

**CIECH SPÓŁKA AKCYJNA (*Joint Stock
Company*)**

**WARSAW,
ULICA POWĄZKOWSKA 46/50**

**FINANCIAL STATEMENT
FOR THE FINANCIAL YEAR 2005**

PLUS

THE AUDITOR'S OPINION

AND

REPORT ON THE FINANCIAL STATEMENT

CONTENTS

AUDITOR'S OPINION	3
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REPORT SUPPLEMENTING THE OPINION ON THE FINANCIAL STATEMENT OF CIECH SPÓŁKA AKCYJNA FOR THE FINANCIAL YEAR 2005	6
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I. GENERAL INFORMATION.....	6
1. COMPANY DATA	6
2. INFORMATION ON THE FINANCIAL STATEMENT FOR THE PREVIOUS YEAR	8
3. IDENTIFICATION DATA OF THE CERTIFIED AUTHORITY AND THE REGISTERED AUDITOR ACTING ON THE AUTHORITY'S BEHALF	8
4. DATA AVAILABILITY AND DECLARATIONS OF THE ENTITY MANAGEMENT	9
5. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY.....	10
II. DETAILED INFORMATION.....	11
1. EVALUATION OF THE ACCOUNTING SYSTEM	12
2. INFORMATION ON THE AUDITED FINANCIAL STATEMENT.....	12
3. INFORMATION ON SELECTED, ESSENTIAL ITEMS OF THE FINANCIAL STATEMENT.....	13
4. COMPLETENESS AND CORRECTNESS OF THE INTRODUCTION TO THE FINANCIAL STATEMENT, ADDITIONAL INFORMATION AND EXPLANATIONS, AS WELL AS THE MANAGEMENT REPORT	15
5. FINAL INFORMATION AND DECISIONS	16

FINANCIAL STATEMENT FOR THE FINANCIAL YEAR 2005

1. INTRODUCTION
2. BALANCE SHEET
3. PROFIT & LOSS ACCOUNT
4. STATEMENT OF CHANGES IN EQUITY
5. CASH FLOW STATEMENT
6. ADDITIONAL INFORMATION AND EXPLANATIONS

MANAGEMENT REPORT

AUDITOR'S OPINION

To the Shareholders and the Supervisory Board of CIECH Spółka Akcyjna

We have audited the attached financial statement of CIECH S.A. based in Warsaw, at ul. Powązkowska 46/50, that includes:

- introduction to the financial statement
- balance sheet as at 31st December 2005, that presents the total balance of assets and liabilities in the amount of 903.176 thousand PLN
- P&L account for the period between 1st January 2005 and 31st December 2005, that presents net profit in the amount of 41.900 thousand PLN
- statement of changes in equity for the period between 1st January 2005 and 31st December 2005, that presents an increase in equity by 228.057 thousand PLN
- cash flow statement for the period between 1st January 2005 and 31st December 2005, that presents an increase in cash by 45.248 thousand PLN
- additional information and explanations

The financial statement in question has been developed by the Company Management Board. Our task was to audit and give opinion on the accuracy, correctness, and clarity of the financial statement, as well as correctness of account books, on the basis of which the financial statement was developed.

The audit of the financial statement has been planned and performed in line with the provisions of:

- chapter 7 of the act of 29th September 1994 Accounting Act (Journal of Laws of 2002, No. 76, item 694 as amended)
- norms regarding performance of activities of a statutory auditor, published by the National Chamber of Statutory Auditors

As to obtain a rational and sufficient basis to state whether the financial statement is free of material errors. The audit covered in particular mainly random verification of accounting documents and accounting records that are the basis for the figures and information included in the financial statement, plus evaluation of the implemented accounting policy, major estimates by the Management Board, as well as the overall opinion on the financial statement.

We are convinced that the audit provided a sufficient basis to give a reliable opinion.

In our opinion, the audited financial statement of CIECH S.A. for the financial year 2005 has in all material aspects, been developed:

- as regards the form and contents, in line with the requirements of the act of 29th September 1994 Accounting Act, Company's Articles of Association, Regulation of the Minister of Finance of 18th October 2005 regarding the

range of information disclosed in financial statements and consolidated financial statements, required in the prospectus for the issuers with the registered office located in the Republic of Poland, to whom the Polish accounting policy applies, and the Regulation of the Minister of Finance of 19th October 2005, regarding current and periodic information provided by the issuers of securities

- in line with the accounting policy defined in the Act and the accounting policy implemented by the Company
- on the basis of correctly kept account books

in addition, provides an accurate and clear presentation of all the information essential to give an opinion on the economic and financial position of the audited entity as at 31st December 2005, as well as its financial result for the period between 1st January and 31st December 2005.

Without any reservations regarding the correctness and accuracy of the audited financial statement, we would like to point to:

- the fact that it is an individual financial statement and should be used, first of all for the purposes specified in the Company's Articles of Association. The audited financial statement cannot constitute the only basis for the assessment of the financial and economic position of the Company that is a dominant entity within the Capital Group. Apart from an individual financial statement, the Company shall also develop a consolidated financial statement for the Capital Group for which it is a dominant entity, that will be developed in line with the International Financial Reporting Standards
- pending court cases against the Company, which the Management Board describes in point 2 of additional notes to the financial statement. The court proceedings are currently under way, and the final ruling as well as results of the dispute cannot be fully estimated. The Management Board has calculated a provision for covering potential liabilities in this respect and included it in the financial statement in the total amount of 17.500 thousand PLN. No provisions have been established for the remaining part of potential liabilities described by the Management Board in the above-mentioned note that might be the result of unfavourable court rulings

The Management Report for the financial year 2005 is complete within the meaning of art. 49 para. 2 of the Accounting Act, and the data included is consistent with the audited financial statement from which it was derived.

.....
.....
Grażyna Sikorska
Registered auditor
No. 9699

entity's representatives

.....
authority certified to audit
financial statements, entered
on the list of certified authorities
under the No. 73,
kept by the National Chamber of
Statutory Auditors

Warsaw, 12th April 2006

REPORT SUPPLEMENTING THE OPINION ON THE FINANCIAL STATEMENT OF CIECH SPÓŁKA AKCYJNA FOR THE FINANCIAL YEAR 2005

I. GENERAL INFORMATION

1. Company data

The Company operates under the name CIECH Spółka Akcyjna. In line with the provisions of the Company's Articles of Association, it is allowed to use the abbreviated form CIECH S.A. The Company registered office is based in Warsaw, at ul. Powązkowska 46/50.

The Company is a joint-stock company set up on the basis of a notarial deed on 30th May 1995 in the presence of Paweł Błaszczak, notary public, in Warsaw (Rep. A No. 7513/95).

According to the decision of 24th May 2001 of the District Court for the capital city of Warsaw, XIX Economic Division, the Company is entered in the register of entrepreneurs under KRS No. 0000011687.

The Company's NIP No. is 118-00-19-377, granted by the Tax Office Warszawa Żoliborz on 15th June 1993.

On 19th December 2001, the Company was granted REGON No. 011179878 by the Statistical Office.

The Company's operation is based on the regulations of the Code of Commercial Companies.

According to the Company's Articles of Association, its profile includes:

- activity of agents dealing with the sales of fuel, metal ores, and industrial chemicals
- other non-specialised wholesale
- activity of agents that specialise in the sales of specific goods or a specific group of goods, not classified anywhere else
- activity of agents that specialise in the sales of different types of goods
- wholesale of pharmaceutical products
- wholesale of solid, liquid, gaseous fuels, derivatives and chemical goods
- wholesale of other semi-finished products
- handling of goods at sea and inland ports plus other handling stations
- warehousing and storing of goods in sea and inland ports plus other stockpiles
- consultancy with regard to conducting business activity and management
- activity related to holding management
- market and public opinion research
- purchase, sales and management of real estate for one's own account
- rental of real estate for one's own account

- other forms of loan-granting
- other financial intermediation, not classified anywhere else
- other commercial activity, not classified anywhere else

The Company's activity in the audited period included sales of chemicals on the domestic market, export, and import of chemical products.

The Company's share capital as at 31st December 2005 amounted to 140.001 thousand PLN and was divided into 28.000.000 ordinary shares with a par value of 5 PLN per share. According to the resolution of the General Meeting of Shareholders of 21st May 1996, 284 series A shares were redeemed from the net profit for 1995.

As at 17th February 2006 (date of the latest Meeting of Shareholders), the Company's shareholders included:

- Kompania Węglowa S.A. - 36.68% of shares
- Franklin Templeton Investments - 9.83 % of shares
- Otwarty Fundusz Emerytalny PZU "Złota Jesień" - 8.93% of shares
- minor shareholders, individuals - 44.56% of shares

The following changes were observed in the Company's share capital in the financial year:

- On 19th May 2004, the Extraordinary General Meeting passed a resolution to increase the share capital to 140.001 thousand PLN, as a result of issue of 8.203.984 series C shares with the par value of 5 PLN per share. On 16th February 2005, the District Court for the capital city of Warsaw recorded the afore-mentioned increase in the share capital.

No changes other than the afore-mentioned ones took place in the audited period.

On 10th February 2005, the Company made a debut on the Warsaw Stock Exchange.

No changes in the Company's share capital took place after the balance sheet date.

A calendar year constitutes the Company's financial year.

Company's affiliates are its subsidiaries, co-subsidiaries, and associates.

As at the opinion giving date, the Company's Management Board was composed of the following persons:

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

The Company's proxy is Mr Kazimierz Przełomski.

No changes in the composition of the Company's Management Board took place in the audited period.

2. Information on the financial statement for the previous year

The Company's net profit for 2004 amounted to 19.445 thousand PLN. The Company's financial statement for 2004 was audited by a registered auditor. The audit was performed by a certified authority Deloitte&Touche Audit Services Sp. z o.o. On 4th March 2005, a registered auditor gave an opinion on the financial statement, pointing to:

- the fact that it is an individual financial statement and should first of all be used for the purposes specified in the Company's Articles of Association. The audited financial statement cannot constitute the only basis for the assessment of the financial and economic position of the Company that is a dominant entity within the Capital Group. Apart from an individual financial statement, the Company also develops a consolidated financial statement for the Capital Group for which it is a dominant entity
- pending court cases against the Company, that the Management Board describes in point 2 of additional notes to the financial statement. The total value of claims made against the Company amounts to 35.582.0 thousand PLN. The court proceedings are currently under way, and the final ruling as well as results of the dispute cannot be fully estimated. The Management Board has calculated a provision for covering potential liabilities in this respect and included it in the financial statement in the total amount of 10.000 thousand PLN. No provisions have been established for the remaining part of potential liabilities that might be the result of unfavourable court rulings

The General Meeting of Shareholders that approved the financial statement for the financial year 2004 was held on 29th June 2005. The General Meeting of Shareholders decided on the following distribution of net profit for 2004:

- dividends for shareholders – 8.400 thousand PLN
- write-off to share premium – 11.045 thousand PLN

The financial statement for 2004 was lawfully submitted at the National Court Register on 14th July 2005. It was published in the Official Gazette of the Government of the Republic of Poland B No. 1760 on 17th November 2005.

3. Identification data of the certified authority and the registered auditor acting on the authority's behalf

The financial statement audit was performed on the basis of the agreement of 15th November 2005, concluded between CIECH S.A. and Deloitte Audyt Sp. z

o.o. based in Warsaw at ul. Piękna 18, entered on the list of entities authorised to perform audits of financial statements, kept by the National Chamber of Statutory Auditors under No. 73. On behalf of the authorised entity, the audit was performed under the supervision of Grażyna Sikorska, registered auditor, (No. 9699) at the Company's registered office, between 21st November and 2nd December 2005, 30th January and 17th February 2006, and between 20th February and 12th April 2006, outside the Company's registered office.

An entity authorised to perform audits was selected by the Supervisory Board by way of a resolution of 18th April 2005, on the basis of the power of attorney included in art. 21 of the Company's Articles of Association.

Deloitte Audyt Sp. z o.o. and Ms Grażyna Sikorska, registered auditor, confirm their authorisation to perform audits and that they fulfil the conditions specified in art. 66 para. 2 and 3 of the Accounting Act, necessary to give an impartial and independent opinion on the financial statement of CIECH S.A.

4. Data availability and declarations of the entity management

No limitations regarding the range of the audit occurred.

The audited entity provided the certified authority and the registered auditor with all the required documents and data, as well as detailed information and explanations, which were confirmed with a written declaration of the Company Management Board, dated 12th April 2006.

5. Economic and financial position of the Company

The table below presents basic P&L account figures, as well as financial ratios that describe the Company's financial result, its financial and economic position as compared to analogous figures for the previous years.

<u>Basic P&L account figures (in thousand PLN)</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Sales income	1.588.892	1.470.007	1.202.194
Operating costs	1.527.644	1.441.988	1.168.199
Other operating income	20.506	30.501	9.150
Other operating costs	23.359	24.600	9.580
Financial income	23.453	23.945	8.193
Financial costs	38.369	36.482	25.634
Income tax	1.579	1.938	7.406
Net profit (loss)	41.900	19.445	8.718

<u>Return rates</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
– return on sales $\frac{\text{sales profit} \times 100\%}{\text{sales income}}$	3.9%	1.9%	2.8%
– net return on sales $\frac{\text{net profit} \times 100\%}{\text{sales income}}$	2.6%	1.3%	0.7%
– net return on equity $\frac{\text{net profit} \times 100\%}{\text{equity}}$	7.2%	5.5%	2.6%

<u>Effectiveness ratios</u>			
– assets turnover ratio $\frac{\text{sales income}}{\text{total assets}}$	1.8	1.8	1.5
– receivables turnover ratio in days $\frac{\text{trade receivables} \times 365}{\text{sales income}}$	62	61	74
– liabilities turnover ratio in days $\frac{\text{trade liabilities} \times 365}{\text{operating costs}}$	58	62	81
– reserves turnover ratio in days $\frac{\text{reserves} \times 365}{\text{operating costs}}$	3	5	9

Liquidity/Net working capital

– debt rate <u>total obligations</u> total liabilities	32.1%	54.1%	57.0%
– assets/equity ratio <u>equity</u> total assets	64.7%	42.9%	41.4%
– net working capital (in thousand PLN) current assets – short-term liabilities	138.997	(80.167)	(111.476)
– liquidity ratio <u>current assets</u> short-term liabilities	1.51	0.81	0.74
– quick ratio <u>current assets - reserves</u> short-term liabilities	1.47	0.76	0.67

The analysis of the afore-presented figures and ratios points to the following phenomena taking place in 2005:

- increase in return rates
- reduction of the liabilities and reserves turnover cycles
- keeping an almost unchanged level of the receivables turnover cycle, compared to 2004, and substantial reduction of the cycle compared to 2003
- substantial decrease in the debt rate
- increase in liquidity ratios
- substantial increase in the net working capital

II. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company keeps up-to-date documentation that provides a description of the implemented accounting policy that refers in particular to: the definition of the financial year and reporting periods, valuation method for assets and liabilities and a method of establishing the financial result, book-keeping method, protection system for the data and data sets. Documentation on the accounting policy has been developed in line with the Accounting Act and approved for implementation as of 1st January 2003, by way of resolution 1/25.02.2003 of the Management Board, dated 25th February 2003. Changes in the accounting policy resulting from changes in the accounting and tax regulations were introduced with separate resolutions of the Company Management Board.

The accounting policy approved by the Company is consistent with the Accounting Act. The basic principles for the valuation of assets and liabilities and establishing the financial result, have been presented in the introduction to the financial statement.

The Company makes use of the computer-aided accounting record system known as Oracle Financials that records all economic events, except for the calculation of payroll and related charges that are handled with the use of TETA HR and payroll system. Oracle Financials is protected with passwords against unauthorised use and is equipped with functional access limitations. The description of the IT system meets the requirements of art. 10 para. 1 point 3 letter c) of the Act.

The opening balance is based on the approved financial statement for the previous financial year and has been correctly recorded in the account books for the audited period.

As regards the audited part of the financial statement, the documentation of economic operations, account books and the co-relation between the accounting records, documents, and the financial statement meet the requirements of chapter 2 of the Act.

Accounts books, accounting documents, documentation of the accounting policy implemented by the Company as well as approved financial statements are kept as specified in chapter 8 of the Accounting Act.

The Company developed an inventory of assets and liabilities within the range, on dates and with the frequency required in the Accounting Act. Inventory differences have been recognised and reconciled in the account books for the audited period.

2. Information on the audited financial statement

The audited financial statement was developed as at 31st December 2005 and it includes:

- introduction to the financial statement

- balance sheet as at 31st December 2005, that presents the total balance of assets and liabilities in the amount of 903.176 thousand PLN
- P&L account for the period between 1st January 2005 and 31st December 2005, that presents net profit in the amount of 41.900 thousand PLN
- statement of changes in equity for the period between 1st January 2005 and 31st December 2005, that presents an increase in equity by 228.057 thousand PLN
- cash flow statement for the period between 1st January 2005 and 31st December 2005, that presents an increase in cash by 45.248 thousand PLN
- additional information and explanations

The structure of assets and liabilities as well as items that form the financial result, have been presented in the financial statement.

3. Information on selected, essential items of the financial statement

Tangible fixed assets

Tangible fixed assets of the Company include fixed assets and fixed assets under construction in the amount of 24.691 thousand PLN.

Notes providing additional explanations and information regarding the financial statement give a correct description of changes in fixed assets, including disclosure of potential write-downs of the afore-mentioned assets.

Long-term investments

Long-term investments of the Company include:

- stocks and shares in the affiliates, amounting to 432.644 thousand PLN
- stocks and shares in other entities amounting to 1.185 thousand PLN
- investments in properties amounting to 10.961 thousand PLN

Notes 4a and 4k providing additional explanations and information regarding the financial statement give a correct description of changes in investments during the financial year.

Reserve structure

Ageing of gross reserves is as follows:

Reserve name	Turnover period				
	0-30 days	30-90 days	90-180 days	180-360 days	over 1 year
Goods	6.475	433	86	3.200	1.421

Structure of receivables

Ageing of trade receivables has been correctly presented in the explanatory note to this balance sheet item.

Liabilities

Short-term liabilities towards affiliates and other entities are within the contractual payment dates.

The Company's material liabilities include:

- long-term loans and borrowings, amounting to 18.527 thousand PLN
- short-term loans and borrowings, amounting to 15.046 thousand PLN
- trade liabilities amounting to 239.794 thousand PLN

The specification of the loans taken plus the description of relevant collateral have been disclosed in notes 19d and 20c of additional explanations and information to the financial statement. Some long-term loans with the repayment date in 2005 have been presented in the financial statement as short-term liabilities.

No overdue or redeemed liabilities have been observed in the audited part.

Accruals and provisions for liabilities

Notes explaining prepayments and deferred expenses plus accrued expenses as well as provisions for liabilities correctly describe their structure.

Costs and income reconciled over time have been correctly qualified as regards the audited financial year.

Provisions for liabilities have been reliably measured and established.

As regards material aspects, items have been presented in a complete and correct way as related to the complete financial statement.

Justification of the opinion

We pointed to the fact that the audited financial statement is an individual financial statement and should first of all be used for the purposes specified in the Company's Articles of Association, and that it cannot constitute the only basis for the assessment of the financial and economic position of the Company that is a dominant entity within the Capital Group. Apart from an individual financial statement, the Company shall also develop a consolidated financial statement for the Capital Group for which it is a dominant entity,

which will be developed in line with the International Financial Reporting Standards.

Moreover, we pointed to pending court cases against the Company, which the Management Board describes in point 2 of additional notes to the financial statement. The court proceedings are currently under way, and the final ruling as well as results of the dispute cannot be fully estimated. The Management Board has calculated a provision for covering potential liabilities in this respect and included it in the financial statement in the total amount of 17.500 thousand PLN. No provisions have been established for the remaining part of potential liabilities described by the Management Board in the above-mentioned note, which might be the result of unfavourable court rulings.

4. Completeness and correctness of the introduction to the financial statement, additional information and explanations, as well as the Management report

The introduction to the financial statement provides all the information required in Annex 1 to the Accounting Act, Regulation of the Minister of Finance of 18th October 2005 regarding the range of information disclosed in financial statements and consolidated financial statements, required in the prospectus for the issuers with the registered office located in the Republic of Poland, to whom the Polish accounting policy applies, and Regulation of the Minister of Finance of 19th October 2005 regarding current and periodic information provided by the issuers of securities. The company has confirmed the legitimacy of the application of the business continuity principle during the development of the financial statement. The introduction correctly and completely describes the principles for the valuation of assets and liabilities, establishing the financial result and the method of development of the financial statement.

The Company has developed additional information and explanations to individual items of the balance sheet and P&L account in the form of tabular notes (figures) and descriptions.

Notes to the following balance sheet items: tangible fixed assets, intangible assets, investments, liabilities and provisions, correctly present additions and deductions plus reasons for such changes during the financial year.

As regards individual assets recognised in the balance sheet, limitations regarding their disposal have been presented due to the collateral made to the benefit of creditors.

Additional information and explanations to the financial statement describe the reporting items correctly and completely, and clearly present other information required in Annex 1 to the Accounting Act, Regulation of the Minister of Finance of 18th October 2005 regarding the range of information disclosed in financial statements and consolidated financial statements, required in the prospectus for the issuers with the registered office located in the Republic of Poland, to whom the Polish accounting policy applies, and Regulation of the Minister of Finance of 19th October 2005 regarding current and periodic information provided by the issuers of securities.

The Management Board has developed the 2005 Management report and submitted it with the financial statement. The report presents the information required in art. 49 para. 2 and 3 of the Accounting Act and the Regulation of the Minister of Finance of 19th October 2005 regarding current and periodic information provided by the issuers of securities. We have examined the consistency of the information disclosed in the Management Report with the audited financial statement from which the information was derived.

5. Final information and decisions

Declarations of the Management Board

The Management Board has provided Deloitte Audyt Sp. z o.o. and the registered auditor with a written declaration that the Company has observed the law.

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Grażyna Sikorska
Registered auditor
No. 9699

entity's representatives

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Warsaw, 12th April 2006