salary	Remuneration when on sick leave	Annual bonus	Bonus	Total
1	GOLIS JERZY	290	-	45	100	435
2	KLINKOSZ LUDWIK	350	-	45	150	545
3	ROJEWSKI STEFAN	290	-	45	100	435
	<b>TOTAL</b>	930	-	135	350	1 415

**2004**

No.	First name and surname	Basic salary	Remuneration when on sick leave	Annual bonus	Service anniversary award	Total
1	GOLIS JERZY	179		43		222
2	KLINKOSZ LUDWIK	178	1	43		222
3	ROJEWSKI STEFAN	179		43	22	244
	<b>TOTAL</b>	536	1	129	22	688

Members of the Management Board are employed under contracts of employment. The remuneration of the Members of the Management Board by 31 July 2005 was established according to Art. 8 of the act of 3 March 2000, concerning remunerations of persons managing selected legal entities, and it amounted to six average monthly salaries in the enterprise sector without profit payments in the 4th quarter of the previous year, announced by the President of the Central Statistical Office, i.e. 2,546.14 PLN x 6 = 15,276.84 gross. The gross amount was rounded to tens, and after deducting the proper amount the value of 15,270.00 PLN (in words: fifteen thousand two hundred and seventy Polish zlotys) was adopted.

From 1 August 2005, according to the Resolution of Ciech S.A. Supervisory Board, the monthly remuneration of the Members of the Management Board is paid in the following amounts:  
 President of the Management Board – equivalent of eight average salaries at Ciech S.A., with no annual bonus in the previous calendar quarter,  
 Members of the Management Board – equivalent of six average salaries at Ciech S.A., with no annual bonus in the previous calendar quarter.

**CIECH SA SUPERVISORY BOARD**

No.	First name and surname	Remuneration
1	BAKOWSKA MAGDALENA	25
2	BONIUSZKO ELŻBIETA	31
3	BOSIAKOWSKI ZYGMUNT	62
4	BUCZAK ANDRZEJ	57
5	CIEŚLIK OLGIERD	28
6	DYJAK BOŻENA	28
7	JASIŃSKI KRZYSZTOF	28
8	KOZAK EDMUND	53
9	KRAJOWSKI - KUKIEL DARIUSZ	53
10	KRÓL IRENEUSZ	25
11	MAŁOCHA AGNIESZKA	28
12	PIETRZAK EDMUND	36
13	WIŚNIEWSKI JANUSZ	28
	total	<b>223</b>

The remuneration of the Members of Ciech S.A. Supervisory Board was established according to Art. 8 point 8 of the act of 3 March 2000, concerning remunerations of persons managing selected legal entities, and it was paid until 15 February 2005, in the amount equal to one average monthly salary in the enterprise sector without profit-based bonus payments in the 4th quarter of the previous year, announced by the President of the Central Statistical Office, i.e. 2 546 14 PLN. The gross amount was rounded to tens, and after deducting the proper amount the value of 2 540 PLN (in words: two thousand five hundred and forty Polish zlotys) was adopted.

From 16 February 2005, according to the Resolution of the Extraordinary General Meeting of Shareholders, the remuneration of the Members of the Supervisory Board is paid in the following amounts:

President of the Supervisory Board - 300%

Vice President of the Supervisory Board - 250%

Other Members of the Supervisory Board - 200% of the average monthly salary in the enterprise sector, with profit payments for the month preceding the calculation.

**11. INFORMATION CONCERNING THE AMOUNT OF NON-REPAID ADVANCE PAYMENTS, CREDITS, LOANS, GUARANTEES, SURETIES OR OTHER AGREEMENTS THAT CREATE OBLIGATIONS TOWARDS CIECH SA, ITS SUBSIDIARIES, CO-SUBSIDIARIES AND ASSOCIATES, MANAGING AND SUPERVISING PERSONS, AS WELL AS THEIR SPOUSES, RELATIVES, AND RELATIVES BY AFFINITY OF THE FIRST AND SECOND DEGREE**

Between 01.01.2005 and 31.12.2005 and in the presented comparable periods, the Company did not conduct any significant transactions with the Members of the Management Board and supervisory bodies, nor with their spouses, relatives or relatives by affinity of up to the second degree, nor with the persons related to the members of the managing or supervisory bodies of the entity due to custody, adoption or guardianship, nor with companies in which they hold shares (shareholders or partners). Nor did the Company grant any loans to the afore-mentioned persons.



## **12. INFORMATION CONCERNING SIGNIFICANT EVENTS REGARDING PREVIOUS YEARS, INCLUDED IN THE FINANCIAL STATEMENT FOR THE CURRENT PERIOD**

No such events occurred.

## **13. INFORMATION CONCERNING SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DAY, AND NOT INCLUDED IN THE FINANCIAL STATEMENT**

On 31 March 2006 a conversion took place of Cheman SA receivables to a long-term loan amounting to 4 800 000 PLN, with the interest rate based on market conditions.

The loan was granted for the period of 5 years, and the 2-year principal payment grace.

## **14. INFORMATION CONCERNING THE RELATIONS BETWEEN THE ISSUER AND ITS LEGAL PREDECESSOR, AS WELL AS THE METHOD AND AREA OF TAKE-OVER OF ASSETS AND LIABILITIES**

CIECH SA does not have any legal predecessors.

## **15. ADJUSTMENTS IN RESPECT OF INFLATION**

The financial statement for 2005, as well as the presented comparable financial data was not adjusted according to inflation rate.

## **16. LIST AND DESCRIPTION OF DIFFERENCES BETWEEN THE DATA DISCLOSED IN THE FINANCIAL STATEMENT AND THE COMPARABLE FINANCIAL DATA, AND THE FINANCIAL STATEMENTS PREVIOUSLY DEVELOPED AND PUBLISHED**

The tables below present changes in data, compared to the data published in the report for the 4th quarter of 2005.

### Presentation changes

A change amounting to 850 000 PLN consists in the transfer of the amount remitted to acquire shares in the increased share capital of Cheman SA from short-term receivables to long-term investments.

A change amounting to 117 000 PLN consists in the transfer of long-term services activated in accruals, from short-term prepayments and accruals to long-term prepayments and accrued income.

A change amounting to 23 000 PLN consists in the recognition of income in respect of dividends from foreign operations according to exchange rates as at the data of approval of profit distribution – previous way of presentation according to exchange rates as of the date of actual dividend payment.

### Write-downs

An adjustment was made amounting to 4 566 000 PLN by way of a write-down to the value of shares in Boruta Color.

### Adjustment of provisions for costs

An adjustment was made to the provision for bonus costs for the 4<sup>th</sup> quarter, amounting to 106 000 PLN, provision for not invoiced costs amounting to 12 000 PLN, and valuation of the provision for service anniversary awards amounting to 78 000 PLN.

### Change in deferred tax calculation

An adjustment to the calculation of the deferred tax was made, with the final amount of the deferred tax being 5 357 000 PLN. Major adjustment items refer to the following areas:

- receipt of positive interpretations from the Tax Office that allow for including expenditure incurred in 2005 and write-downs in previous years in tax deductible costs, with the final amount of the deferred tax being 3 526 000 PLN
- a write-down for the acquisition cost of Alwernia shares, with the final amount of the deferred tax being 926 000 PLN
- a write-down for the acquisition cost of Boruta Color shares, with the final amount of the deferred tax being 868 000 PLN

Provisions established

An additional provision was established for court cases pending against Ciech SA, amounting to 5 500 000 PLN.

Other adjustments

2005 invoices were additionally accounted for, received upon the publication of financial statements for the 4th quarter.

ASSETS	as at 31.12.2005 published	presentation changes	write-downs	adjustment of provisions for costs	change in deferred tax calculation	provisions established	other	as at 31.12.2005
<b>I. Fixed assets</b>	<b>491 106</b>	<b>967</b>	<b>-4 566</b>	-	<b>5 357</b>	-	<b>1</b>	<b>492 865</b>
1. Intangible assets, including:	9 097	-		-	-	-	1	9 098
2. Property, plant and equipment (PPE)	24 691	-		-	-	-	-	24 691
4. Long-term investments	448 506	850	-4 566	-	-	-	-	444 790
4.3. Long-term financial assets	437 545	850	-4 566	-	-	-	-	433 829
4.3. a) in affiliates, including:	436 360	850	-4 566	-	-	-	-	432 644
5. Long-term prepayments and accrued income	8 812	117		-	5 357	-	-	14 286
5.1. Deferred tax assets	8 812	-		-	5 357	-	-	14 169
5.2. Other accruals	-	117		-	-	-	-	117
<b>II. Current assets</b>	<b>407 711</b>	<b>-967</b>		-	-	-	<b>3 567</b>	<b>410 311</b>
1. Reserves	8 212	-		-	-	-	2 775	10 987
2. Short-term receivables	310 790	-850		-	-	-	748	310 688
2.1. from affiliates	49 587	-850		-	-	-	-28	48 709
2.2. from other entities	261 203	-		-	-	-	776	261 979
3. Short-term investments	88 212	-		-	-	-	-	88 212
4. Short-term prepayments and accruals	497	-117		-	-	-	44	424
<b>TOTAL ASSETS</b>	<b>898 817</b>	<b>-</b>	<b>-4 566</b>	<b>-</b>	<b>5 357</b>	<b>-</b>	<b>3 568</b>	<b>903 176</b>

LIABILITIES	as at 31.12.2005 published	presentation changes	write-downs	adjustment of provisions for costs	change in deferred tax calculation	provisions established	other	as at 31.12.2005
<b>I. Equity</b>	<b>588 926</b>	-	<b>-4 566</b>	<b>-172</b>	<b>5 357</b>	<b>-5 500</b>	<b>34</b>	<b>584 079</b>
8. Net profit (loss)	46 747	-	-4 566	-172	5 357	-5 500	34	41 900
<b>II. Liabilities and provisions for liabilities</b>	<b>309 891</b>	-		<b>172</b>	-	<b>5 500</b>	<b>3 534</b>	<b>319 097</b>
1. Provisions for liabilities	15 158	-		78	-	5 500	-	20 736
2. Long-term liabilities	18 527	-		-	-	-	-	18 527
3. Short-term liabilities	267 780	-		-	-	-	3 534	271 314
3.1. towards affiliates	167 686	-		-	-	-	4	167 690
3.2. towards other entities	99 495	-		-	-	-	3 530	103 025
4. Accruals	8 426	-		94	-	-	-	8 520
4.2. Other accruals	8 426	-		94	-	-	-	8 520
4.2. b) short-term	8 426	-		94	-	-	-	8 520
<b>TOTAL LIABILITIES</b>	<b>898 817</b>	<b>-</b>	<b>-4 566</b>	<b>-</b>	<b>5 357</b>	<b>-</b>	<b>3 568</b>	<b>903 176</b>

P&L account	between 01.01.2005 and 31.12.2005 published	presentation changes	write-downs	adjustment of provisions for costs	change in deferred tax calculation	provisions established	other	between 01.01.2005 to 31.12.2005
<b>Net income from sales of products, goods and materials, including:</b>								
	<b>1 588 892</b>							<b>1 588 892</b>
<i>from affiliates</i>	<i>345 955</i>							<i>345 955</i>
<b>Costs of sold products, goods and materials, including:</b>								
	<b>1 346 569</b>							<b>1 346 569</b>
<b>Gross profit (loss) on sales</b>	<b>242 323</b>							<b>242 323</b>
<b>Cost of sales</b>	<b>118 763</b>						<b>-109</b>	<b>118 654</b>
<b>General management costs</b>	<b>62 279</b>			<b>94</b>			<b>48</b>	<b>62 421</b>
<b>Profit (loss) on sales</b>	<b>61 281</b>							<b>61 248</b>
<b>Other operating income</b>	<b>20 584</b>			<b>-78</b>				<b>20 506</b>
<b>Other operating costs</b>	<b>17 848</b>					<b>5 500</b>	<b>11</b>	<b>23 359</b>
Other operating costs	16 316					5 500	11	21 827
<b>Operating profit (loss)</b>	<b>64 017</b>							<b>58 395</b>
<b>Financial income</b>	<b>23 430</b>						<b>23</b>	<b>23 453</b>
Dividends and profit sharing	15 041	23						15 064
<i>from affiliates</i>	<i>15 041</i>	<i>23</i>						<i>15 064</i>
Profit on sales of investments	915						1	916
Other	960						-1	959
<b>Financial costs</b>	<b>33 781</b>		<b>4 566</b>				<b>22</b>	<b>38 369</b>
Revaluation of investments	18 973		4 566					23 539
Other	10 534	23					-1	10 556
<b>Profit (loss) on business activity</b>	<b>53 666</b>							<b>43 479</b>
<b>Gross profit (loss)</b>	<b>53 666</b>							<b>43 479</b>
<b>Income tax</b>	<b>6 919</b>				<b>- 5 357</b>		<b>17</b>	<b>1 579</b>
a) current	11 148						18	11 166
b) deferred	-4 229				- 5 357		-1	-9 587
<b>Net profit (loss)</b>	<b>46 747</b>		<b>-4 566</b>	<b>-172</b>	<b>5 357</b>	<b>-5 500</b>	<b>34</b>	<b>41 900</b>

Relevant adjustments have been included in the cash flow statement

Making the data presented in the financial statement as at 31 December 2004 comparable, the following adjustments were made:

Presentation changes

A change consists in the transfer of the advanced payment amounting to 4 900 000 PLN, made to acquire shares in the increased share capital of Cheman SA from short-term receivables to long-term investments.

The balance sheet includes invoices discounted and unpaid, handed over to the Bank in connection with the concluded factoring agreement in the amount of 7 509 000 PLN.

ASSETS	as at 31.12.2004 published	presentation changes	as at 31.12.2004
<b>I. Fixed assets</b>	<b>491 548</b>	<b>4 900</b>	<b>496 448</b>
<b>4. Long-term investments</b>	447 166	4 900	452 066
<b>4.3. Long-term financial assets</b>	435 920	4 900	440 820
<b>4.3. a) in affiliates, including:</b>	435 797	4 900	440 697
<b>II. Current assets</b>	<b>330 563</b>	<b>2 609</b>	<b>333 172</b>
<b>2. Short-term receivables</b>	307 494	2 609	310 103
<b>2.1. from affiliates</b>	67 811	-4 900	62 911
<b>2.2. from other entities</b>	239 683	<b>7 509</b>	247 192
<b>TOTAL ASSETS</b>	<b>822 111</b>	<b>7 509</b>	<b>829 620</b>

LIABILITIES	as at 31.12.2004 published	presentation changes	as at 31.12.2004
<b>II. Liabilities and provisions for liabilities</b>	<b>466 089</b>	<b>7 509</b>	<b>473 598</b>
<b>3. Short-term liabilities</b>	405 830	7 509	413 339
<b>3.2. towards other entities</b>	279 864	7 509	287 373
<b>TOTAL LIABILITIES</b>	<b>822 111</b>	<b>7 509</b>	<b>829 620</b>

Relevant adjustments have been included in the cash flow statement

**17. INFORMATION CONCERNING CHANGES IN THE ACCOUNTING POLICY AND METHOD OF DEVELOPMENT OF THE FINANCIAL STATEMENT**

No changes were introduced in the accounting policy in 2005.

**18. ADJUSTMENTS OF FUNDAMENTAL ERRORS AND THEIR REASONS, TITLES, AND INFLUENCE OF THE FINANCIAL RESULTS RELATED THERETO ON THE ECONOMIC AND FINANCIAL POSITION, LIQUIDITY, AS WELL AS FINANCIAL RESULT AND PROFITABILITY**

Between 01.01.2005 and 31.12.2005, as well as in the presented comparable period, no adjustments related to fundamental errors were made.

**19. UNCERTAINTY REGARDING BUSINESS CONTINUITY AT CIECH SA**

There is no threat to business continuity at Ciech SA within the meaning of the Accounting Act of 29 September 1994 (Journal of Laws 02.76.694) as amended.

**20. FINANCIAL STATEMENT AFTER THE MERGER OF THE COMPANIES**

During the reporting period and in the period presented as comparable data no merger of the companies took place.

## 21. VALUATION OF STOCKS AND SHARES HELD IN SUBORDINATE ENTITIES WITH THE USE OF THE EQUITY METHOD AND INFLUENCE ON THE FINANCIAL RESULT.

	2005	2004
Carrying value of stocks and shares at purchase cost	458 709	436 716
Equity of the entities	826 278	789 532
Difference between the valuation using the equity method and the carrying value	319 502	252 555
Share in the financial result of the Companies	67 176	68 697
Goodwill write-down	4 576	3 988
Influence on the financial result of Ciech SA.	62 600	64 709

## 22. THE ISSUERS DEVELOPS THE CONSOLIDATED FINANCIAL STATEMENT

### 23. OTHER ADDITIONAL INFORMATION

In January 2005, Ciech SA granted sureties without specific deadlines on loans amounting to 1 247 000 PLN, taken at BRE-Multibank SA by Ciech SA employees entitled to purchase shares in the company (employee shares) as part of a closed public offering. As at 31 December 2005 the surety amounted to 136 000 PLN. It expired upon full loan repayment on 3rd February 2006.

On 6 October 2005, an agreement was signed in Budapest with BorsodChem Rt. regarding sales of 100% of shares of Ciech's subsidiary Petrochemia Blachownia SA based in Kędzierzyn Koźle, specialising in the production of benzene and ethylene. The agreement results from the long-term strategy of Ciech SA operation, which involves focusing on products belonging to the main product portfolio of the Grupa Chemiczna Ciech. Enforcement of the agreement was dependent on the consent of the Polish Office of Competition and Consumer Protection.

On 10 January 2006, the transaction of sales of 100% of shares of Ciech SA subsidiary Petrochemia-Blachownia SA based in Kędzierzyn Koźle to BorsodChem Rt. was closed.

On 9 December 2005, Nafta Polska SA granted Ciech SA exclusive rights to negotiate the purchase of shares of Zakłady Chemiczne Zachem SA in Bydgoszcz. On 1 March 2006, negotiations were closed and a draft agreement was initialled regarding the purchase of shares of Zakłady Chemiczne Zachem SA in Bydgoszcz from Nafta Polska SA. The agreement provides for the execution of an investment stake at the Company, amounting to 148 million PLN, which will enable further development of Zachem SA. On 29 March 2006, an agreement on the purchase of shares was signed. This information was announced via news report 27/2006 dated 30 March 2006.

On 4 January 2006, Nafta Polska SA decided to grant Ciech SA exclusive rights to negotiate the purchase of 80% of shares in Zakłady Chemiczne Organika – Sarzyna. On 3 March 2006, negotiations were closed and a draft agreement was initialled regarding the purchase of shares of Zakłady Chemiczne Organika-Sarzyna based in Nowa Sarzyna from Nafta Polska SA. The agreement provides for the execution of an investment stake at the Company, amounting to 130 million PLN that will enable further development of ZCh Organika-Sarzyna. On 29 March 2006, an agreement on the purchase of shares was signed. This information was announced via news report 27/2006 dated 30 March 2006.