



**EXTENDED CONSOLIDATED  
QUARTERLY REPORT  
OF THE CIECH GROUP  
for Q1 2006**

**SELECTED FINANCIAL DATA****Data concerning condensed consolidated financial statements:**

| SELECTED FINANCIAL DATA                                  | in thousand PLN                               |   | in thousand EUR                               |   |
|--|---|---|---|---|
|  | Q1 cumulatively from 01.01.2006 to 31.03.2006 | Q1 cumulatively from 01.01.2005 to 31.03.2005 | Q1 cumulatively from 01.01.2006 to 31.03.2006 | Q1 cumulatively from 01.01.2005 to 31.03.2005 |
| Net sales income   | 471 232                                       | 541 548                                       | 122 538                                       | 134 871                                       |
| Operating profit (loss)                                  | 38 397  | 36 021  | 9 985   | 8 971   |
| Profit (loss) before taxation                            | 86 881  | 55 435  | 22 592  | 13 806  |
| Total net profit (loss)                                  | 62 471  | 43 232  | 16 245  | 10 767  |
| Net profit (loss) of shareholders of the dominant entity | 62 334  | 38 726  | 16 209  | 9 645   |
| Net profit (loss) of minority shareholders               | 137   | 4 506   | 36  | 1 122   |
| Net operating cash flows                                 | 47 554  | (3 885)                                       | 12 366  | (968)   |
| Net cash flows from investing activities                 | (8 018)                                       | (699)   | (2 085)                                       | (174)   |
| Net cash flows from financing activities                 | (13 914)                                      | 73 409  | (3 618)                                       | 18 282  |
| Total net cash flows                                     | 25 622  | 68 825  | 6 663   | 17 140  |
| Total assets   | 1 665 980                                     | 1 653 963                                     | 423 300                                       | 405 016                                       |
| Long-term liabilities                                    | 114 024                                       | 103 442                                       | 28 972  | 25 330  |
| Short-term liabilities                                   | 470 887                                       | 534 409                                       | 119 645                                       | 130 864                                       |
| Total equity   | 1 081 069                                     | 1 016 112                                     | 274 683                                       | 248 821                                       |
| Equity of shareholders of the dominant entity            | 1 030 937                                     | 907 375                                       | 261 945                                       | 222 194                                       |
| Minority interest  | 50 132  | 108 737                                       | 12 738  | 26 627  |
| Share capital  | 164 115                                       | 164 115                                       | 41 699  | 40 188  |
| Earnings (loss) per ordinary share (in PLN/EUR)          | 3,12  | 1,65  | 0,81  | 0,41  |

**Data on the condensed financial statement of Ciech SA:**

| SELECTED FINANCIAL DATA                                   | in thousand PLN                      |                                      | in thousand EUR                      |                                      |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|   | Q1 between 01.01.2006 and 31.03.2006 | Q1 between 01.01.2005 and 31.03.2005 | Q1 between 01.01.2006 and 31.03.2006 | Q1 between 01.01.2005 and 31.03.2005 |
| I. Net income from sales of products, goods and materials | 333 446                              | 424 447                              | 86 708                               | 105 707                              |
| II. Operating profit (loss)                               | 24 213                               | 9 017                                | 6 296                                | 2 246                                |
| III. Gross profit (loss)                                  | 103 420                              | 7 441                                | 26 893                               | 2 246                                |
| IV. Net profit (loss)                                     | 83 686                               | 5 753                                | 21 761                               | 1 433                                |
| V. Net operating cash flows                               | 29 789                               | 10 099                               | 7 746                                | 2 515                                |
| VI. Net cash flows from investing activities              | 23 030                               | (7 817)                              | 5 989                                | (1 947)                              |
| VII. Net cash flows from financing activities             | (6 977)                              | 57 798                               | (1 814)                              | 14 394                               |
| VIII. Total net cash flows                                | 45 842                               | 60 080                               | 11 921                               | 14 963                               |
| IX. Total assets  | 983 270                              | 928 164                              | 249 834                              | 227 285                              |
| X. Liabilities and provisions for liabilities             | 315 504                              | 371 832                              | 80 165                               | 91 053                               |
| XI. Long-term liabilities                                 | 17 317                               | 29 044                               | 4 400                                | 7 112                                |
| XII. Short-term liabilities                               | 268 738                              | 317 147                              | 68 282                               | 77 662                               |
| XIII. Equity  | 667 766                              | 556 332                              | 169 669                              | 136 232                              |
| XIV. Share capital  | 140 001                              | 140 001                              | 35 572                               | 34 283                               |

## I. CONSOLIDATED INTERIM FINANCIAL STATEMENT OF GRUPA CHEMICZNA CIECH

| CONSOLIDATED P&L ACCOUNT<br><i>in thousand PLN</i>                                    | 01.01.-31.03.2006    |                         |                | 01.01.-31.03.2005    |                         |                |
|---|----------------------|-------------------------|----------------|----------------------|-------------------------|----------------|
|   | Continued operations | Discontinued operations | TOTAL          | Continued operations | Discontinued operations | TOTAL          |
| <b>Net sales income</b>   | <b>471 232</b>       | -                       | <b>471 232</b> | <b>526 304</b>       | <b>15 244</b>           | <b>541 548</b> |
| Cost of sales   | (353 852)            | -                       | (353 852)      | (401 727)            | (10 931)                | (412 658)      |
| <b>Gross profit/loss on sales</b>   | <b>117 380</b>       | -                       | <b>117 380</b> | <b>124 577</b>       | <b>4 313</b>            | <b>128 890</b> |
| Other operating income  | 6 521                | -                       | 6 521          | 6 140                | 72                      | 6 212          |
| Costs of sales  | (36 175)             | -                       | (36 175)       | (48 806)             | (1 014)                 | (49 820)       |
| General management costs  | (37 168)             | -                       | (37 168)       | (37 426)             | (2 277)                 | (39 703)       |
| Other operating costs   | (12 161)             | -                       | (12 161)       | (8 558)              | (1 000)                 | (9 558)        |
| <b>Operating profit/loss</b>  | <b>38 397</b>        | -                       | <b>38 397</b>  | <b>35 927</b>        | <b>94</b>               | <b>36 021</b>  |
| Financial income  | 9 683                | 41 354                  | 51 037         | 18 473               | 2 986                   | 21 459         |
| Financial costs   | (2 962)              | -                       | (2 962)        | (6 842)              | (186)                   | (7 028)        |
| <b>Net financial income / costs</b>   | <b>6 721</b>         | <b>41 354</b>           | <b>48 075</b>  | <b>11 631</b>        | <b>2 800</b>            | <b>14 431</b>  |
| Share in the net profit of subordinate entities accounted for using the equity method | 409                  | -                       | 409            | 4 983                | -                       | 4 983          |
| <b>Profit/loss before taxation</b>  | <b>45 527</b>        | <b>41 354</b>           | <b>86 881</b>  | <b>52 541</b>        | <b>2 894</b>            | <b>55 435</b>  |
| Income tax  | (9 465)              | (14 945)                | (24 410)       | (11 713)             | (490)                   | (12 203)       |
| <b>Net profit/loss</b>  | <b>36 062</b>        | <b>26 409</b>           | <b>62 471</b>  | <b>40 828</b>        | <b>2 404</b>            | <b>43 232</b>  |
| Sales profit/loss related to discontinued operations                                  | -                    | -                       | -              | -                    | -                       | -              |
| <b>Net profit for the period</b>  | <b>36 062</b>        | <b>26 409</b>           | <b>62 471</b>  | <b>40 828</b>        | <b>2 404</b>            | <b>43 232</b>  |
| Including:  |                      |                         |                |                      |                         |                |
| Net profit/loss of shareholders in the dominant entity                                | 35 925               | 26 409                  | 62 334         | 36 322               | 2 404                   | 38 726         |
| Net profit/loss of minority shareholders  | 137                  | -                       | 137            | 4 506                | -                       | 4 506          |
| Earnings per share (in PLN):  |                      |                         |                |                      |                         |                |
| Basic   | 1,80                 | 1,32                    | 3,12           | 1,55                 | 0,10                    | 1,65           |
| Diluted   | 1,80                 | 1,32                    | 3,12           | 1,34                 | 0,09                    | 1,42           |

**CONSOLIDATED BALANCE SHEET**

in thousand PLN

| <b>ASSETS</b>   | <b>31.03.2006</b> | <b>31.12.2005</b> | <b>31.03.2005</b> | <b>31.12.2004</b> |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Fixed assets</b>   |                   |                   |                   |                   |
| Property, plant and equipment (PPE)   | 716 689           | 704 458           | 728 523           | 725 068           |
| The right of perpetual usufruct   | 998               | 733               | 2 110             | 2 099             |
| Intangible assets, including:   | 21 026            | 21 588            | 17 556            | 15 630            |
| - goodwill  | 39                | 39                | 6                 | 6                 |
| Investment property   | 14 555            | 15 552            | 19 437            | 19 549            |
| Long-term receivables   | 3 068             | 166               | 82                | 85                |
| Investments in associates and co-subsidiaries accounted for using the equity method | 42 426            | 39 431            | 42 947            | 32 190            |
| Other long-term investments   | 14 676            | 25 752            | 32 302            | 32 179            |
| Deferred tax assets   | 9 754             | 10 141            | 2 031             | 2 179             |
| <b>Total fixed assets</b>   | <b>823 192</b>    | <b>817 821</b>    | <b>844 988</b>    | <b>828 979</b>    |
| <b>Current assets</b>   |                   |                   |                   |                   |
| Reserves  | 129 972           | 132 450           | 179 593           | 130 278           |
| Short-term investments  | 75 519            | 269               | 5 100             | 1 174             |
| Income tax receivable   | 3 909             | 5 324             | 4 299             | 8 073             |
| Trade and other receivables   | 510 077           | 493 591           | 517 333           | 525 903           |
| Cash and cash equivalents   | 123 311           | 101 216           | 102 650           | 36 106            |
| Fixed assets held for sale  | -                 | 84 461            | -                 | 2 722             |
| <b>Total current assets</b>   | <b>842 788</b>    | <b>817 311</b>    | <b>808 975</b>    | <b>704 256</b>    |
| <b>Total assets</b>   | <b>1 665 980</b>  | <b>1 635 132</b>  | <b>1 653 963</b>  | <b>1 533 235</b>  |

| <b>LIABILITIES</b>   | <b>31.03.2006</b> | <b>31.12.2005</b> | <b>31.03.2005</b> | <b>31.12.2004</b> |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>Equity</b>  |                   |                   |                   |                   |
| Share capital  | 164 115           | 164 115           | 164 115           | 123 096           |
| Treasury shares  | -                 | -                 | -                 | (18 805)          |
| Share premium reserve  | 151 328           | 151 328           | 151 328           | -                 |
| Equity components related to assets held for sale                            | -                 | -                 | -                 | -                 |
| Revaluation reserve  | 5 914             | 3 543             | 5 245             | -                 |
| Other capital reserves   | 78 683            | 78 683            | 80 667            | 84 633            |
| Exchange differences on translation of subordinate entities                  | (431)             | (248)             | (149)             | (1 067)           |
| Retained earnings  | 631 328           | 572 220           | 506 169           | 467 021           |
| <b>Equity of shareholders in a dominant entity</b>                           | <b>1 030 937</b>  | <b>969 641</b>    | <b>907 375</b>    | <b>654 878</b>    |
| Minority interest  | 50 132            | 49 490            | 108 737           | 103 106           |
| <b>Total equity</b>  | <b>1 081 069</b>  | <b>1 019 131</b>  | <b>1 016 112</b>  | <b>757 984</b>    |
| <b>Liabilities</b>   |                   |                   |                   |                   |
| Liabilities in respect of loans, borrowings and other debt instruments       | 51 737            | 49 305            | 44 406            | 51 942            |
| Employee benefits  | 27 268            | 25 821            | 24 233            | 24 097            |
| Provisions (other long-term)   | 21 644            | 21 609            | 22 685            | 22 645            |
| Deferred tax provision   | 13 375            | 13 263            | 12 118            | 12 283            |
| <b>Total long-term liabilities</b>   | <b>114 024</b>    | <b>109 998</b>    | <b>103 442</b>    | <b>110 967</b>    |
| Overdraft  | 9 373             | 12 976            | 4 104             | 7 585             |
| Liabilities in respect of loans, borrowings and other debt instruments       | 107 156           | 124 190           | 124 494           | 237 452           |
| Trading and other liabilities  | 303 040           | 314 329           | 376 217           | 392 425           |
| Liabilities in respect of income tax   | 20 412            | 995               | 1 984             | 301               |
| Provisions (short-term in respect of employee benefits and other provisions) | 30 906            | 30 659            | 27 610            | 26 521            |

| LIABILITIES                                       | 31.03.2006       | 31.12.2005       | 31.03.2005       | 31.12.2004       |
|---|------------------|------------------|------------------|------------------|
| Liabilities related to fixed assets held for sale | -                | 22 854           | -                | -                |
| <b>Total short-term liabilities</b>               | <b>470 887</b>   | <b>506 003</b>   | <b>534 409</b>   | <b>664 284</b>   |
| <b>Total payables</b>                             | <b>584 911</b>   | <b>616 001</b>   | <b>637 851</b>   | <b>775 251</b>   |
| <b>Total liabilities</b>                          | <b>1 665 980</b> | <b>1 635 132</b> | <b>1 653 963</b> | <b>1 533 235</b> |

## OFF-BALANCE SHEET ITEMS

| <i>in thousand PLN</i>                       | 31.03.2006   | 31.03.2005    |
|--|--------------|---------------|
| <b>1. Contingent receivables</b>             | <b>1 500</b> | <b>2 800</b>  |
| - regarding guarantees and sureties received | 1 500        | 2 800         |
| - other off-balance sheet receivables        | 0            | 0             |
| <b>2. Contingent liabilities</b>             | <b>5 776</b> | <b>41 280</b> |
| - regarding guarantees and sureties granted  | 5 307        | 14 572        |
| - other off-balance sheet liabilities        | 469          | 26 708        |
| <b>3. Other</b>                              | <b>795</b>   | <b>621</b>    |
| - other                                      | 795          | 621           |
| <b>Total off-balance sheet items</b>         | <b>8 071</b> | <b>44 701</b> |

## CONSOLIDATED CASH FLOW STATEMENT

*in thousand PLN*

|  | 01.01-31.03.2006 | 01.01-31.03.2005 |
|--|------------------|------------------|
| <b>Cash flows from operating activities</b>                                |                  |                  |
| <b>Net profit (loss) for the period</b>                                    | <b>62 471</b>    | <b>43 232</b>    |
| Adjustments:   |                  |                  |
| Depreciation   | 22 962           | 22 503           |
| Recognition / reversal of write-downs                                      | 3 629            | (118)            |
| Gains / losses in respect of exchange differences                          | (1 398)          | (1 997)          |
| Investment property revaluation  | -                | -                |
| Gains / losses on investing activities                                     | (44 520)         | (17 772)         |
| Gains / losses on disposal of tangible assets                              | (1 019)          | (183)            |
| Interest and profit sharing  | 2 225            | 4 186            |
| Income tax calculated  | 24 411           | 12 206           |
| Gains / losses on shares in entities accounted for using the equity method | (409)            | (4 983)          |
| <b>Operating profit before change in working capital and provisions</b>    | <b>68 352</b>    | <b>57 074</b>    |
| Change in receivables  | 14 105           | (4 607)          |
| Change in reserves   | 2 571            | (43 388)         |
| Change in short-term liabilities   | (32 382)         | (1 741)          |
| Change in provisions and employee benefits                                 | 664              | (974)            |
| <b>Net cash generated from operating activities</b>                        | <b>53 310</b>    | <b>6 364</b>     |
| Interest paid  | (2 108)          | (3 802)          |
| Income tax paid  | (3 124)          | (6 386)          |
| other adjustments  | (524)            | (61)             |
| Gains / losses on disposal of discontinued operations                      | -                | -                |
| <b>Net cash from operating activities</b>                                  | <b>47 554</b>    | <b>(3 885)</b>   |

### Cash flows from investing activities

#### Inflows (in "+")

|  |       |       |
|--|-------|-------|
| Disposal of intangible assets plus property, plant and equipment | 2 249 | 1 186 |
|--|-------|-------|

|   | 01.01-31.03.2006 | 01.01-31.03.2005 |
|---|------------------|------------------|
| Subsidiary disposal   | 104 750          | 72               |
| Disposal of investments   | -                | 30 770           |
| Dividends received  | 81               | -                |
| Interest received   | 203              | 25               |
| Other inflows   | 3                | 140              |
| <b>Outflows (in "-")</b>  |                  |                  |
| Acquisition of intangible assets plus property, plant and equipment                       | (32 842)         | (27 886)         |
| Subsidiary acquisition (net of cash acquired)   | -                | -                |
| Purchase of investment property   | -                | -                |
| Purchase of other investments   | (79 800)         | (4 937)          |
| Research and development expenditure  | -                | -                |
| Other expenditure   | (2 662)          | (69)             |
| <b>Net cash from investing activities</b>   | <b>(8 018)</b>   | <b>(699)</b>     |
| <b>Cash flows from financing activities</b>   |                  |                  |
| <b>Inflows (in "+")</b>   |                  |                  |
| Net inflows from issue of shares and other equity instruments, plus capital contributions | -                | 193 776          |
| Inflows from issue of convertible preference shares                                       | -                | -                |
| Inflows from loans and borrowings   | 22 664           | 36 710           |
| Other financial inflows   | 31               | 2 299            |
| <b>Outflows (in "-")</b>  |                  |                  |
| Purchase of treasury shares   | -                | -                |
| Dividends paid and other payments to equity holders                                       | -                | -                |
| Dividends paid to minority shareholders   | -                | -                |
| Repayment of loans and borrowings   | (36 001)         | (142 239)        |
| Redemption of debt securities   | -                | (15 000)         |
| Finance lease payments  | (299)            | (1 120)          |
| Other financial outflows  | (309)            | (1 017)          |
| <b>Net cash from financing activities</b>   | <b>(13 914)</b>  | <b>73 409</b>    |
| <b>Total net cash flows</b>   | <b>25 622</b>    | <b>68 825</b>    |
| <b>Cash at the beginning of the period</b>  | <b>88 240</b>    | <b>28 521</b>    |
| Impact of changes in respect of exchange differences                                      | 76               | 1 200            |
| <b>Cash at the end of the period</b>  | <b>113 938</b>   | <b>98 546</b>    |

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

| <i>in thousand PLN</i>   | Share capital      | Treasury shares | Share premium reserve | Equity components related to assets held for sale | Revaluation reserve | Other reserve capital | Exchange differences on translation of subordinate entities | Retained earnings | Equity of the shareholders in a dominant entity | Minority interest | Total equity     |
|--|--------------------|-----------------|-----------------------|---|---------------------|-----------------------|---|-------------------|---|-------------------|------------------|
| Equity as of (beginning of period) 01.01.2006:                       |                    |                 |                       |   |                     |                       |   |                   |   |                   |                  |
| <b>Recognised previously</b>   | <b>164<br/>115</b> | -               | <b>151 328</b>        | -   | <b>3 543</b>        | <b>78 683</b>         | <b>(248)</b>  | <b>572 220</b>    | <b>969 641</b>                                  | <b>49 490</b>     | <b>1 019 131</b> |
| Changes in the accounting policy                                     |                    |                 |                       |   |                     |                       |   |                   | -   |                   | -                |
| Fundamental error adjustments  |                    |                 |                       |   |                     |                       |   |                   | -   |                   | -                |
| Equity (restated) as of:   | 164<br>115         | -               | 151 328               | -   | 3 543               | 78 683                | (248)   | 572 220           | 969 641   | 49 490            | 1 019 131        |
| exchange differences on transacting foreign operations               |                    |                 |                       |   |                     |                       | (183)   |                   | (183)   | (95)              | (278)            |
| financial instrument measurement                                     |                    |                 |                       |   | 2 371               |                       |   |                   | 2 371   | 12                | 2 383            |
| total income and costs for the period, recognised directly in equity | -                  | -               | -                     | -   | 2 371               | -                     | (183)   | -                 | 2 188   | (83)              | 2 105            |
| net profit (loss)  |                    |                 |                       |   |                     |                       |   | 62 334            | 62 334  | 137               | 62 471           |
| total income and costs for the period, recognised directly in equity | -                  | -               | -                     | -   | 2 371               | -                     | (183)   | 62 334            | 64 522  | 54                | 64 576           |
| changes in the Group composition                                     |                    |                 |                       |   |                     |                       |   | (3 251)           | (3 251)   | 588               | (2 663)          |
| other additions  |                    |                 |                       |   |                     |                       |   | 25                | 25  | -                 | 25               |
| <b>Equity as of (end of period) 31.03.2006:</b>                      | <b>164<br/>115</b> | -               | <b>151 328</b>        | -   | <b>5 914</b>        | <b>78 683</b>         | <b>(431)</b>  | <b>631 328</b>    | <b>1 030 937</b>                                | <b>50 132</b>     | <b>1 081 069</b> |

| <i>in thousand PLN</i>  | Share capital  | Treasury shares | Share premium reserve | Equity components related to assets held for sale | Revaluation reserve | Other reserve capital | Exchange differences on translation of subordinate entities | Retained earnings | Equity of the shareholders in a dominant entity | Minority interest | Total equity     |
|---|----------------|-----------------|-----------------------|---|---------------------|-----------------------|---|-------------------|---|-------------------|------------------|
| <b>Equity as of (beginning of period) 01.01.2005:</b>                       |                |                 |                       |   |                     |                       |   |                   |   |                   |                  |
| <b>Recognised previously</b>  | <b>123 096</b> | <b>(18 805)</b> | -                     | -   | -                   | <b>84 633</b>         | <b>(1 067)</b>  | <b>467 021</b>    | <b>654 878</b>                                  | <b>103 106</b>    | <b>757 984</b>   |
| Changes in the accounting policy  |                |                 |                       |   |                     |                       |   |                   | -   |                   | -                |
| Fundamental error adjustments   |                |                 |                       |   |                     |                       |   |                   | -   |                   | -                |
| <b>Equity (restated) as of:</b>   | <b>123 096</b> | <b>(18 805)</b> | -                     | -   | -                   | <b>84 633</b>         | <b>(1 067)</b>  | <b>467 021</b>    | <b>654 878</b>                                  | <b>103 106</b>    | <b>757 984</b>   |
| exchange differences on transacting foreign operations                      |                |                 |                       |   |                     |                       | 918   |                   | 918   | 522               | 1 440            |
| financial instrument measurement  |                |                 |                       |   | 5 245               |                       |   |                   | 5 245   | 453               | 5 698            |
| <b>total income and costs for the period, recognised directly in equity</b> | -              | -               | -                     | -   | <b>5 245</b>        | -                     | <b>918</b>  | -                 | <b>6 163</b>                                    | <b>975</b>        | <b>7 138</b>     |
| Net profit / (loss)   |                |                 |                       |   |                     |                       |   | 38 726            | 38 726  | 4 506             | 43 232           |
| <b>total income and costs for the period</b>                                | -              | -               | -                     | -   | <b>5 245</b>        | -                     | <b>918</b>  | <b>38 726</b>     | <b>44 889</b>                                   | <b>5 481</b>      | <b>50 370</b>    |
| Issue of share capital  | 41 019         |                 | 151 328               |   |                     |                       |   |                   | 192 347   |                   | 192 347          |
| Sales of treasury shares  |                | 18 805          |                       |   |                     | (3 966)               |   |                   | 14 839  |                   | 14 839           |
| Other additions   |                |                 |                       |   |                     |                       |   | 422               | 422   | 150               | 572              |
| <b>Equity as of (end of period) 31.03.2005:</b>                             | <b>164 115</b> | -               | <b>151 328</b>        | -   | <b>5 245</b>        | <b>80 667</b>         | <b>(149)</b>  | <b>506 169</b>    | <b>907 375</b>                                  | <b>108 737</b>    | <b>1 016 112</b> |



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

### 1. General Information

These interim consolidated financial statements for the period between 1 January 2006 and 31 March 2006, and the comparable data, were approved for publication by the Management Board of Ciech SA on 15 May 2006.

This consolidated financial statement comprises the financial statements of Ciech S.A. and its subsidiaries (jointly called "Grupa Chemiczna Ciech"; "the Group"), and the Group share in associates. The dominant entity over Grupa Chemiczna Ciech is Ciech S.A.

### Organisational structure of the Ciech Group

The dominant entity of the Ciech Group is Ciech Spółka Akcyjna with its registered office in Warsaw, at ul. Powązkowska 46/50, registered under KRS No. 0000011687 at the District Court for the Capital City of Warsaw in Warsaw, XIX Economic Division of the National Court Register.

The Ciech Group is a group of domestic and foreign manufacturing, distribution, and trade companies operating in the chemical industry. As of 31 March 2006, it comprised 30 business entities, including:

- Ciech SA – dominant entity
- 27 subsidiaries, including:
  - 20 domestic subsidiaries
  - 7 foreign subsidiaries
- 2 domestic associates
- 1 foreign associate

The Ciech Group operations consist in manufacture and sales of its own products, plus trading in goods. The trading activity is mainly conducted through Ciech SA plus its domestic and foreign trade subsidiaries, and the manufacturing activity is conducted through Ciech SA manufacturing subsidiaries.

Ciech SA has a total of 30 affiliated entities, including direct subsidiaries and associates of Ciech SA acting as the dominant entity, and indirect subsidiaries and associates where Ciech SA's direct subsidiaries and associates act as the dominant entities.

When developing the consolidated financial statement for Q1 2006 the following companies were consolidated:

- full consolidation method:
  1. Ciech SA – dominant entity
  2. ZCh Alwernia SA
  3. Przedsiębiorstwo Chemiczne Cheman SA
  4. Vitrosilicon SA
  5. Ciech Polfa Sp z o.o.
  6. Polsin Pte. Ltd.
  7. Daltrade Plc
- equity method:
  8. Przedsiębiorstwo Transportowo-Uługowe TRANSCLEAN Sp. z o.o.

The consolidated financial statement also includes three lower-tier capital groups:

Grupa Fosfory, including:

- Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. – dominant entity
- Agrochem Sp. z o.o. Dobre Miasto
- Agrochem Sp. z o.o. Człuchów

2. Grupa Soda Mątwy, including:

- Inowrocławskie Zakłady Chemiczne Soda Mątwy SA – dominant entity
  - Elektrociepłownie Kujawskie Sp z o.o.
  - Transoda Sp. z o.o.
  - Polskie Towarzystwo Ubezpieczeniowe SA (accounted for using the equity method)
3. Grupa Janikosoda including:
- Janikowskie Zakłady Sodowe Janikosoda SA – dominant entity
  - Polskie Towarzystwo ubezpieczeniowe SA (accounted for using the equity method)

The dominant entity does not have branches (permanent establishments).

**List of companies consolidated and accounted for using the equity method in Q1 2006 and in a comparable period**

| Name of the Company / Group                                  | Consolidation method as of 31.03.2006 and Ciech SA's control  | Consolidation method as of 31.03.2005 and Ciech SA's control   |
|--|---|--|
| <b>1) Ciech SA</b>   | Dominant entity   | Dominant entity  |
| <b>2) Ciech - Polfa SA</b>                                   | Fully consolidated subsidiary of Ciech SA   | Fully consolidated subsidiary of Ciech SA  |
| <b>4) Przedsiębiorstwo Chemiczne Cheman SA</b>               | Fully consolidated subsidiary of Ciech SA   | Fully consolidated subsidiary of Ciech SA Since 9 <sup>th</sup> July 2004, after the merger with Ciech Petrol Sp. z o.o., also fully consolidated. |
| <b>5) Grupa Petrochemia-Blachownia</b>                       | sold in January 2006  | Fully-consolidated lower-tier Capital Group  |
| 5.1) Petrochemia-Blachownia SA                               | -   | Lower-tier dominant entity (Ciech SA subsidiary)   |
| 5.2) BI-Trans Sp. z o.o.                                     | -   | Indirect subsidiary of Ciech SA – lower-tier full consolidation  |
| <b>6) Grupa Soda Mątwy</b>                                   | Fully-consolidated lower-tier Capital Group   | Fully-consolidated lower-tier Capital Group  |
| 6.1) Inowrocławskie Zakłady Chemiczne SODA MĄTWY SA          | Lower-tier dominant entity (Ciech SA subsidiary)  | Lower-tier dominant entity (Ciech SA subsidiary)   |
| 6.2) Transoda Sp. z o.o.                                     | Indirect subsidiary of Ciech SA – lower-tier full consolidation. As of 10th March 2006 merger with Jantrans-Janikowo Sp. z o.o. | Indirect subsidiary of Ciech SA – lower-tier full consolidation  |
| 6.3) Elektrociepłownie Kujawskie Sp. z o.o.                  | Indirect subsidiary of Ciech SA – lower-tier full consolidation   | Indirect subsidiary of Ciech SA – lower-tier full consolidation  |
| 6.4) Polskie Towarzystwo Ubezpieczeń SA                      | Indirect lower-tier associate of Ciech SA accounted for using the equity method.  | Indirect lower-tier associate of Ciech SA accounted for using the equity method  |
| <b>7) Grupa Janikosoda</b>                                   | Fully-consolidated lower-tier Capital Group   | Fully-consolidated lower-tier Capital Group  |
| 7.1) Janikowskie Zakłady Sodowe Janikosoda SA                | Lower-tier dominant entity (Ciech SA subsidiary)  | Lower-tier dominant entity (Ciech SA subsidiary)   |
| 7.2) Polskie Towarzystwo Ubezpieczeń SA                      | Indirect lower-tier associate of Ciech SA accounted for using the equity method.  | Indirect lower-tier associate of Ciech SA accounted for using the equity method  |
| <b>8) Grupa Fosfory</b>                                      | Fully-consolidated lower-tier Capital Group   | Fully-consolidated lower-tier Capital Group  |
| 8.1) Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. | Lower-tier dominant entity (Ciech SA subsidiary)  | Lower-tier dominant entity (Ciech SA subsidiary)   |
| 8.2) Agrochem Sp. z o.o. Dobre Miasto                        | Indirect subsidiary of Ciech SA – lower-tier full consolidation   | Indirect subsidiary of Ciech SA – lower-tier full consolidation  |
| 8.3) Agrochem Sp. z o.o. Człuchów                            | Indirect subsidiary of Ciech SA – lower-tier full consolidation   | Indirect subsidiary of Ciech SA – lower-tier full consolidation  |
| <b>9) Grupa Alwernia</b>                                     | Fully-consolidated lower-tier dominant entity   | Fully-consolidated lower-tier Capital Group  |
| 9.1) Zakłady Chemiczne Alwernia SA                           | Fully consolidated subsidiary of Ciech SA   | Fully consolidated subsidiary of Ciech SA  |
| 9.2) Alwernia Chrom Sp. z o.o.                               | sold in January 2006  | Indirect subsidiary of Ciech SA – lower-tier full consolidation  |

| Name of the Company / Group                                     | Consolidation method as of 31.03.2006 and Ciech SA's control | Consolidation method as of 31.03.2005 and Ciech SA's control |
|---|--|--|
| 10) Polsin Pte. Ltd.  | Fully consolidated subsidiary of Ciech SA                    | Fully consolidated subsidiary of Ciech SA                    |
| 11) Daltrade Plc  | Fully consolidated subsidiary of Ciech SA                    | Fully consolidated subsidiary of Ciech SA                    |
| 12) Vitrosilicon SA   | Fully consolidated subsidiary of Ciech SA                    | Fully consolidated subsidiary of Ciech SA                    |
| 13) Przedsiębiorstwo Transportowo-Uslugowe TRASCLEAN Sp. z o.o. | Ciech SA associate accounted for using the equity method     | Ciech SA associate accounted for using the equity method     |
| 14) Zach-Ciech Sp. z o.o.                                       | On 24 January 2006, the Company was declared bankrupt        | Ciech SA associate, written-off in respect of impairment     |

**The business profile of the dominant entity and its subsidiaries is:**

▪ **Dominant entity Ciech SA**

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

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

▪ **Grupa Soda Mątwy**

- manufacture of other inorganic basic chemicals
- wholesale of chemical products
- production and distribution of electricity
- goods transportation services

▪ **Grupa Fosfory**

- manufacture of fertilisers and nitrogen compounds
- manufacture of other inorganic chemicals
- manufacture of other organic chemicals
- manufacture of refined petroleum products
- manufacture of plastics
- wholesale of grain, seeds, and animal feeds
- handling services with the use of its own handling and storing base

▪ **Grupa Janikosoda**

- salt manufacture
- manufacture of industrial gas
- manufacture of other inorganic basic chemicals
- manufacture of other chemical products n.e.c.

**Fully consolidated entities**

▪ **Alwernia SA**

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

▪ **Vitrosilicon SA**

- manufacture of other inorganic basic chemicals
- manufacture of household and technical glassware
- manufacture of plastic packaging
- manufacture of other plastic products

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

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

- § Associate - Przedsiębiorstwo Transportowo-Uslugowe TRANSCLEAN Sp. z o.o., Bydgoszcz

## **2. Statement of Compliance**

The interim consolidated financial statement of Ciech Group, as well as financial statements of all subsidiaries and associates of Ciech SA for the presented period and comparable periods have been prepared according to the International Financial Reporting Standards (IFRS) implemented by the EU.

The management board of the dominant entity used its best judgement in the selection of the applicable standards and interpretations, as well as in the selection of the measurement methods and principles for individual items of the CIECH Group interim consolidated financial statement according to IFRS as of 31 March 2006, and the comparable data. Due diligence was exercised when developing the tables and explanations below. The financial data presented here was not audited.

The Management Board of Ciech SA declares that the presented interim consolidated financial statement reliably presents the assets, financial result on operations, and cash flows.

## **3. Basis for the development of the condensed consolidated financial statement**

The presented financial statement has been prepared under the assumption of business continuity.

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

The development of the condensed financial statement in compliance with IFRS requires the Management Board to exercise professional judgement, estimates, and objectives that affect the adopted accounting principles and the measurement of assets, liabilities, income, and costs. All estimates and the related assumptions are based on past experience, various other factors considered reasonable under given circumstances, and the results of such estimates are the basis for a sound judgment of the carrying value of assets and liabilities which cannot be calculated using other methods. The actual values may differ from accounting estimates.

The estimates and assumptions are updated on a regular basis. Change in accounting estimates is recognised in the period in which it is made, if such a change only applies to that period or in the current and future periods if such changes apply both to the current and future periods.

The Management Board's professional judgements that have a significant impact on the consolidated financial statement, and the estimates bearing a high risk of significant changes in the future periods, have been presented in points 10, 14 and 21 of this condensed consolidated financial statement.

For the purposes of presentation of selected financial data, individual items under assets and liabilities were translated into Euros at the average exchange rate announced at the balance-sheet date (31 March 2006) by the National Bank of Poland, i.e. 3, 9357. Individual items under P&L account were translated into Euros at a rate calculated as the arithmetical mean of the average EUR exchange rates determined by the National Bank of Poland at the last day of each month, i.e. from January to March 2006 respectively: 3,8285; 3,7726; 3,9357. The exchange rate for Q1 2006 is 3.8456.

#### 4. Significant accounting and consolidation principles

No changes in the accounting policy occurred in the presented period. The accounting policy adopted by the Ciech Group has been presented in the interim consolidated financial statement, published on 28 October 2005. The policy has been implemented on continuous basis when developing all consolidated financial statements of the Ciech Group since the day of changing to IFRS, which is since 1 January 2004.

##### Accounting policy applicable in the development of periodical report for Q1 ending on 31.03.2006

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

Detailed information regarding principles and method of calculation of assets and liabilities and measurement of financial result as well as a method of development of the financial statement and comparable data at CIECH SA was included in the introduction to the Annual Report developed as of 31 December 2005, publicly disclosed on 11 May 2006.

We would like to inform you that as of the tax year between 1 January 2006 and 31 December 2006, the Company has implemented a simplified method of advance payments in respect of corporate income tax. The Company accounts for a liability towards the Tax Office resulting from the actual tax calculation; a monthly flat rate of an advance payment in respect of the income tax is 440 000 PLN.

#### 5. Major achievements of Ciech SA and the Group companies in Q1 2006

##### Ciech SA

- On 10 January 2006, the transaction of sales of 100% of shares of Ciech SA subsidiary Petrochemia-Blachownia based in Kędzierzyn Koźle to BorsodChem Rt by payment to the benefit of Ciech SA amounting to 104 million PLN was closed.
- On 29 March 2006, an agreement was signed regarding the purchase of shares of ZCh Zachem SA and ZCh Organika-Sarzyna SA from Nafta Polska SA. The purchase cost for 80% of ZCh Zachem SA shares is 68 553 000 PLN (5.79 PLN per share), and the guaranteed investments amount to 176 120 000 PLN. The purchase cost for 80% of ZCh Organika-Sarzyna SA shares is 244 512 000 PLN (36 PLN per share), and the guaranteed investments amount to 130 000 000 PLN. Enforcement of the agreements is dependent on the consent of the Polish Office of Competition and Consumer Protection, or the expiry date for the consent, consent granted to Nafta Polska by the Council of Ministers, and consent of the Minister of State Treasury acting as the General Meeting of Nafta Polska.

Soda Matwy SA

- An installation for the monohydrate production of dense soda ash at Soda Matwy is under construction, and meets the objective regarding better quality, meeting market needs plus increased competitiveness. Dense soda ash produced with the monohydrate method is of better quality and enjoys increasing market demand. Total value of investment will amount to 47 200 000 PLN, and it is to be completed in 2007.

Vitrosilicon SA

- The hollow glass block production section in Vitrosilicon S.A. subsidiary in Iłowa is being modernised. The subsidiary is introducing the ecological manufacturing technology as regards hollow glass blocks. The modernization works will be finished in May 2006, and will enable to double the annual output from 3.5 million to 7 million blocks. The total value of investment at the hollow glass block production will amount to 25 000 PLN. The investment is co-financed via the Sector Operational Programme of the Ministry of Economy and Labour known as "Increased competitiveness of enterprises" Sub-action 2.2.1 Support for enterprises making new investments" with the amount of 3 170 494 PLN.
- On 7 April 2006 a preliminary agreement was signed regarding the purchase of assets of Huta Szkła "Pobiedziska," that provides for the date of final agreement signature by 15 May 2006. The whole project regarding purchase of the company assets, plus new investments is estimated for 25 000 000 PLN. Its execution is aimed at strengthening of Vitrosilicon SA leader position on the domestic market of glass lanterns for memorial candles.

**6. Detailed information on the consolidated financial results of the Ciech Group**

In Q1 2006, the Ciech Group recorded a consolidated net profit of 62 471,000 PLN, a balance-sheet total of 1 665 980,000 PLN, and a change in net cash by 20,661,000 PLN. The tables below present selected financial data and the basic financial ratios for Q1 2006 and 2005.

**Table No. 1****Selected financial data**

| <i>in thousand PLN</i>                                 | <b>Q1 2006</b> | <b>Q1 2005</b> | <b>2006/2005 dynamics</b> |
|--|----------------|----------------|---------------------------|
| <b>Net income from sales</b>                           | <b>471 232</b> | <b>541 548</b> | -12.98%                   |
| Cost of sales  | (353 852)      | (412 658)      | -14.25%                   |
| Gross profit on sales                                  | 117 380        | 128 890        | -8.93%                    |
| Costs of sales   | (36 175)       | (49 820)       | -27.39%                   |
| Overhead costs   | (37 168)       | (39 703)       | -6.38%                    |
| Other operating income / costs                         | (5 640)        | (3 346)        | -                         |
| Operating profit                                       | 38 397         | 36 021         | 6.60%                     |
| Financial income / costs                               | 48 075         | 14 431         | -                         |
| Share in the profit of subordinate entities            | 409            | 4 983          | -                         |
| Income tax   | (24 410)       | (12 203)       | 100.03%                   |
| <b>Net profit</b>                                      | <b>62 471</b>  | <b>43 232</b>  | 44.50%                    |
| <b>Net profit of minority shareholders</b>             | <b>137</b>     | <b>4 506</b>   | -96.96%                   |
| <b>Net profit of shareholders in a dominant entity</b> | <b>62 334</b>  | <b>38 726</b>  | 60.96%                    |
| EBITDA   | 61 359         | 58 524         | 4.84%                     |
| <b>Net earnings per share</b>                          | <b>3,12</b>    | <b>1,65</b>    | 89.57%                    |
| Net return   | 13.26%         | 7.98%          | 66.06%                    |
| EBIT%  | 8.15%          | 6.65%          | 22.50%                    |
| EBITDA %   | 13.02%         | 10.81%         | 20.49%                    |
| Current ratio  | 1,79           | 1,51           | 18.23%                    |
| Quick ratio  | 1,51           | 1,18           | 28.53%                    |
| Debt ratio   | 35.11%         | 38.57%         | -8.96%                    |
| Equity to assets ratio                                 | 64.89%         | 61.43%         | 5.63%                     |

*Ratio calculation principles:*

*net earnings per share – net earnings per ordinary shareholders of the dominant entity / weighted average number of ordinary shares in a given period (according to the definition in IAS 33 "Earnings per share")*

*net return – net earnings of the shareholders of the dominant entity for a given period / net income from sales of products, services, goods and materials for a given period,*

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

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

*current ratio - current assets at the end of a given period / current liabilities at the end of a given period,*

*quick ratio - current assets net of reserves at the end of the period / current liabilities at the end of the period,*

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

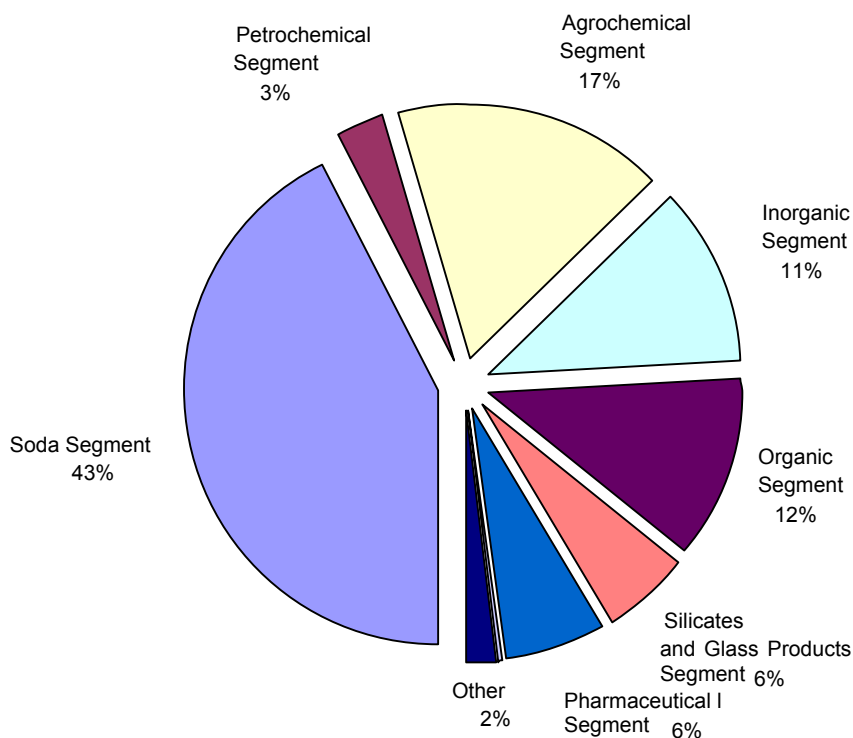
*equity to assets ratio – total equity at the end of the period / total assets at the end of the period*

## Sales income

Consolidated net income from sales for Q1 2006 was 471 232 000 PLN, and is lower by 13% compared to income recorded in a similar period in 2005. A decrease in income for Q1 2006 was due to the sales (on 10 January 2006) of the fully consolidated company Petrochemia Blachownia (petrochemical segment).

**Fig. 1. Sales income breakdown**

Income in Q1 2006 by business segment was as follows:



Source: Ciech SA

The domestic market continues to have the largest share in the Group's products and goods sales, while the European Union is the main export market. The geographical proximity and lack of trade barriers make EU countries natural export markets for the Ciech Group. The Group's domestic income in Q1 2006 was 244,903 000 PLN, accounting for 52% of the Group's total income, and the income from EU markets was 159,442 000 PLN, accounting for 34% of the Group's total income. A major share of the Ciech Group income from sales in Q1 2006 (83%) was generated by the four main business segments: soda, agrochemical, organic, and inorganic segments. Table 2 presents sales of individual segments in Q1 2006 and a similar period in 2005.

**Soda segment**

In Q1 2006, the soda segment generated almost 43% of the Group's total sales income. The dominant entity Ciech S.A. plays a key role in the sales operations, processing the total sales of the output manufactured by the subsidiaries Soda Mątwy SA and Janikosoda SA. The main product in this segment is soda ash, which accounts for 75% of sales in this segment. The companies of the Group are the only soda manufacturers in Poland. Compared to Q1 2005, sales income in the segment increased mainly due to an increase in prices.

**Agrochemical segment**

The agrochemical segment accounted for 17% of the Group's total sales in Q1 2006. Dominant entity Ciech SA operates in the agrochemical segment, exporting fertilisers, and importing base stock for fertiliser manufacture, and Grupa Fosfory, which manufactures fertilisers and sells them on the domestic market. The key income-generating products here are fertilisers that account for over 76% of the segment's income. Decreased sales were mainly due to low demand for fertilisers resulting from a long winter.

**Petrochemical segment**

Share of the petrochemical segment in the Group's total sales in Q1 2006 decreased significantly due to the sales of fully consolidated Petrochemia Blachownia SA and Group's withdrawal from production in the segment. Other sales are agency transactions of Ciech SA and Cheman SA.

**Inorganic segment**

The inorganic segment accounted for 11% of Group's total income in Q1 2006. The main manufacturer in the segment is the subsidiary Alwernia SA, which manufactures phosphorus, and chromium compounds. The company used agency services of Ciech SA to import base stock and export certain products. The main product in the segment is sodium tripolyphosphate, generating 25% of its total income, and sulphur generating 13% of the income. Segment sales decreased by 15%, compared to a comparable period in 2005. This was the effect of a lower volume of Alwernia products sold, resulting from an increase in base stock prices that brought about lower competitiveness of main segment products.

**Organic segment**

The organic segment accounted for 12% of Group's total income in Q1 2006. The key player in that segment is Ciech SA, which renders exports agency services, usually on a consignment basis. Main products include plastics accounting for 37% of the segment income and caprolactam accounting for 12% of the segment income. Other major contributors to the segment income are epichlorohydrin and isocyanates (TDI); accounting for 9% of the segment income. The organic segment income was similar to the amount in an analogical period of 2005.

**Silicates and Glass segment**

The segment of silicates and glass accounted for 6% of the Group's sales in Q1 2006. The main manufacturer in this segment is the subsidiary Vitrosilicon SA, which manufactures silicates, hollow glass blocks, and glass lanterns. Vitrosilicon SA is the only manufacturer of hollow glass blocks in Poland. Major contributors to the segment income for Q1 2006 were hollow glass blocks and lanterns, which accounted for approx. 42% of the segment income, and sodium water glass accounting for 54% of the segment income. Silicates are mainly sold for export, usually via Ciech SA. The growth of sales in the segment, compared to the analogical period of 2005 was caused by an increase in sales of selected product groups in the segment, resulting from good market growth and higher demand.

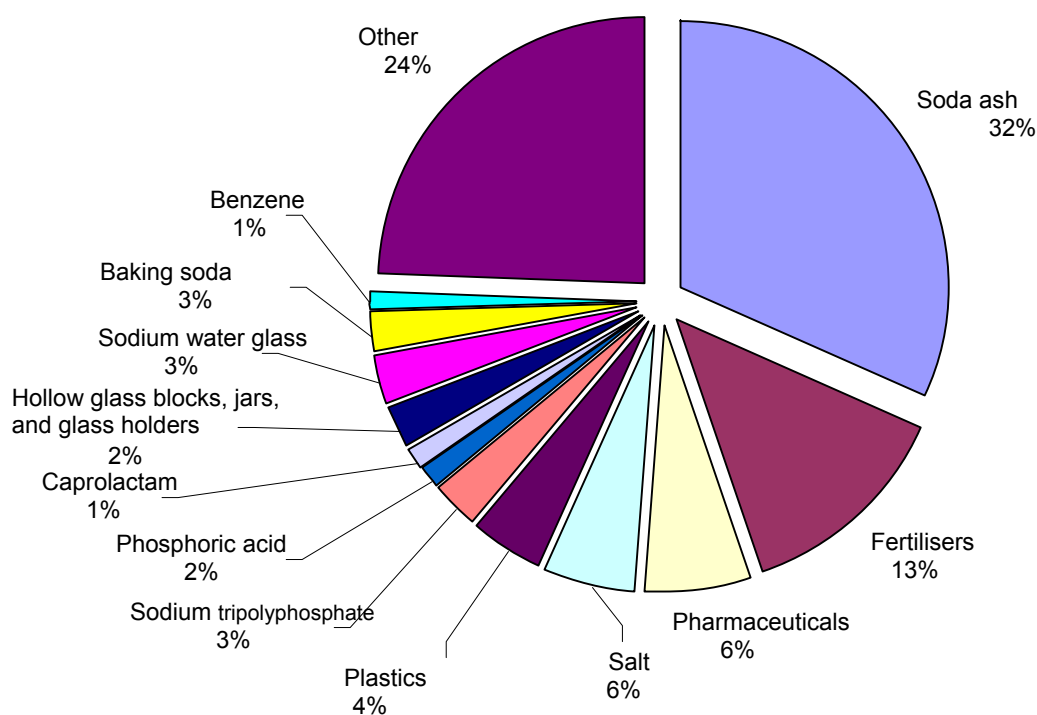


**Table No. 2**  
**Net income from sales by business segment**

| <i>in thousand PLN</i>               | <b>01.01.-31.03.2006</b> | <b>01.01.-31.03.2005</b> |
|--------------------------------------|--------------------------|--------------------------|
| Soda Segment                         | 199 634                  | 179 769                  |
| Petrochemical Segment                | 14 468                   | 82 906                   |
| Agrochemical Segment                 | 81 244                   | 93 092                   |
| Inorganic Segment                    | 53 825                   | 63 081                   |
| Organic Segment                      | 55 855                   | 56 026                   |
| Silicates and Glass Products Segment | 26 113                   | 22 234                   |
| Pharmaceutical Segment               | 29 455                   | 11 102                   |
| Energy Segment                       | 1 703                    | 1 654                    |
| Other                                | 8 935                    | 16 440                   |
| Discontinued Operations              | 0                        | 15 244                   |
| <b>TOTAL</b>                         | <b>471 232</b>           | <b>541 548</b>           |

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

**Figure 2. Sales income breakdown by major products**



Source: Ciech SA

### **Gross profit on sales**

Consolidated gross profit on sales for Q1 2006 was 117 380 000 PLN and was lower by 9%, as compared to the profit made in an analogical period in 2005. A decrease of the gross profit on sales in Q1 2006 resulted from the termination of full consolidation of a sold company Petrochemia Blachownia, unfavourable trends on the FX market (average exchange rate for EUR/PLN in 2005 was 4.02 while it was 3.82 in a comparable period in 2006), plus lower sales of fertilisers due to unfavourable weather conditions in Q1 2006

**Operating Profit (EBIT)**

Operating profit for Q1 2006 was 38 397 000 PLN (Q1 2005 36 021 000 PLN). A positive effect on the operating profit was mainly increased profit: of the soda segment (bigger sales volume, higher product prices, and significant decrease in coke prices) and to a lower degree of the silicates and glass segment (continued market development, increased demand, and profitability of selected products).

**Net result**

Consolidated net profit for Q1 2006 was 62 471 000 PLN. Net profit of the dominant entity shareholders was equal to 62 334 000 PLN. Net return reached a level of 13% (8% last year). The main source of profit - similarly to last year - was the result obtained from core business (gross sales profit net of sales costs and general management costs). An increase in the financial income was mainly due to the consolidated profit on sales made by Petrochemia Blachownia SA (41 354 000 PLN, and profit on this transaction net of income tax was 26 409 000 PLN), and reduced financial costs by 4 066 000 PLN (due to reduced debt).

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

|                             | 31.03.2006       | 31.03.2005       | 2006/2005 dynamics |
|-----------------------------|------------------|------------------|--------------------|
| <b>Value of assets</b>      | <b>1 665 980</b> | <b>1 653 963</b> | 0,73%              |
| Fixed assets                | 823 192          | 844 988          | -2,58%             |
| Current assets, including:  | 842 788          | 808 975          | 4,18%              |
| - reserves                  | 129 972          | 179 593          | -27,63%            |
| - short-term receivables    | 513 986          | 52 1632          | -1,47%             |
| - cash and cash equivalents | 123 311          | 102 650          | 20,13%             |
| <b>Equity</b>               | <b>1 081 069</b> | <b>1 016 112</b> | <b>6,39%</b>       |
| Equity of a dominant entity | 1 030 937        | 907 375          | 13,62%             |
| Minority interest           | 50 132           | 108 737          | -53,90%            |
| Long-term liabilities       | 114 024          | 103 442          | 10,23%             |
| Short-term liabilities      | 470 887          | 534 409          | -11,89%            |

**Equity**

Consolidated equity of the Group as of 31 March 2006 was 1 081 069 000 PLN, including equity of a dominant entity amounting to 1 030 937 895 000 PLN, and it was higher compared to last year by 123 562 000 PLN. A major contributor to increased equity was net profit made by shareholders of a dominant entity in Q1 2006 amounting to 62 334 000 PLN, and profit made in the last three quarters of 2005, including purchase of shares of Soda Mątwy SA, Janikosoda SA, Fosfory Sp. z o.o. and (directly and indirectly) Vitrosilicon SA. subsidiaries from minority shareholders in Q4 2005.

**Fixed assets**

As of 31 March 2006, the Group's fixed assets were equal to 823 192 000 PLN and, similar to last year, they accounted for half of the total assets.

**Current assets**

As of 31 March 2006, the Group's current assets were 842 788 000 PLN and accounted for approx. 51% of total assets. Current assets comprised mainly: (a) trade and other receivables – 61% of current assets, (b) reserves – 15% of current assets, and (c) cash and cash equivalents – 15%. Compared to the balance as of 31.03.2005, current assets increased by 4%, owing to additions in: a) cash and cash equivalents (by 20 661 000 PLN), short-term investments by 70 419 000 PLN. Short-term investments at Ciech SA increased by 91 329 000 PLN, which was mainly due to additional funds obtained in 2005 from issue of shares.

**Consolidated liabilities**

The total short and long-term liabilities of the Ciech Group as of 31 March 2006 reached 584 911, 000 PLN, which was approx. 8% less than on 31 March 2005. Long-term liabilities increased by 10%, mainly due to an increase in liabilities in respect of loans and borrowings, and increased provisions for employee benefits. Short-term liabilities decreased by 12%, compared to the balance as of 31 March 2005. The decrease was mainly due to decreased liabilities in respect of short-term loans and borrowings (by 12 069 000 PLN), and decreased trading liabilities and other by 73 177 000 PLN (accordingly to a decrease in trading receivables and other plus reserves). At the same time an increase in

liabilities in respect of the income tax by 18 428 000 PLN was observed, which resulted from the implementation by Ciech SA of a simplified method of advance payments in respect of corporate income tax in 2006.

### **Consolidated net debt**

Net debt as of 31 March 2006 (comprising bank loans, borrowings, and other financial liabilities net of cash), amounted to 44 955,000 PLN (70 354,000 PLN last year). A significant decrease in net debt resulted from the repayment of loans and simultaneous increase in cash. Also for this reason, the Group's debt ratio (calculated as the ratio of net debt to the balance sheet amount) decreased from 4% to 3% in comparison to 31 March 2005.

Financial advantage (the ratio of net debt to net debt plus equity) as of 31 March 2006 was 4%, compared to 6% in the preceding year

The current ratio, calculated as the ratio of total current assets to total short-term liabilities, amounted to 1.8, showing a significant improvement in liquidity compared to the same period of the previous year, when the ratio stood at 1.5.

As of 31 March 2006, equity to fixed assets ratio (total equity, long-term liabilities and provisions) was 145%, and 132% in a comparable period.

Net debt to EBITDA ratio (annualised) for Q1 was 0.2. Net debt/equity ratio was 4.2%.

### **Cash flows**

Net cash flows after Q1 2006 were 25 622 000 PLN. Operating net cash was 47 554 000 PLN (negative cash flow in Q1 of the previous year). A major contributor influencing the operating cash was the profit on sales (gross profit on sales net of sales costs and general management costs) plus depreciation.

Most significant outflows in Q1 2006 was expenditure for fixed assets (production) amounting to 32 842 000 PLN, Ciech SA deposits. Most significant inflows comprised cash from sales of Petrochemia Blachownia SA.

Net cash from financing activities was 13 914 000 PLN. Outflows for repayment of loans and borrowings were 36 001 000 PLN, and inflows from loans and borrowings taken were 22 664 000 PLN.

Cash as disclosed in the cash flow statement at the end of March 2006 amounted to 113 938,000 PLN.

## 7. Income and profit/loss by business segment

01.01.-31.03.2006

| <i>in thousand PLN</i>            | Soda Segment   | Power Engineering Segment | Organic Segment | Petrochemical Segment | Agro-Chemical Segment | Pharmaceutical Segment | Segment of silicates and glass products | Inorganic Segment | Other Operations | Eliminations (consolidation adjustments) | TOTAL          |
|-----------------------------------|----------------|---------------------------|-----------------|-----------------------|-----------------------|------------------------|---|-------------------|------------------|--|----------------|
| Income from third parties         | 185 383        | 1 665                     | 55 851          | 14 468                | 81 244                | 29 455                 | 26 113                                  | 53 632            | 8 758            |  | 456 569        |
| Income from intersegment sales    | 23 248         | 53 612                    | 64              |                       | 5                     |                        | 62                                      | 627               | 7 562            | (70 517)                                 | 14 663         |
| <b>Total income</b>               | <b>208 631</b> | <b>55 277</b>             | <b>55 915</b>   | <b>14 468</b>         | <b>81 249</b>         | <b>29 455</b>          | <b>26 175</b>                           | <b>54 259</b>     | <b>16 320</b>    | <b>(70 517)</b>                          | <b>471 232</b> |
| <b>Segment profit/loss</b>        | <b>53 361</b>  | <b>2 922</b>              | <b>4 455</b>    | <b>746</b>            | <b>14 952</b>         | <b>5 040</b>           | <b>2 493</b>                            | <b>4 517</b>      | <b>7 536</b>     | <b>(404)</b>                             | <b>95 618</b>  |
| Unallocated (costs) / income      |                |                           |                 |                       |                       |                        |   |                   |                  |  | (57 221)       |
| <b>Operating profit</b>           |                |                           |                 |                       |                       |                        |   |                   |                  |  | <b>38 397</b>  |
| Net financial income (costs)      |                |                           |                 |                       |                       |                        |   |                   |                  |  | 48 075         |
| Share in profit of associates     |                |                           |                 |                       |                       |                        |   |                   | 409              |  | 409            |
| Tax                               |                |                           |                 |                       |                       |                        |   |                   |                  |  | (24 410)       |
| Profit on discontinued operations |                |                           |                 |                       |                       |                        |   |                   |                  |  |                |
| <b>Net profit</b>                 |                |                           |                 |                       |                       |                        |   |                   |                  |  | <b>62 471</b>  |

01.01.-31.03.2005

| <i>in thousand PLN</i>            | Soda Segment   | Power Engineering Segment | Organic Segment | Petrochemical Segment | Agro-Chemical Segment | Pharmaceutical Segment | Segment of silicates and glass products | Inorganic Segment | Discontinued Operations | Other Operations | Eliminations (consolidation adjustments) | TOTAL          |
|-----------------------------------|----------------|---------------------------|-----------------|-----------------------|-----------------------|------------------------|---|-------------------|-------------------------|------------------|--|----------------|
| Income from third parties         | 176 832        | 1 619                     | 55 038          | 82 906                | 93 065                | 11 100                 | 22 234                                  | 62 768            | 15 244                  | 14 900           |  | 535 706        |
| Income from inter-segment sales   | 15 394         | 52 615                    | 1 218           | 9 384                 | 28                    | 21                     | 68                                      | 397               | 44 910                  | 6 503            | (124 696)                                | 5 842          |
| <b>Total income</b>               | <b>192 226</b> | <b>54 234</b>             | <b>56 256</b>   | <b>92 290</b>         | <b>93 093</b>         | <b>11 121</b>          | <b>22 302</b>                           | <b>63 165</b>     | <b>60 154</b>           | <b>21 403</b>    | <b>(124 696)</b>                         | <b>541 548</b> |
| <b>Segment profit/loss</b>        | <b>45 813</b>  | <b>3 224</b>              | <b>4 610</b>    | <b>3 287</b>          | <b>19 285</b>         | <b>4 347</b>           | <b>1 556</b>                            | <b>8 326</b>      | <b>4 314</b>            | <b>8 261</b>     | <b>(2 815)</b>                           | <b>100 208</b> |
| Unallocated (costs) / income      |                |                           |                 |                       |                       |                        |   |                   |                         |                  |  | (64 185)       |
| <b>Operating profit</b>           |                |                           |                 |                       |                       |                        |   |                   |                         |                  |  | <b>36 021</b>  |
| Net financial income (costs)      |                |                           |                 |                       |                       |                        |   |                   |                         |                  |  | 14 431         |
| Share in profit of associates     |                |                           |                 |                       |                       |                        |   |                   |                         | 4 983            |  | 4 983          |
| Tax                               |                |                           |                 |                       |                       |                        |   |                   |                         |                  |  | (12 203)       |
| Profit on discontinued operations |                |                           |                 |                       |                       |                        |   |                   |                         |                  |  |                |
| <b>Net profit</b>                 |                |                           |                 |                       |                       |                        |   |                   |                         |                  |  | <b>43 232</b>  |

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

in thousand PLN

| Data for the period between 01.01.2006 and 31.03.2006                  | Purchase      | Disposal   |
|--|---------------|------------|
| a) Tangible assets, including:   | 1 819         | 415        |
| land, buildings, structures, and land and water engineering facilities | 464           | -          |
| machines and equipment   | 903           | 334        |
| vehicles and other means of transport                                  | 357           | 63         |
| other tangible assets  | 95            | 18         |
| b) Tangible assets under construction                                  | 25 293        | -          |
| c) Advance payments for tangible assets under construction (net)       | 2 009         | -          |
| <b>Total property, plant and equipment</b>                             | <b>29 121</b> | <b>415</b> |

### Dominant entity - Ciech SA

Ciech SA purchased tangible assets for the total of 167 000 PLN, including 123 000 PLN spent on the purchase of machines and equipment.

### Alwernia SA

Alwernia SA (lower-tier dominant entity) purchased tangible assets amounting to 73 000 PLN, including 71 000 PLN spent on the purchase of machines and equipment.

### Przedsiębiorstwo Chemiczne Cheman SA

Cheman SA purchased PPE for the total of 53 000 PLN, including 26 000 PLN spent on the purchase of machines and equipment.

### Grupa Fosfory

GZNF Fosfory Sp. z o.o. (lower-tier dominant entity) purchased tangible assets under construction worth 2 474,000 PLN, and tangible assets worth 299,000 PLN, including 236 000 PLN spent on the purchase of vehicles.

### Grupa Janikosoda

JZS Janikosoda SA (lower-tier dominant entity) assigned the amount of 9 405,000 PLN for the purchase of tangible assets under construction.

### Ciech – Polfa Sp. z o.o.

The Company purchased tangible assets amounting to 148 000 PLN, including 97 000 PLN assigned for the purchase of vehicles.

### Grupa Soda Mątwy

IZCH Soda Mątwy SA (lower-tier dominant entity) purchased tangible assets worth 1 057,000 PLN, and tangible assets under construction worth 5 572,000 PLN.

### Vitrosilicon SA

The Company assigned 7 838 000 PLN for the purchase of tangible assets under construction. Advance payments in respect of the purchase of tangible assets under construction are 21 000 PLN. The purchase of PPE is financed with a loan amounting to 4 542 000 PLN and from own funds.

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

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

## 10. Provisions and write-downs on assets – for the period between 01.01.2006 and 31.03.2006

The Ciech Group condensed consolidated financial statement for Q1 2006, included the following adjustments for recognition and release of provisions and write-downs on assets.

| <b>Provisions recognised in Q1 2006</b>  | <i>thousand PLN</i> |
|--|---------------------|
| Income tax provision   | 568                 |
| Provision for retirement gratuities, annual leaves, bonuses, compensation payments, etc. | 5 637               |
| Provision for anticipated losses   | 600                 |
| Provision for environmental protection   |                     |
| Provision for anticipated payables (costs)   | 1 886               |
| <b>Total</b>   | <b>10 617</b>       |

| <b>Provisions released in Q1 2006</b>  | <i>thousand PLN</i> |
|--|---------------------|
| Income tax provision   | 553                 |
| Provision for retirement gratuities, annual leaves, bonuses, compensation payments, etc. | 8 738               |
| Provision for anticipated losses   | 174                 |
| Provision for environmental protection   | 258                 |
| Restructuring provision  | 190                 |
| Provision for payables (costs)   | 606                 |
| <b>Total</b>   | <b>10 519</b>       |

| <b>Assets written down (addition) in Q1 2006</b>                  | <i>thousand PLN</i> |
|---|---------------------|
| Receivables written down  | 1 226               |
| Reserves written down   | 943                 |
| Property, plant and equipment plus intangible assets written-down | 3 747               |
| <b>Total</b>  | <b>5 916</b>        |

| <b>Assets written down (deduction) in Q1 2006</b>                 | <i>thousand PLN</i> |
|---|---------------------|
| Receivables written down  | 2 650               |
| Reserves written down   | 323                 |
| Property, plant and equipment plus intangible assets written-down | 428                 |
| <b>Total</b>  | <b>3 401</b>        |

| <b>Deferred tax assets in Q1 2006</b> | <i>thousand PLN</i> |
|---------------------------------------|---------------------|
| Addition                              | 1 328               |
| Deduction                             | 1 656               |

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

The CIECH Group's financial performance depends largely on the general standing of the economy. Cyclical fluctuations in income and profit are especially noticeable in the organic segment, which is marked by several years' high-demand cycles. Because almost half of the Group's income comes from sales of inorganic chemical products to stable markets, the fluctuations in income and profit are relatively small. The sales levels recorded in consecutive quarters are usually similar. Additional factors include:

- stable sales structure
- large share of product supply from the Group's manufacturing entities
- small share of finished products sales to end customers and the resulting low sensitivity to changes in demand
- large share of loyal customers in the total turnover (high rate of customer loyalty)
- diversity of the operations between domestic and foreign sales, plus diversity of markets

That is why the sales are characterised by high cyclicity and an even spread of sales throughout the year.

The seasonality resulting from the periodic demand and supply fluctuations have little impact on the general sales trends. Goods especially prone to seasonality include:

- fertilisers
- base stock for manufacture of fertilisers
- plant protection agents

Concentration of sales of fertilisers takes place in Q3 of the year. This is because of the intensive field fertilisation in the autumn. Majority of plant protection agents are used in Q2 of the year, in the period of intense plant growth.

Seasonality of sales is recorded in the two key product ranges of the "glass products" segment, i.e.: hollow glass blocks and glass holders. The highest sales for those products are recorded between May, October (blocks), June, and November (lanterns). Measures were taken in Q1 to reduce the impact of seasonality by introducing extended payment deadlines and factoring solutions.

Given the purpose of specific petrochemical-segment products, their market is characterised by periodical seasonality. This pertains mainly to ethylbenzene (construction industry), toluene, and solvent naphtha (paints and varnishes). That is why a drop in prices and demand is usually recorded in Q1 and Q4 of each year, and an increase in remaining quarters.

The Group's annual income and profits are not subject to any major seasonal fluctuations. Seasonality plays a relatively small role in the overall sales, as it overlaps with other factors, which considerably modify the strength and direction of the seasonal fluctuations.

Key factors:

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

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

In Q1 2006 ended on 31 March 2006, the Group did not issue any debt securities such as, bonds, promissory notes and short-term securities.

## **13. Information on paid or declared dividend in its total amount and per share, broken down by ordinary shares and preference shares**

In Note 37 of the annual individual financial statement of Ciech SA, the Management Board presented its proposal regarding profit distribution for 2005. According to the proposal, the profit made in 2005 shall be allocated for:

- 22 400,000 PLN (i.e. 0.80 PLN per share) for dividends for the shareholders,
- 19 500,000 PLN for share premium

By way of stock exchange announcement of 11 May 2006, the Company informed of the positive evaluation of the request of the Company Management Board by Ciech SA Supervisory Board. The proposal regarding profit distribution shall be presented during the General Meeting of Shareholders.

## **14. Unrecognised events occurring after 31 March 2006, that may have a significant impact on the future financial performance of the Ciech Group**

- on 29 March 2006, an agreement regarding the purchase of shares of ZCh Zachem SA and ZCh Organika – Sarzyna SA by Ciech SA from Nafta Polska SA was signed. Key agreement parameters include:
  - purchase cost of 80% of ZCh Zachem SA - 68 553 600 PLN (5.79 PLN per share), investment guarantees – 176 120 000 PLN
  - purchase cost of 80% of ZCh Organika-Sarzyna SA - 244,512,000 PLN (36 PLN per share), investment guarantees – 130,000,000 PLN

Enforcement of the agreements is dependent on, the consent of the President of the Polish Office of Competition and Consumer Protection or the expiry date for the consent, in line with art. 97 and 98 of the Competition and Consumer Protection Act, consent granted to the seller by the Council of Ministers, consent of the Minister of State Treasury acting as the General Meeting of the seller. .

- Anticipated upward trend in the glass-making industry in the following periods, as regards Central and Eastern Europe, as well as in the domestic construction industry, constituting material target markets of Grupa Chemiczna Ciech (planned launch of new production lines as regards flat glass in Europe in 2006).
- Tendency in price changes of coke, which is an important raw material for production of soda ash. These prices decreased during 2005, but they are still on a level higher than in 2003.
- Closing of the Solvay soda ash production plant in Austria, the production capacity of which was 150 thousand tons a year, at the end of 2005, which may improve the competitive position of other European suppliers, including Ciech SA.
- Capital investments of Indian manufacturers of soda ash in European plants (Brunner Mond, UK taken over by TATA Chemicals Ltd. and Bega UPSOM Ocna Mures from Romania purchased by Gujarat Heavy Chemicals Ltd.) at the end of 2005. These acquisitions will slightly change the balance of power on the European and global market of soda ash.
- Plans regarding increased manufacture capacity regarding soda ash in Russia and Ukraine in the near future, the production of which will be mainly aimed at satisfying the increasing demand in these countries.

#### **15. Effects of changes in the organisational structure of the Ciech Group in Q1 2006, including business mergers, acquisitions or disposals of the group's entities, long-term investments, divisions, restructuring, and discontinuation**

- On 10 January 2006, the transaction of sales of 100% of shares of Ciech SA subsidiary Petrochemia-Blachownia SA to BorsodChem Rt. based in w Kazincbarcik (Hungary) was closed.
- On 8 December 2005, an agreement was signed regarding sales of 100% of shares of an indirect subsidiary Alwernia Chrom Sp. z o.o. The agreement came into force as of the full payment date – 450 000 PLN on 4 January 2006.
- In line with the decision of 24 January 2006, the District Court in Katowice declared ZACH- Ciech Sp. z o.o. bankrupt.
- According to the decision of the District Court in Bydgoszcz of 10 March 2006, two indirect subsidiaries of Ciech SA - TRANSODA Sp. z o.o. and Jantrans-Janikowo Sp. z o.o. were merged, as a company taking over and a company taken over respectively. The share capital of TRANSODA Sp. z o.o. upon merger is 27 652, 5 thousand PLN.

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

As of 31 March 2006, contingent receivables of the Ciech Group remained unchanged as compared to 31st December 2005, and amounted to 1 500 000 PLN.

The value of liabilities as of 31 March 2006, amounted to 5 776,000 PLN, which means a decrease of 24 163, 000 PLN, compared to the balance as of 31 December 2005.

Increased contingent liabilities in respect of guarantees and sureties granted were 588 000 PLN. Other contingent liabilities decreased by 24 751 000 PLN, compared to the end of 2005.

Decrease in other contingent liabilities compared to the end of 2005 is mainly due to the sales of Petrochemia Blachownia, the off-balance sheet liabilities of which were 25 300 000 PLN as of 31 December 2005. (25 000 000 PLN other contingent liabilities, 300 000 PLN in respect of guarantees and sureties granted). 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 of 31 December 2005, the surety was 136 000 PLN. It expired upon full loan repayment on 3 February 2006.

Moreover, on 7 February 2006, Ciech SA extended a guarantee to the benefit of Lokalbnken in Denmark for the liabilities of Dansker Unipol up to 1 000 DKK (492 000 PLN as of the balance sheet date). The guarantee expires on 31 December 2006. Moreover, in Q1 2006 the value of promissory notes discounted by Alwernia SA increased by 249 000 PLN.



“Other off balance sheet items” amounted to 795 000 PLN as of 31 March 2006 and decreased by 112 000 PLN compared to the balance as of 31 December 2005.

Detailed information on off balance sheet items has been presented in the consolidated balance sheet.

## 17. Assets held for sale

As of 31 March 2006, the Ciech Group has no fixed assets held for sale. No operations were discontinued in Q1 2006.

## 18. Fulfilment of profit forecasts published previously against the performance disclosed in the quarterly report

In its Current Report 13/2006 of 15 February 2006, the Management Board published a forecast of the consolidated profit of the Ciech Group for 2006. The projected consolidated sales incomes were 1,984 million PLN, and the consolidated net profit of the Ciech Group was 121 million PLN.

Major contributors to the fulfilment of forecasts were good operating results of the soda segment (higher than the planned increase in prices for soda products and lower prices for base stock - coke). Negative factors for net result were mainly unfavourable exchange rates (PLN/EUR) decreasing the profitability of export, and lower than the planned sales of fertilisers in Q1 2006.

The Management Board of Ciech SA confirms the validity of the published forecast.

## 19. Ciech SA shareholders holding at least 5% of shares /GM votes

Ciech SA Management Board, acting in a manner specified in Art. 69 of *the Act on Public Offering and Terms of Introducing Financial Instruments to Organised Trading and on Public Companies* has found out that the following entities are empowered to cast at least 5% of votes at the Company's General Meetings of Shareholders:

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

### Changes in the ownership structure of significant blocks of shares / votes of Ciech SA (at least 5%)

|   | As of 01.03.2006 | Shares acquired | Shares sold | As of 15.05.2006 |
|---|------------------|-----------------|-------------|------------------|
| Kompania Węglowa SA                                     | 10 270 800       | -               | -           | 10 270 800       |
| Franklin Templeton Investments, UK                      | 2 000 000        | -               | -           | 2 000 000        |
| Otwarty Fundusz Emerytalny PZU „Złota Jesień”           | 1 712 732        | -               | -           | 1 712 732        |
| Commercial Union Investment Management SA (CUIM) Polska | 1 504 961        | -               | -           | 1 504 961        |

## 20. Changes in Ciech SA shares held by the Management Board or Supervisory Board Members

Based on the declarations submitted by the managing and supervisory staff, the following persons hold Ciech SA shares:

| First name and surname | Position/Function                 | As of 01.03.06 | Shares acquired | Shares sold | As of 15.05.2006 |
|------------------------|-----------------------------------|----------------|-----------------|-------------|------------------|
| Ludwik Klinkosz        | President of the Management Board | 390 641        | -               | -           | 390 641          |

## 21. Procedures pending at court, a competent body for arbitration proceedings, or public administration body as of 31.03.2006

### Ciech SA

#### Liabilities of Ciech SA (domestic and foreign) claimed in court or arbitration proceedings as of 31 March 2006.

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

PCC AG filed an action in 2000 for damages in the amount of 21,364,000 PLN and 13,861.45 EUR (equivalent to 55,000 PLN) for breach of an agreement for transfer of the shares of Petrochemia Blachownia Sp. z o.o. as stipulated in the preliminary contract of 09.07.1999. On 27.05.2003, the Circuit Court in Warsaw issued a preliminary judgment in favour of PCC AG, stating that PCC AG's claim was founded, without specifically determining the amount of the damages. Ciech SA appealed against the preliminary judgment on 19.09.2003, on the grounds that 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 12.08.2004, the Court of Appeal upheld the Circuit Court's preliminary judgment, confirming that PCC's claims were justified, without stating the amount of damages, which will be subject to further proceedings. In November 2004, Ciech SA filed another appeal, on the grounds of infringement of the substantive law due to its incorrect interpretation and application, and violation by the Court of Appeal of the principle of free assessment of evidence as defined in the EU directives. On 19 April 2005, Ciech S.A. received a final decision of the Supreme Court dismissing its 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 judgment came into effect, the claimant revised and extended its original claim with statutory interest in respect of lost dividend for 1999 and 2000.

On 10.11.2005, the District Court judged against PCC. On 1 March 2006, PCC AG appealed at the Court of Appeal in Warsaw against the judgement of the District Court, filing to change the questioned judgement and considering the case filed in full. PCC AG demands an amount of 30.591.919, 96 PLN and 13.861,44 EUR (equivalent of 55 000 PLN) in respect of compensation for lost dividends for 1999 and lost benefits in respect of increased goodwill of Petrochemia Blachownia. On 18 April 2006, Ciech S.A replied to the appeal and filed for the dismissal of the whole appeal, keeping the same defence strategy. According to a renowned legal office representing Ciech S.A., claims of PCC AG included in the appeal have no basis.

##### Action by Comexport

In September 2003, Comexport (Brazil) filed an action with the Court of Arbitration at the International Chamber of Commerce in Paris, claiming damages for failure to complete sulphur deliveries to Brazil in the period from 1996 to 1999. The sued parties were Ciech SA and the sulphur mines in Tarnobrzeg and Grzybów. The amount of claim was 3 872 943 USD (equivalent of 12 584 000 PLN), and statutory interest according to the Polish law, calculated from 16 September 2003, which as of 31 March 2006 constituted the amount of PLN 3.998 000 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 805 000 PLN). The principal claim amount consisted of; Comexport's lost profits on contractual quantities not delivered to Brazilian customers, losses on overstated freight costs, etc. In November 2003, Ciech SA answered the claim by filing for dismissal of Comexport's action, on the grounds of the force majeure certificates evidencing that the mines were closed down as part of restructuring of the sulphur industry, that the action has lapsed, and that the claim for damages is not supported by sufficient evidence. The Court of Arbitration appointed one arbitrator to investigate the dispute. Having examined the case, 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 the hearing ended, the arbitration proceedings were adjourned.

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 8,039,000 PLN) plus the interest of 5%, from 17 September 2003, amounting from 31 March 2006 to 314 000 USD (equivalent of 1.020 000 PLN) and 123 000 USD (equivalent of 400 000 PLN) in respect of the cost of court proceedings. The awarded amount constitutes the lost profit claimed for 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 complaint with the justification was lodged by Ciech SA on 22 March

2006. The basis for lodging a complaint is the violation of the principle of the proper course of arbitration proceedings by the arbitrator (contradiction principle), 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 from 1973 referred to by the arbitrator is not applicable in the case of arbitration proceedings.

The Court of Appeal set the deadline for Compexport to reply to the complaint by 23 June 2006.

#### Action by Enapharm

In June 2004, the Liquidator for Enapharm in Algeria filed a claim for 172 879 84 USD (equivalent to 562 000 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 contract between the parties. Ciech SA claims that it was exempt from the replacement provision, in light of the claimant failing to make the payments due from its sales of the medications in the Algerian market. The case is pending before an Algerian court. Ciech SA is represented by a local attorney, supervised by a well-respected Paris law firm. At a hearing held in March 2005, the court agreed with the claimant and appointed an expert to assess whether the amount of the claimed damages is well founded. No new hearing date was appointed.

#### Employee claims

Three cases are currently pending against Ciech SA, filed by its former employees dismissed due to the fault of the company. The employees are demanding to be restored to work. The projections as to the result of those suits are good. Ciech S.A established a provision amounting to 17 500 000 PLN for the afore-mentioned liabilities.

### **Ciech S.A (domestic and foreign) debtors**

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

Ciech SA filed eight civil suits against its domestic trade debtors for the total of 878,000 PLN. The projections are good. Ciech SA recognised a write-down for the full amount receivable.

#### Administrative claims

Ciech SA filed a case with the Supreme Administrative Court for a refund of customs duties totalling to 94,000 PLN. The projections are good. Ciech SA recognised a write-down for the full amount receivable.

#### Bankruptcy proceedings

The total of 12 753,000 PLN is being claimed in fifty-seven domestic bankruptcy proceedings. Ciech SA filed its amounts receivable in foreign bankruptcy proceedings amounting to 689,632 USD and 472,575 EUR (the sum of which is equivalent to 4,101,000 PLN). The largest of these claims are expected to be recovered from the bankruptcy proceedings of: Chemapol – Prague (1,107,000 PLN), Euroftal N.V. Belgium (821 000), Petrimex – Bratislava (732,000 PLN), WMW – Novosibirsk (487,000). The projections as to the results of the bankruptcy proceedings, are not good as Ciech S.A, receivables are not privileged. The Company recognised a write-down for all the proceedings pending.

#### Execution and composition proceedings

Ciech S.A. is claiming 27,159,000 PLN from domestic debtors through twenty-nine execution proceedings. The largest claim (17,620,000 PLN) is the execution procedure against Sur5Net initiated in August 2004. The bailiff dismissed the execution proceedings claiming the execution to be unsuccessful. In October 2005 Ciech lodged a complaint at the District Court against the decision to dismiss the proceedings.

The projections as to the results of the other execution proceedings differ, depending on the debtors' assets.

There is one case against a foreign debtor for the amount of 27.116 EUR (equivalent of 107 000 PLN).

24,000 PLN is claimed in three composition proceedings. The projections are good.

The Company recognised a write-down for the whole amount of these claims.

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

USD 3, 2491

EURO 3, 9357

## **II. Subsidiaries**

### **Grupa Soda Małwy SA**

No claims were filed against Soda Małwy S.A. or its subsidiaries that could significantly affect their business. Amounts receivable claimed via debt enforcement or court proceedings by Soda Małwy S.A. and its subsidiaries amount to 21,872,000 PLN, with the largest claim of 21,814,000 PLN pending against B. Lepiarz for unpaid deliveries of goods. According to Soda Małwy S.A., the chances to recover the debt are low.

Soda Małwy Capital Group's other amounts receivable include bankruptcy proceedings amounting to 1,744,000 PLN and composition proceedings amounting to 131,000 PLN.

Soda Małwy SA Grupa recognised a write-down on all the proceedings pending.

### **Grupa Janikosoda SA**

No significant claims (liabilities) were filed against Janikosoda S.A. or its subsidiaries that could affect their business. Complaints are pending resolution before the Supreme Administrative Court, filed by Janikosoda S.A. against decisions issued between 1999 and 2000 by the Chief Environmental Protection Inspector, imposing penalties on the company for excessive emissions to the atmosphere in the total amount of 2,330,000 PLN. The proceedings were suspended in 2002 on request of both parties. Currently Janikosoda are awaiting the dismissal of proceedings.

The Janikosoda Group's claims against several dozen-trade debtors total to 321,000 PLN. Debt execution procedures are pending to recover the total of 2,122,000 PLN, including the largest claim for 2,102,000 PLN against B.Lepiarz. Bankruptcy proceedings are pending to recover 690 000 PLN, and composition proceedings to recover 113 000 PLN.

Janikosoda SA Grupa recognised a write-down on all the proceedings pending.

### **Vitrosilicon SA**

No claims (liabilities) were filed against the company that could affect its business. The company is claiming a total of 1,345,000 PLN from trade debtors, including the largest claim pursued through execution proceedings for 660,000 PLN, and 497,000 PLN pursued through bankruptcy proceedings.

Vitrosilicon SA recognised a write-down on all the proceedings pending.

### **Grupa Zakłady Chemiczne "Alwernia" SA**

No claims were filed against Grupa Alwernia that could affect its business. Grupa Alwernia SA is claiming trade receivables and damages in the total amount of 418,000 PLN through court actions and execution proceedings. Bankruptcy proceedings are pending to recover 675 000 PLN.

Grupa Zakłady Chemiczne Alwernia SA recognised a write-down on all the proceedings pending.

### **Chemana SA**

No claims (liabilities) were filed against Chemana SA that could affect its business. Chemana SA filed court cases against several dozen-trade debtors for a total of 4 371,000 PLN, including 1,372,000 PLN claimed in execution proceedings and 1.367, 000 PLN reported for bankruptcy and composition proceedings.

Chemana SA recognised a write-down on all the proceedings pending.

### **Grupa GZNF "Fosfory" Sp. z o.o.**

No claims (liabilities) were filed against Grupa Fosfory that could affect its business. Grupa Fosfory is claiming a total of 4 782,000 PLN in court actions, execution and bankruptcy proceedings, with the largest claim of 2 801 000 PLN from bankruptcy and composition proceedings. Grupa GZNF "Fosfory" recognised a write-down on all the receivables.

**22. Single or multiple non-standard transactions with affiliates concluded by Ciech SA or its subsidiary (as per the information submitted by the entities)**

| Party to the transaction | Relation with the party to the transaction | Subject of the transaction | Material terms and conditions (thousand PLN)  |  | Additional information  |
|--------------------------|--|----------------------------|---|--|---|
|                          |  |                            | Financial terms                               | Characteristic features of the agreement, deviating from generally applicable terms and conditions of similar agreements |   |
| <b>Soda Mątwy</b>        |  |                            |   |  |   |
| Transoda Sp. z o.o.      | Subsidiary                                 | Loan                       | T/N WIBOR + bank margin of 0.7% up to max. 6% | none   | Loan granted in 2004; repayment extended with the annex of 8 June 2005 till 31 December 2005, and the annex of 28 December 2005 till 30 June 2006, balance outstanding as of 31 March 2006 is 400 000 PLN |

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

**Sureties and guarantees granted**

| Obligor's name                | Amount of loan covered in full or specific part with the surety |                 | Effective date of surety | Financial terms: surety fee due to the company  | Principal               | Affiliation between Ciech SA and the borrower |
|-------------------------------|---|-----------------|--------------------------|---|-------------------------|---|
|                               | currency  | in thousand PLN |                          |   |                         |   |
| <b>Ciech SA</b>               |   |                 |                          |   |                         |   |
| NFOŚiGW, Warsaw               |   | 4 185           | up to 31.03.2006         | As part of the surety agreement, Ciech S.A. also stands surety for interest on a loan of 16.740,000 PLN. According to the repayment schedule, the overdue amount as of 31.12.2005 is 1 580 000 PLN. | IZCH. Soda Mątwy SA     | subsidiary                                    |
| KREDYT BANK SA Sieradz Branch |   | 4 500           | up to 31.08.2006         | Payment to Ciech SA equal to 1% of the surety value   | Chemana S.A - Warszawa  | subsidiary                                    |
| KREDYT BANK SA Sieradz Branch |   | 3 750           | up to 31.08.2006         | Payment to Ciech SA equal to 1% of the surety value   | Chemana S.A - Warszawa  | subsidiary                                    |
| BANK HANDLOWY SA              |   | 4 800           | up to 01.05.2006         | Payment to Ciech SA equal to 1% of the surety value   | Ciech-Polfa Sp. z o. o. | subsidiary                                    |
| PKN ORLEN SA                  |   | 1 200           | no fixed date            | Payment to Ciech SA equal to 1% of the surety value   | Chemana S.A - Warszawa  | subsidiary                                    |

| Obligor's name                 | Amount of loan covered in full or specific part with the surety |                 | Effective date of surety | Financial terms: surety fee due to the company   | Principal           | Affiliation between Ciech SA and the borrower |
|--------------------------------|---|-----------------|--------------------------|--|---------------------|---|
|                                | currency  | in thousand PLN |                          |  |                     |   |
| BANK PKO SA I<br>Warsaw Branch |   | 6 000           | up to 31.08.2006         | Payment to CIECH SA equal to 1% of the surety value (2 million PLN) + 10,000 PLN on increase + 400 000 PLN | Chemana SA          | subsidiary                                    |
| BANK PKO SA I<br>Warsaw Branch |   | 500             | up to 21.01.2007         |  | Chemana SA          | subsidiary                                    |
| <b>Total Ciech SA</b>          |   | <b>24 935</b>   |                          |  |                     |   |
| <b>Soda Mątwy SA</b>           |   |                 |                          |  |                     |   |
| ING BSK Leasing SA             |   | 826             | up to 31.03.2007         | None (leasing agreement)   | Transoda Sp. z o.o. | indirect subsidiary                           |
| <b>Total Soda Mątwy SA</b>     |   | <b>826</b>      |                          |  |                     |   |
| <b>Janikosoda SA</b>           |   |                 |                          |  |                     |   |
| BOŚ Poznań                     | EUR 2 124   | 8 358           | up to 16.11.2009         | no fee   | Vitrosilicon SA     | subsidiary                                    |
| <b>Total Janikosoda SA</b>     |   | <b>8 358</b>    |                          |  |                     |   |
| <b>Total loans guaranteed</b>  |   | <b>34 119</b>   |                          |  |                     |   |

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

| Obligor's name                  | Total guarantees granted, backed in full or in specific part |                 | Guarantee period        | Financial terms: guarantee fee due to the company                                       | Principal                | Affiliation between CIECH S.A. and the Principal |
|---------------------------------|--|-----------------|-------------------------|---|--------------------------|--|
|                                 | currency   | in thousand PLN |                         |   |                          |  |
| <b>Ciech SA</b>                 |  |                 |                         |   |                          |  |
| Lokalbanken Dania               | 1000 DKK   | 527             | 31.12.2006              | Payment to Ciech SA equal to 1% of the guarantee value + reimbursement of banking costs | Danske Unipol AS - Dania |  |
| <b>Total Ciech SA</b>           |  | <b>527</b>      |                         |   |                          |  |
| <b>Janikosoda</b>               |  |                 |                         |   |                          |  |
| Kompania Węglowa                |  | 112 000         | 01.01.2005 - 31.12.2007 |   | EC Kujawy                | Related to Ciech SA within the Capital Group     |
| <b>Total Janikosoda</b>         |  | 112 000         |                         |   |                          |  |
| <b>Total guarantees granted</b> |  | <b>112 527</b>  |                         |   |                          |  |

#### 24. Additional information

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

| Non-consolidated entities    | CIECH SA share in the entity ( direct + indirect) | Net income from sales of goods and products plus financial operations ** | Net profit / loss | Balance-sheet total of the entity/ Group** | Ciech SA income (%) | Ciech SA balance-sheet total (%) | Dependence on Ciech S.A. |
|------------------------------|---|--|-------------------|--|---------------------|----------------------------------|--------------------------|
| 1) Chemia.com SA             | 100.00%   | 1 275  | 170               | 1 244                                      | 0.31%               | 0.13%                            | Subsidiary               |
| 2) Polcommerce GmbH, Austria | 100.00%   | 11 833   | 241               | 8 149                                      | 2.84%               | 0.83%                            | Subsidiary               |
| 3) Ciech-Service Sp. z o.o.  | 100.00%   | 1 128  | 70                | 1 535                                      | 0.27%               | 0.16%                            | Subsidiary               |
| 4) Boruta-Kolor Sp. z o.o.   | 100.00%   | 3 492  | (584)             | 18 184                                     | 0.84%               | 1.85%                            | Subsidiary               |
| 5) Grupa Ciech Polfa         |   |  |                   |  |                     |                                  |                          |
| 5.1.) Polcommerc Ltd., Węgry | 100.00%   | 545  | 1                 | 1 120                                      | 0.13%               | 0.11%                            | Indirect subsidiary      |
| 6) Grupa Soda Mątwy          |   |  |                   |  |                     |                                  |                          |
| 6.1.) Soda-Med. Sp. z o.o.   | 95.72%  | 234  | 37                | 2 855                                      | 0.06%               | 0.29%                            | Indirect subsidiary      |
| 7) Nordiska Unipol AB        | 97.78%  | 5 410  | 129               | 8 339                                      | 1.30%               | 0.85%                            | Subsidiary               |

| Non-consolidated entities            | CIECH SA share in the entity ( direct + indirect) | Net income from sales of goods and products plus financial operations ** | Net profit / loss | Balance-sheet total of the entity/ Group** | Ciech SA income (%) | Ciech SA balance-sheet total (%) | Dependence on Ciech S.A. |
|--------------------------------------|---|--|-------------------|--|---------------------|----------------------------------|--------------------------|
| 8) Grupa Alwernia                    |   |  |                   |  |                     |                                  |                          |
| 8.1.) Alwernia Fosforany Sp. z o.o.* | 73.75%  | 0  | 0                 | 50   | 0.00%               | 0.01%                            | Indirect subsidiary      |
| 8.2.) Soc-Al. Sp. z o.o.             | 69.88%  | 736  | 25                | 1 753                                      | 0.18%               | 0.18%                            | Indirect subsidiary      |
| 9) Chemiepetrol GmbH                 | 60.00%  | 10 423   | 210               | 8 270                                      | 2.50%               | 0.84%                            | Subsidiary               |
| 10) Danske UmipolA/S                 | 55.00%  | 6 799  | 143               | 6 474                                      | 1.63%               | 0.66%                            | Subsidiary               |
| 11) InChem Sp. z o.o.                | 100.00%   | 11   | (72)              | 2 472                                      | 0.00%               | 0.25%                            | Subsidiary               |
| 12) Ciech Finance Sp. z o.o.         | 100.00%   | 0  | (4)               | 44   | 0.00%               | 0.00%                            | Subsidiary               |

\* out of business

| Total value   | Non-consolidated entities | Ciech Group (without eliminations) | Share (%) |
|---|---------------------------|------------------------------------|-----------|
| Balance-sheet totals  | 60 489                    | 2 399 382                          | 2,52%     |
| Net income from sales of goods and products plus financial operations | 41 886                    | 906 457                            | 4,62%     |

The equity accounting method was not applied to the indirect associate to the Ciech Group: Suomen Unipol Oy. The valuation of this entity is not significant for the consolidated financial statement.

| Entities not accounted for using the equity method | Ciech S.A. direct shareholding in the entity | Ciech S. A. shareholding in the entity (direct + indirect) | Equity as of 31.03.2006 attributable to the Ciech Group (thousand PLN) | Cost (thousand PLN) | Cost revaluations (thousand PLN) |
|--|--|--|--|---------------------|----------------------------------|
| 1) Suomen Unipol Oy                                | 15.00%                                       | 24.78%   | 870  | 132                 | 0                                |

| Entities not accounted for using the equity method | Net income from sales of goods and products plus financial operations of the entity (thousand PLN) | Balance-sheet total of the entity (thousand PLN) | Net profit / (loss) (thousand PLN) |
|--|--|--|------------------------------------|
| 1) Suomen Unipol Oy                                | 11 434   | 11 683   | 201                                |

Ciech S.A. also holds shares in entities where its control has been restricted or lost:

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



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

### **Information necessary to assess the HR situation**

In Q1 2006, implementation work was completed regarding the incentive system based on management by objectives (MBO). Top management had a series of meetings with subordinate staff. As a result of the objective cascading process, individual objectives for employees of all organisational units were agreed on.

Works started, related to regulation of staff-related issues regarding collective employment. New employment regulations were implemented in the preliminary stage.

Agreements regarding the purchase of ZACHEM SA i ORGANIKA – SARZYNA SA were concluded, upon long-lasting negotiations with the trade unions, social packages beneficial to both parties were concluded.

A new staff development programme, addressing outstanding staff of the Ciech Group, known as "Promocja talentów" (*Talented staff promotion*) was introduced. Selected staff was offered various forms of professional development. A mentoring concept was introduced, that facilitates strengthening of the Ciech Group and an approach of knowledge and experience sharing.

### **Other information**

On 11 May, The Supervisory Board of Ciech SA selected Deloitte Audyt Sp. z o.o. based in Warsaw as a certified auditor to perform an audit at Ciech SA and Grupa Chemiczna Ciech for 2006.

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

### **External factors**

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

Ciech SA's commercial activities rely largely on chemical product exports, whose level and profitability depend on the global economic situation in Europe and worldwide. A global economic slump could affect the demand for raw materials in international markets, thus reducing the exports turnover of Ciech SA. It is estimated that in 2006, global economy will grow at the existing pace of 4% a year (GDP) with the EU25 pace being much slower (2.2%), though still higher than in a previous year (1.6%).

As for 2006, the European Chemical Industry Council (CEFIC) predicts slight and short lasting improvement of the chemical production dynamics in EU 2005 (as regards chemicals but excluding pharmaceuticals; as the latest data have it, in 2005, the figure was 2.4% and was lower than a year before (3%). We also expect further price increase in chemicals.

#### **Situation in the industries of the Company's customers in Poland**

Ciech SA supplies most of its products to the following Polish industries: the chemical industry, the plastics industry, and the glass-making industry. How these industries expand, depends on the general economic situation in Poland. In the first 3 months of 2006, the industrial output at fixed prices increased by as much as 12.4% (compared to 0.7% in the same period of 2005). Similarly, the dynamics of the chemical industry was 11.4% (0.3% in 2005) with regard to the manufacture of chemical products, and 11.5% (1.7% in 2005) with regard to the manufacture of rubber and plastic goods.

Quicker pace of economic growth, which is predicted to occur in 2006 (to about 4-4.5% GDP compared to 3.3% in 2005) is reflected in lower dynamics of sales in the chemical sector, which typically grows quicker than the economy as a whole.

#### **Financial standing of the agricultural industry**

The Ciech Group derives a certain portion of their income from the agricultural sector, mainly from mineral fertilizers and plant protectants. The Ciech Group estimates that the demand for mineral fertilizers in Poland should remain stable, with growing significance of mixed fertilizers. The factors that will most likely benefit the demand for agrochemical products and consequently, the demand for the CIECH Capital Group's products will be the efforts aimed at improving the condition and profitability of agricultural production, including production quotas and direct payments. The above should translate into and an increase of the Ciech Group's revenues. If no purchasing-power improvement is recorded in the agricultural sector, the demand for fertilizers and plant protectants will stagnate, as will the Ciech Group's income from agrochemical product sales.

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

A major portion of the Ciech Group's turnover is generated from imports of chemical raw materials to Poland. The raw-material markets are characterised by high cyclicity, prompted by fluctuations in the world economy. On the

one hand, the growing prices of raw materials force the trading agents to lower their mark-ups and decrease customers' demand. Declining prices, on the other hand, are usually a sign of weakening demand and the onset of an economic slump. If the stable growth rate and steady prices of chemical raw materials continue, this will benefit the Group's imports of raw materials. Large fluctuations in demand and prices caused either by high economic growth rate or by economic stagnation, will adversely affect the Ciech Group's trade in chemical raw materials.

#### **Draft EU law on registration and evaluation of chemicals (REACH system)**

*The Ciech Group currently monitors works on the draft Regulation concerning REACH. Efforts were undertaken to prepare a preliminary effect analysis with regard to the system implementation in Ciech SA and its subsidiaries. Relevant works are underway. On November 17, 2005, the European Parliament in the first reading adopted the draft Regulation concerning REACH, introducing to it several hundred amendments. The chemical industry must yet wait for the second reading in the European Parliament, which may spell another year or two spent struggling for provisions that are more favourable.*

#### **Sea freight rates**

Q1 of 2006, saw the end of the decrease in sea freight rates, which were declining considerably in 2005, following a jump in 2004, when they increased by several dozen to several hundred percent. These rates have considerable influence on the trade profit as regards raw materials and fertilizers. If the rates remain at the existing level, it should improve the Group's competitive edge in terms of trade using sea transport.

#### **PLN/EUR exchange rates**

The majority of the Ciech Group's export sales are settled in EURO. Strong EURO means higher profitability of exports, both for the Ciech Group and other chemical industry players in Poland. It also increases the Group's trade volumes with other manufacturers. As a result, EUR/PLN exchange rate affects the Group's return on sales. If the Polish zloty becomes stronger against EURO, profitability of exports will probably decline, and the Group's export volumes will decrease.

#### **Internal factors**

#### **Feasibility of technology investments such as construction of a monohydrate system, construction of the second assembly line for hollow glass blocks, development of a countrywide distribution system for evaporated salt**

The purpose of the technology investments planned at the CIECH Group is to enhance the quality and properties of its products (the monohydrate project), increase the production capacity for high-yield products (hollow glass blocks), and introduce new products with potential for becoming market leaders (feed phosphates). The evaporated salt project is aimed at introducing the CIECH Group to evaporated salt distribution market as well as creation of its own product brand. Completion of the salt project will also result in increased opportunities of salt packaging and customising, thanks to equity or fixed-asset investments. Execution of these projects will be of great importance to maintain the competitive advantage and strengthen the market position in selected segments of the Ciech Group activity. In the event of the planned technology investment execution, Ciech SA expects: that its technology investments will enable the Company to maintain its leading position in the Polish soda ash market, boost sales and profitability of hollow glass products, reinforce its standing in the agrochemical sector, and achieve a leading position in the evaporated salt retail market. Achievement of the project targets should bring about an increase in net income and return on sales. Failure to carry through the technology investments might lead to a gradual decline in the CIECH Group's position in the markets concerned and a lack of improvement in return on sales.

#### **Growth strategy advancement opportunities, with a focus on new division building**

As part of its growth strategy, the CIECH Group plans to build three new divisions (complementary to the existing soda division) to handle three key areas of the chemical sector: a phosphorus division, organic division and inorganic division. From 1 January 2006, Ciech SA has been organising the Organic Division. Once the purchase of ZCh Zachem and ZCh Organika Sarzyna is completed, the division will be operational under the same name. Acquisitions are expected to be completed by the end of June 2006.

#### **Quality and continuity of the management staff and employees**

The market position of the CIECH Group's products is largely owed to the high level of expertise of its top and middle management. The Group's HR policy guarantees stability and career and growth opportunities to its staff.

#### **27. Reconciliation of equity data presented in the financial statement for Q4 2005 and Q1 2005 to current data**

As of the date of publication of the interim consolidated financial statement of the Ciech Group for Q1 2006, auditing activities on annual financial statements of lower-tier companies and groups consolidated in the financial statement of the Ciech Group for 2005 were completed.

Auditing activities on the consolidated financial statement of the Ciech Group for 2005 are ending. The Group transfer from PAS to IFRS was completed, which resulted in changes in the previously presented data as of balance sheet dates of 01.01.2004, 31.12.2004, 31.03.2005, and 31.12.2005. The origins and description of these changes are provided below.

From 2002, the companies of the Ciech Group were systematically introducing changes in the accounting policy, standardising valuation principles, and methods of determining the financial result, as well as making adjustments aimed at the elimination of differences between PAS and IFRS (e.g. actuarial appraisal, settlement of the deferred tax, etc.).

One of the major challenges for the Group was the implementation of the measurement of tangible assets to the fair value as of the date of transfer to IAS/IFRS.

Ciech Group companies measured tangible assets at the turn of 2004 and 2005, with the assistance of experts and their own technical crew.

The first consolidated financial statement in line with IAS/IFRS was developed for Q1 2005 and published on 15 May 2005.

Another one was on Q2 2005.

The first financial statement audited by Deloitte was developed by the Ciech Group for the first half of 2005.

In their letter addressed to the Management Board of Ciech SA, upon an interim audit, a registered auditor recommended to review the measurements developed and standardise documentation (in particular methods and principles) regarding these measurements in individual companies.

Ciech SA hired a renowned Company that was expected to perform the following tasks as recommended by a registered auditor:

1. analysis of reports presenting the results on the measurement of tangible assets at fair value, for the companies included in the project
2. analysis and review of the comments of the auditor and/or expert cooperating with the auditor, with regard to reports on the measurement of tangible assets at fair value for individual Group companies
3. development of a questionnaire for the entities measuring tangible assets in individual Group companies included in the project
4. workshops with the entities measuring tangible assets in individual Group companies
5. development of instructions with detailed recommendations as regards the range of additional activities to be performed by the entities measuring tangible assets in individual Group companies
6. development of proposed contents of the report presenting the minimum detailed information as expected by the auditor
7. verification of additional work performed by the entities performing measurements, with the view to meet the requirements of the auditor and eliminate potential irregularities and inaccuracies

The verification process proved to be an extensive undertaking and resulted in re-measurement or additional measurement of tangible assets in 4 subsidiaries, which made the process go beyond the pre-arranged schedule. The verification process performed by the hired Company and the auditor was completed at the turn of February and March 2006, upon publication of the consolidated financial statement of the Ciech Group for Q4 2005.

Re-measurement or additional measurement of PPE at the companies resulted in a change in previous figures and adjustments in the financial statement. An additional component of the verification of measurement, required by the auditor, was to develop and carry out tests for the impairment of tangible assets with the use of the discounted cash flow method (DCF).

Because of the verification and the audit, the following adjustments in individual items were introduced:

The list and description of the adjustments introduced:

**Adjustment regarding revaluation of tangible and intangible assets plus depreciation (Adjustment 1)**

The adjustment refers to completed measurement of tangible and intangible assets used in the hyperinflation periods, to the fair value determined, based on valuations made by appraisers.

*The adjustment is applicable to the following balance sheet dates: 01.01.2004, 31.12.2004, 31.03.2005, 31.12.2005. Adjustments have been presented under Adjustment 1 in Tables 1-4 below.*

**Valuation of investments in an associate in connection with the valuation of the financial asset portfolio available for sale – (Adjustment 2)**

In lower-tier group, financial statements an adjustment has been made to an associate PTU SA accounted for using the equity method. An adjustment regarding the recognition of the AFS portfolio valuation (assets available for sale). In line with the regulations applicable to insurance companies, the portfolio can be measured only through the capital and recognised in the financial result upon sales.

*The adjustment is applicable to the following balance sheet dates: 31.03.2005, 31.12.2005. Adjustments have been presented under Adjustment 2 in Tables 1-2 below.*

**Revaluation of share capital in respect of hyperinflation - (Adjustment 3)**

The initial capital of the dominant entity disclosed in the periods between 1989 and 1996 was re-measured in respect of hyperinflation. The adjustment was carried against retained earnings.

*The adjustment is applicable to the balance sheet date 31.03.2005. The adjustment has been presented under Adjustment 3 in Table 1 below.*

**Goodwill write-off – (Adjustment 4)**

Due to the tests on impairment recognised in the consolidated financial statement of the Group, a write-off was made on fully consolidated companies, i.e. Cheman SA and Alwernia SA

*The adjustment is applicable to the balance sheet date 31.03.2005. The adjustment has been presented under Adjustment 4 in Table 1 below.*

**Provision for anticipated losses and liabilities – (Adjustment 5)**

Additional provision was established for court cases pending.

*The adjustment is applicable to the balance sheet date 31.12.2005. The adjustment has been presented under Adjustment 5 in Table 2 below.*

**Financial assets written down – (Adjustment 6)**

Write-down to the value of shares of "Boruta Kolor Sp. z o.o."

*The adjustment is applicable to the balance sheet date 31.12.2005. The adjustment has been presented under Adjustment 6 in Table 2 below.*

**Reclassification and sales of a tangible asset to investment property – (Adjustment 7)**

"For the purposes of IAS reclassification took place, of tangible assets (4 fuel stations) to investment property, which in line with IAS should be classified as investment property"

*The adjustment is applicable to the balance sheet date 31.12.2005. The adjustment has been presented under Adjustment 7 in Table 2 below.*

**Result adjustment in respect of buy out of companies' shares – (Adjustment 8)**

A change occurred in the result of buy out by Ciech SA of shares of consolidated companies, in relation with the valuation of tangible and intangible assets to the fair value.

*The adjustment is applicable to the balance sheet date 31.12.2005. The adjustment has been presented under Adjustment 8 in Table 2 below.*

**Income tax adjustment - (Adjustment 9)**

An adjustment was made to the deferred tax related to the adjustments introduced.

*The adjustment is applicable to the following balance sheet dates: 01.01.2004, 31.12.2004, 31.03.2005, 31.12.2005. Adjustments have been presented under Adjustment 9 in Tables 1-4 below.*

**Minority interest – (Adjustment 10)**

In relation with the changes made, an adjustment has been made regarding capitals due to minority.

*The adjustment is applicable to the following balance sheet dates: 01.01.2004, 31.12.2004, 31.03.2005, 31.12.2005. Adjustments have been presented under Adjustment 10 in Tables 1-4 below.*

Table No. 1

| Equity as of 31.03.2005   | 31.03.2005 in line with IFRS, presented with the Q1 2005 statement | Adjustment regarding revaluation of tangible and intangible assets plus depreciation | Income tax adjustment | Valuation of investments in associate in connection with the valuation of the financial asset portfolio available for sale | Share capital revaluation in respect of hyperinflation | Minority interest adjustment | Goodwill write-off | Other adjustments | 31.03.2005 in line with IFRS, presented with the Q1 2006 statement |
|---|--|--|-----------------------|--|--|------------------------------|--------------------|-------------------|--|
| LIABILITIES   |  | Adjustment 1   | Adjustment 9          | Adjustment 2   | Adjustment 3   | Adjustment 10                | Adjustment 4       |                   |  |
| <b>Equity</b>   |  |  |                       |  |  |                              |                    |                   |  |
| Share capital   | 140 001  |  |                       |  | 24 114   |                              |                    | 0                 | <b>164 115</b>   |
| Treasury shares   | 0  |  |                       |  |  |                              |                    | 0                 | <b>0</b>   |
| Share premium reserve   | 151 328  |  |                       |  |  |                              |                    | 0                 | <b>151 328</b>   |
| Equity components related to assets held for sale                 | 0  |  |                       |  |  |                              |                    | 0                 | <b>0</b>   |
| Revaluation reserve   | 0  |  |                       | 5 774  |  | (529)                        |                    | 0                 | <b>5 245</b>   |
| Other reserve capital   | 80 667   |  |                       |  |  |                              |                    | 0                 | <b>80 667</b>  |
| Exchange differences on translation of subordinate entities       | 138  |  |                       |  |  | 152                          |                    | (439)             | <b>(149)</b>   |
| Retained earnings   | 591 785  | (73 584)   | 14 767                | 0  | (24 114)   | 1 962                        | (4 576)            | (71)              | <b>506 169</b>   |
| <b>Equity of shareholders in a dominant entity</b>                | <b>963 919</b>   | <b>(73 584)</b>  | <b>14 767</b>         | <b>5 774</b>   | <b>0</b>   | <b>1 585</b>                 | <b>(4 576)</b>     | <b>(510)</b>      | <b>907 375</b>   |
| <b>Minority interest</b>  | <b>110 322</b>   |  |                       |  |  | <b>(1 585)</b>               |                    |                   | <b>108 737</b>   |
| <b>Total equity</b>   | <b>1 074 241</b>   | <b>(73 584)</b>  | <b>14 767</b>         | <b>5 774</b>   | <b>0</b>   | <b>0</b>                     | <b>(4 576)</b>     | <b>(510)</b>      | <b>1 016 112</b>   |
| Including net profit for the period                               | 40 452   | 4 054  | (1 345)               |  |  |                              |                    | 71                | <b>43 232</b>  |
| including:  |  |  |                       |  |  |                              |                    |                   |  |
| Net profit/loss attributable to shareholders in a dominant entity | 36 166   |  |                       |  |  |                              |                    |                   | 38 726   |
| Net profit/loss attributable to minority shareholders             | 4 286  |  |                       |  |  |                              |                    |                   | 4 506  |

Table No. 2

| Equity as of 31.12.2005   | 31.12.2005 in line with IFRS, presented with the Q4 2005 statement | Adjustment regarding revaluation of tangible and intangible assets plus depreciation | Income tax adjustment | Provision for anticipated losses and liabilities | Write-downs of financial assets | Reclassification and sales of a tangible asset to investment property | Minority interest adjustment | Result adjustment in respect of buy out of companies' shares | Valuation of investments in an associate in connection with the valuation of the financial asset portfolio available for sale | other adjustments | 31.12.2005 in line with IFRS, presented in the annual 2005 financial statement upon an audit |
|---|--|--|-----------------------|--|---------------------------------|---|------------------------------|--|---|-------------------|--|
| LIABILITIES   |  | Adjustment 1   | Adjustment 9          | Adjustment 5                                     | Adjustment 6                    | Adjustment 7  | Adjustment 10                | Adjustment 8   | Adjustment 2  |                   |  |
| <b>Equity</b>   |  |  |                       |  |                                 |   |                              |  |   |                   |  |
| Share capital   | 164 115  |  |                       |  |                                 |   |                              | 23   |   | (23)              | <b>164 115</b>   |
| Treasury shares   | 0  |  |                       |  |                                 |   |                              |  |   | 0                 | <b>0</b>   |
| Share premium reserve   | 151 328  |  |                       |  |                                 |   |                              |  |   | 0                 | <b>151 328</b>   |
| Equity components related to assets held for sale                 | 0  |  |                       |  |                                 |   |                              |  |   | 0                 | <b>0</b>   |
| Revaluation reserve   | 0  |  |                       |  |                                 |   | (20)                         | (477)  | 4 040   | 0                 | <b>3 543</b>   |
| Other reserve capital   | 78 524   |  |                       |  |                                 |   | (2)                          |  |   | 161               | <b>78 683</b>  |
| Exchange differences on translation of subordinate entities       | 736  |  |                       |  |                                 |   | 526                          |  |   | (1 510)           | <b>(248)</b>   |
| Retained earnings, including:                                     | 614 192  | (46 165)   | 17 356                | (5 500)  | (4 566)                         | (2 874)   | (1 586)                      | 497  | 0   | 866               | <b>572 220</b>   |
| <b>Equity of shareholders in a dominant entity</b>                | <b>1 008 895</b>   | <b>(46 165)</b>  | <b>17 356</b>         | <b>(5 500)</b>                                   | <b>(4 566)</b>                  | <b>(2 874)</b>  | <b>(1 082)</b>               | <b>43</b>  | <b>4 040</b>  | <b>(506)</b>      | <b>969 641</b>   |
| <b>Minority interest</b>  | <b>48 360</b>  |  |                       |  |                                 |   | <b>1 086</b>                 |  |   | 44                | <b>49 490</b>  |
| <b>Total equity</b>   | <b>1 057 255</b>   | <b>(46 165)</b>  | <b>17 356</b>         | <b>(5 500)</b>                                   | <b>(4 566)</b>                  | <b>(2 874)</b>  | <b>4</b>                     | <b>43</b>  | <b>4 040</b>  | <b>(462)</b>      | <b>1 019 131</b>   |
| Including net profit for the period                               | 108 751  | 19 437   | 1 383                 | (5 500)  | (4 566)                         |   |                              | (2 103)  |   | 451               | <b>117 853</b>   |
| including:  |  |  |                       |  |                                 |   |                              |  |   |                   |  |
| Net profit/loss attributable to shareholders in a dominant entity | 103 615  |  |                       |  |                                 |   |                              |  |   |                   | 111 584  |
| Net profit/loss attributable to minority shareholders             | 5 136  |  |                       |  |                                 |   |                              |  |   |                   | 6 269  |

Table No. 3

| Equity as of 31.12.2004   | 31.12.2004 in line with IFRS, presented with the Q4 2005 statement | Adjustment regarding revaluation of tangible and intangible assets plus depreciation | income tax adjustment | minority interest adjustment | other adjustments | 31.12.2004 in line with IFRS, presented in the annual 2005 financial statement upon an audit |
|---|--|--|-----------------------|------------------------------|-------------------|--|
|   |  | Adjustment 1   | Adjustment 9          | Adjustment 10                |                   |  |
| <b>LIABILITIES</b>  |  |  |                       |                              |                   |  |
| <b>Equity</b>   |  |  |                       |                              |                   |  |
| Share capital   | 123 096  |  |                       |                              |                   | 123 096  |
| Treasury shares   | (18 805)   |  |                       |                              |                   | (18 805)   |
| Share premium reserve   | 0  |  |                       |                              |                   | 0  |
| Equity components related to assets held for sale                 | 0  |  |                       |                              |                   | 0  |
| Revaluation reserve   | 0  |  |                       |                              |                   | 0  |
| Other reserve capital   | 84 633   |  |                       |                              |                   | 84 633   |
| Exchange differences on translation of subordinate entities       | (807)  |  |                       |                              | (260)             | (1 067)  |
| Retained earnings, including:                                     | 516 783  | (67 899)   | 15 713                | 2 345                        | 79                | 467 021  |
| <b>Equity of shareholders in a dominant entity</b>                | <b>704 900</b>   | <b>(67 899)</b>  | <b>15 713</b>         | <b>2 345</b>                 | <b>(181)</b>      | <b>654 878</b>   |
| <b>Minority interest</b>  | <b>105 451</b>   |  |                       | <b>(2 345)</b>               |                   | <b>103 106</b>   |
| <b>Total equity</b>   | <b>810 351</b>   | <b>(67 899)</b>  | <b>15 713</b>         | <b>0</b>                     | <b>(181)</b>      | <b>757 984</b>   |
| Including net profit for the period                               | 76 003   | 18 757   | (3 017)               |                              | 597               | 92 340   |
| including:  |  |  |                       |                              |                   |  |
| Net profit/loss attributable to shareholders in a dominant entity | 70 003   |  |                       |                              |                   | 84 376   |
| Net profit/loss attributable to minority shareholders             | 6 000  |  |                       |                              |                   | 7 964  |

Table No. 4

| Equity as of 01.01.2004                                     | 01.01.2004 in line with IFRS, presented with the Q4 2005 statement | Adjustment regarding revaluation of tangible and intangible assets plus depreciation | income tax adjustment | minority interest adjustment | Other adjustments | 01.01.2004 in line with IFRS, presented in the annual 2005 financial statement upon an audit |
|---|--|--|-----------------------|------------------------------|-------------------|--|
|   |  | Adjustment 1   | Adjustment 9          | Adjustment 10                |                   |  |
| <b>LIABILITIES</b>  |  |  |                       |                              |                   |  |
| <b>Equity</b>   |  |  |                       |                              |                   |  |
| Share capital   | 123 096  |  |                       |                              |                   | <b>123 096</b>   |
| Treasury shares   | (14 684)   |  |                       |                              |                   | <b>(14 684)</b>  |
| Share premium reserve                                       | 0  |  |                       |                              |                   | <b>0</b>   |
| Equity components related to assets held for sale           | 0  |  |                       |                              |                   | <b>0</b>   |
| Revaluation reserve   | 0  |  |                       |                              |                   | <b>0</b>   |
| Other reserve capital                                       | 84 633   |  |                       |                              |                   | <b>84 633</b>  |
| Exchange differences on translation of subordinate entities | 3 197  |  |                       |                              | 298               | <b>3 495</b>   |
| Retained earnings   | 448 021  | (82 465)   | 14 241                | 3 828                        | (331)             | <b>383 294</b>   |
| <b>Equity of shareholders in a dominant entity</b>          | <b>644 263</b>   | <b>(82 465)</b>  | <b>14 241</b>         | <b>3 828</b>                 | <b>(33)</b>       | <b>579 834</b>   |
| <b>Minority interest</b>                                    | <b>104 324</b>   |  |                       | <b>(3 828)</b>               |                   | <b>100 496</b>   |
| <b>Total equity</b>   | <b>748 587</b>   | <b>(82 465)</b>  | <b>14 241</b>         | <b>0</b>                     | <b>(33)</b>       | <b>680 330</b>   |



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

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

Revaluation of non-current assets: According to IFRS 1 "First-Time Adoption of the International Financial Reporting Standards", the Ciech Group assumed the amount of its non-current assets used in a hyperinflationary economy to be the fair value of these assets (measured based on estimates by professional property appraisers). An adjustment of the carrying amount of non-current assets resulted in a positive temporary difference between the tax values and the balance-sheet values.

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

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

Renovations spread over time: The Ciech Group recognises the expense on renovations spread over time under prepayments and accruals. According to IAS 16 "Property, Plant, and Equipment," such expenses should be taken to profit and loss account at the time they are incurred, if it is not possible to recognise them in PPE in a manner specified in IAS. Therefore, an appropriate adjustment of the consolidated financial result has been made.

Expenses on launch of new production: The expenses incurred on launching new production are disclosed by the Ciech Group under prepayments and accruals. According to IAS 16 "Property, Plant, and Equipment," such expenses should be taken to profit and loss account on a one-off basis. With regard to the above, the amount of activated costs of launching of new production was presented as a decrease of equity as of the day of adoption of IFRS.

Minority interests: According to the principles of presentation of financial statements prescribed in IAS 1 "Presentation of Financial Statements," the total consolidated equity includes minority interests. Net result disclosed in the profit and loss account includes minority interest too.

Goodwill: In compliance with IFRS 3 "Business Combinations," the Ciech Group ceased to amortise goodwill as of 1 January 2004. The amortisation charges were reversed against retained earnings. In conformity with IAS 36 "Impairment of Assets," the Ciech Group conducted impairment tests for its assets at 1 January 2004, and 31 December 2004. The results of the tests led to write-offs as of 01.01.2004 in the amount 4 576 000 PLN.

Negative Goodwill: In accordance with IFRS 1 "First-Time Adoption of International Financial Reporting Standards" and IFRS 3 "Business Combinations" negative goodwill disclosed at 1 January 2004, was written off against equity. The write-off of negative goodwill for 2004 was reversed against the profit and loss account.

Equity method: As the companies accounted for by the equity method were required to adapt their respective financial statements to IFRS requirements, their respective interests disclosed in the consolidated financial statements changed.

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

Recognition of deferred income tax assets and provisions in the net assets: In accordance with IAS 12 "Income Tax," deferred tax assets were set off against deferred tax provisions in the financial statements of the individual Group companies.

De-recognition of perpetual leasehold rights: The Ciech Group adopted the approach that perpetual leasehold rights in land acquired through administrative allocation meet the criteria of operating lease as defined in IAS 17 "Leases," and that, therefore, these rights should not be disclosed in the books, but presented as off-balance sheet items. Accordingly, adjustments were made in the books by derecognising such perpetual leasehold rights against accrued and deferred income.

Disclosure of non-current assets held for sale and discontinued operations: In compliance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations," non-current assets held for sale were singled out from among property, plant and equipment and reclassified as current assets. Discontinued operations were also disclosed as a separate item in the profit and loss account.

Isolation of investment property: Non-current assets, which should be disclosed as investment property according to IAS 40 "Investment Property," were disclosed separately in the consolidated balance sheet.

Reclassifications in equity: The share premium reserves disclosed in the individual financial statements, the reserves, and the revaluation reserve for non-current assets created in accordance with PAS were reclassified as retained earnings. Earmarked capitals/funds were disclosed under reserves.

Extraordinary gains / losses: To comply with the presentation requirements set out in IAS 1 "Presentation of Financial Statements," the extraordinary gains and losses disclosed by the Group were reclassified as other operating income and other operating expenses respectively.

Gains / losses on disposal of all or a part of shares in subordinated entities: To comply with the presentation requirements set out in IAS 1 "Presentation of Financial Statements," the losses on disposal of certain shares in subordinated entities disclosed by the Group was reclassified as finance cost.

Advanced payments for inventories: Advanced payments for inventories, which were disclosed as inventories under PAS, were reclassified as current receivables to comply with IFRS.

Prepayments and accruals: Prepayments and accruals were presented as current receivables and current liabilities respectively.

The table below shows:

- reconciliation of equity as of 01.01.2004 and 31.12.2004 determined in accordance with the Polish Accounting Standards and the equity determined as of the same date in accordance with IFRS and
- reconciliation of the net profit for the period 01.01.-31.12.2004 determined in accordance with the Polish Accounting Standards and the net profit determined in accordance with IFRS

| Item   | as of 01.01.2004 |
|--|------------------|
| equity according to PAS as reported previously                   | 473 196          |
| revaluation of tangible assets                                   | 93 791           |
| deferred tax on revaluated tangible assets                       | (15 853)         |
| negative goodwill written off against retained earnings          | 37 916           |
| minority interest adjustment in connection with change in equity | 89 643           |
| depreciation of investment property                              | (846)            |
| special purpose fund reclassification                            | 6 176            |
| measurement using the equity method (change in valuation)        | 1 632            |
| renovation costs   | (516)            |
| costs of launching a new production                              | (209)            |
| write-off in respect of impairment                               | (4 576)          |
| other adjustments  | (24)             |

equity in line with IFRS

| Item   | as of 31.12.2004 |
|--|------------------|
| equity according to PAS as reported previously                   | 551 377          |
| revaluation of tangible assets                                   | 98 036           |
| deferred tax on revaluated tangible assets                       | (17 023)         |
| goodwill (elimination of depreciation for 2004)                  | 6 897            |
| negative goodwill (elimination of depreciation for 2004)         | (6 127)          |
| negative goodwill written off against retained earnings          | 37 954           |
| minority interest adjustment in connection with change in equity | 92 211           |
| depreciation of investment property                              | (846)            |
| measurement using the equity method (change in valuation)        | 86               |
| write-off in respect of impairment                               | (4 576)          |

| Item                     | as of 31.12.2004 |
|--------------------------|------------------|
| other adjustments        | (5)              |
| equity in line with IFRS | 757 984          |

| Item  | 01.01-31.12.2004 |
|---|------------------|
| net profit according to PAS as reported previously                    | 79 250           |
| revaluation of tangible assets (depreciation)                         | 5 560            |
| revaluation of tangible assets (change in deferred tax)               | (1 168)          |
| goodwill (elimination of depreciation for 2004)                       | 6 897            |
| negative goodwill (elimination of depreciation for 2004)              | (6 127)          |
| minority interest adjustment in connection with change in profit/loss | 6 421            |
| measurement using the equity method (change in valuation)             | (39)             |
| renovation costs  | 516              |
| costs of launching a new production                                   | 209              |
| Reversal of write-downs   | 823              |
| other adjustments   | (2)              |
| net profit in line with IFRS  | 92 340           |

## II. CONDENSED INDIVIDUAL FINANCIAL STATEMENT OF CIECH FOR Q1 2006 DEVELOPED IN LINE WITH PAS.

### BALANCE SHEET

| ASSETS                                      | 31.03.2006     | 31.12.2005     | 31.03.2005     |
|---|----------------|----------------|----------------|
| <b>I. Fixed assets</b>                      | <b>493 127</b> | <b>492 865</b> | <b>496 974</b> |
| 1. Intangible assets, including:            | 8 789          | 9 098          | 10 562         |
| - goodwill                                  | -              | -              | -              |
| 2. Property, plant and equipment            | 22 955         | 24 691         | 29 754         |
| 3. Long-term receivables                    | -              | -              | -              |
| 4. Long-term investments                    | 446 590        | 444 790        | 452 066        |
| 4.1. Property                               | 10 961         | 10 961         | 11 246         |
| 4.2. Intangible assets                      | -              | -              | -              |
| 4.3. Long-term financial assets             | 435 629        | 433 829        | 440 820        |
| a) in affiliates, including:                | 434 444        | 432 644        | 440 697        |
| b) in other entities                        | 1 185          | 1 185          | 123            |
| 4.4. Other long-term investments            | -              | -              | -              |
| 5. Long-term prepayments and accrued income | 14 793         | 14 286         | 4 592          |
| 5.1. Deferred income tax assets             | 14 678         | 14 169         | 4 592          |
| 5.2. Other accruals                         | 115            | 117            | -              |
| <b>II. Current assets</b>                   | <b>490 143</b> | <b>410 311</b> | <b>431 190</b> |
| 1. Reserves                                 | 11 285         | 10 987         | 27 760         |
| 2. Short-term receivables                   | 297 934        | 310 688        | 332 681        |
| 2.1. from affiliates                        | 51 692         | 48 709         | 80 072         |
| 2.2. from other entities                    | 246 242        | 261 979        | 252 609        |
| 3. Short-term investments                   | 179 541        | 88 212         | 68 655         |
| 3.1. Short-term financial assets            | 179 541        | 88 212         | 68 655         |
| a) in affiliates                            | 9 049          | 38 815         | -              |
| b) in other entities                        | 75 510         | 257            | 4 953          |
| c) cash and cash equivalents                | 94 982         | 49 140         | 63 702         |
| 3.2. Other short-term investments           | -              | -              | -              |
| 4. Short-term prepayments and accruals      | 1 383          | 424            | 2 094          |
| <b>Total Assets</b>                         | <b>983 270</b> | <b>903 176</b> | <b>928 164</b> |

| LIABILITIES   | 31.03.2006     | 31.12.2005     | 31.03.2005     |
|---|----------------|----------------|----------------|
| <b>I. Equity</b>  | <b>667 766</b> | <b>584 079</b> | <b>556 332</b> |
| 1. Share capital  | 140 001        | 140 001        | 140 001        |
| 2. Amounts due in respect of share capital (negative value)       | -              | -              | -              |
| 3. Treasury shares (stocks) (negative value)                      | -              | -              | -              |
| 4. Share premium  | 326 918        | 326 740        | 308 512        |
| 5. Revaluation reserve  | (939)          | (761)          | 434            |
| 6. Other reserve capital  | 76 199         | 76 199         | 78 409         |
| 7. Profit (loss) from previous years                              | 41 900         | -              | 23 223         |
| 8. Net profit (loss)  | 83 687         | 41 900         | 5 753          |
| 9. Net profit write-offs during a financial year (negative value) | -              | -              | -              |
| <b>II. Liabilities and provisions for liabilities</b>             | <b>315 504</b> | <b>319 097</b> | <b>371 832</b> |
| 1. Provisions for liabilities                                     | 20 778         | 20 736         | 20 170         |
| 1.1. Provision in respect of deferred income tax                  | 658            | 266            | 502            |
| 1.2. Provision in respect of retirement benefits and similar      | 2 087          | 2 247          | 2 429          |
| a) long-term  | 1 607          | 1 607          | 2 194          |
| b) short-term   | 480            | 640            | 235            |

| <b>LIABILITIES</b>          | <b>31.03.2006</b> | <b>31.12.2005</b> | <b>31.03.2005</b> |
|-----------------------------|-------------------|-------------------|-------------------|
| 1.3. Other provisions       | 18 033            | 18 223            | 17 239            |
| a) long-term                | -                 | -                 | -                 |
| b) short-term               | 18 033            | 18 223            | 17 239            |
| 2. Long-term liabilities    | 17 317            | 18 527            | 29 044            |
| 2.1. towards affiliates     | -                 | -                 | -                 |
| 2.2. towards other entities | 17 317            | 18 527            | 29 044            |
| 3. Short-term liabilities   | 268 738           | 271 314           | 317 147           |
| 3.1. Towards affiliates     | 152 287           | 167 690           | 170 218           |
| 3.2. Towards other entities | 115 669           | 103 025           | 146 365           |
| 3.3. Special funds          | 782               | 599               | 564               |
| 4. Accruals                 | 8 671             | 8 520             | 5 471             |
| 4.1. Negative goodwill      | -                 | -                 | -                 |
| 4.2. Other accruals         | 8 671             | 8 520             | 5 471             |
| a) long-term                | -                 | -                 | -                 |
| b) short-term               | 8 671             | 8 520             | 5 471             |
| <b>Total Liabilities</b>    | <b>983 270</b>    | <b>903 176</b>    | <b>928 164</b>    |

|                                       |            |            |            |
|---------------------------------------|------------|------------|------------|
| Book value                            | 667 766    | 584 079    | 556 332    |
| Number of shares                      | 28 000 000 | 28 000 000 | 28 000 000 |
| Book value per share (in PLN)         | 23,85      | 20,86      | 19,87      |
| Diluted number of shares              | 28 000 000 | 28 000 000 | 28 000 000 |
| Diluted book value per share (in PLN) | 23,85      | 20,86      | 19,87      |

**OFF-BALANCE SHEET ITEMS**

| <i>in thousand PLN</i>                      | <b>31.03.2006</b> | <b>31.12.2005</b> | <b>31.03.2005</b> |
|---|-------------------|-------------------|-------------------|
| <b>1. Contingent receivables</b>            | -                 | -                 | -                 |
| 1.2. From other entities (in respect of)    | -                 | -                 | -                 |
| - guarantees and sureties received          | -                 | -                 | -                 |
| <b>2. Contingent liabilities</b>            | <b>25 954</b>     | <b>26 571</b>     | <b>29 455</b>     |
| 1.1. Towards affiliates (in respect of)     | 25 954            | 26 435            | 28 208            |
| - guarantees and sureties granted           | 25 954            | 26 435            | 28 208            |
| 1.2. Towards other entities (in respect of) | -                 | 136               | 1 247             |
| - guarantees and sureties granted           | -                 | 136               | 1 247             |
| <b>3. Other (in respect of)</b>             | <b>9 400</b>      | <b>9 400</b>      | <b>9 400</b>      |
| - other trade sureties                      | 9 400             | 9 400             | 9 400             |
| <b>Total off-balance sheet items</b>        | <b>35 354</b>     | <b>35 971</b>     | <b>38 855</b>     |

**P&L ACCOUNT**

| No        | Item  | 01.01.-31.03.2006        | 01.01.-31.03.2005        |
|-----------|---|--------------------------|--------------------------|
|           | <b>Net income from sales of products, goods and materials, including:</b> |                          |                          |
| <b>A.</b> |   | <b>333 446</b>           | <b>424 447</b>           |
|           | <i>from affiliates</i>  | 67 032                   | 107 395                  |
|           | Net income from sales of products   | 11 180                   | 16 646                   |
|           | Net income from sales of goods and materials                              | 322 266                  | 407 801                  |
|           | <b>Costs of sold products, goods and materials, including:</b>            |                          |                          |
| <b>B.</b> |   | <b>270 756</b>           | <b>372 086</b>           |
|           | <i>to affiliates</i>  | 53 098                   | 91 673                   |
|           | Costs of manufacture of the products sold                                 | 58                       | 106                      |
|           | Value of goods and materials sold   | 270 698                  | 371 980                  |
| <b>C.</b> | <b>Gross profit (loss) on sales</b>                                       | <b>62 690</b>            | <b>52 361</b>            |
| <b>D.</b> | <b>Costs of sales</b>   | <b>22 537</b>            | <b>26 788</b>            |
| <b>E.</b> | <b>General management costs</b>   | <b>15 965</b>            | <b>15 487</b>            |
| <b>F.</b> | <b>Profit (loss) on sales</b>   | <b>24 188</b>            | <b>10 086</b>            |
| <b>G.</b> | <b>Other operating income</b>   | <b>1 450</b>             | <b>2 167</b>             |
|           | Profit on sales of non-financial fixed assets                             | 306                      | 35                       |
|           | Subsidies   | -                        | -                        |
|           | Other operating income  | 1 144                    | 2 132                    |
| <b>H.</b> | <b>Other operating costs</b>  | <b>1 425</b>             | <b>3 236</b>             |
|           | Loss on sales of non-financial fixed assets                               | -                        | -                        |
|           | Revaluation of non-financial assets                                       | 893                      | 762                      |
|           | Other operating costs   | 532                      | 2 474                    |
| <b>I.</b> | <b>Operating profit (loss)</b>  | <b>24 213</b>            | <b>9 017</b>             |
| <b>J.</b> | <b>Financial income</b>   | <b>82 695</b>            | <b>1 580</b>             |
|           | Dividends and profit sharing, including:                                  | 81                       | -                        |
|           | <i>from affiliates</i>  | 81                       | -                        |
|           | Interest, including:  | 1 379                    | 1 035                    |
|           | <i>from affiliates</i>  | 203                      | 67                       |
|           | Profit on sales of investments  | 78 659                   | -                        |
|           | Revaluation of investments  | -                        | -                        |
|           | Other   | 2 576                    | 545                      |
| <b>K.</b> | <b>Financial costs</b>  | <b>3 488</b>             | <b>3 156</b>             |
|           | Interest, including:  | 823                      | 2 316                    |
|           | <i>for affiliates</i>   | -                        | -                        |
|           | Loss on sales of investments  | -                        | -                        |
|           | Revaluation of investments  | 3 000                    | -                        |
|           | Other   | -335                     | 840                      |
| <b>L.</b> | <b>Profit (loss) on business activities</b>                               | <b>103 420</b>           | <b>7 441</b>             |
| <b>M.</b> | <b>Result of extraordinary events</b>                                     | <b>-</b>                 | <b>-</b>                 |
|           | Extraordinary profit  | -                        | -                        |
|           | Extraordinary loss  | -                        | -                        |
| <b>N.</b> | <b>Gross profit (loss)</b>  | <b>103 420</b>           | <b>7 441</b>             |
| <b>O.</b> | <b>Income tax</b>   | <b>19 734</b>            | <b>1 688</b>             |
|           | current   | 19 850                   | 1 461                    |
|           | deferred  | -116                     | 227                      |
|           | <b>Other obligatory charges</b>   |                          |                          |
| <b>P.</b> | <b>(loss increase)</b>  | <b>-</b>                 | <b>-</b>                 |
| <b>R.</b> | <b>Net profit (loss)</b>  | <b>83 686</b>            | <b>5 753</b>             |
|           |   | <b>01.01.-31.03.2006</b> | <b>01.01.-31.03.2005</b> |
|           | Net profit (loss) annualised  | 119 833                  | 13 243                   |

|  | 01.01.-31.03.2006 | 01.01.-31.03.2005 |
|--|-------------------|-------------------|
| Weighted average number of ordinary shares         | 28 000 000        | 20 722 923        |
| Earnings (loss) per ordinary share (in PLN)        | 4.28              | 0.64              |
| Weighted average diluted number of ordinary shares | 28 000 000        | 27 803 074        |
| Diluted profit (loss) per ordinary share (in PLN)  | 4.28              | 0.48              |

**CASH FLOW STATEMENT**

|  | 01.01.- 31.03.2006 | 01.01.- 31.03.2005 |
|--|--------------------|--------------------|
| <b>A. Operating cash flows</b>   |                    |                    |
| <b>I. Net profit (loss)</b>  | <b>83 687</b>      | <b>5 753</b>       |
| <b>II. Total adjustments</b>   | <b>(53 898)</b>    | <b>4 346</b>       |
| 1. Depreciation  | 1 525              | 2 134              |
| 2. Profit (loss) in respect of exchange differences                                      | (1 473)            | (682)              |
| 3. Interest and profit sharing (dividends)   | 71                 | 2 473              |
| 4. Profit (loss) from investing activities   | (75 965)           | (35)               |
| 5. Change in provisions  | 42                 | 215                |
| 6. Change in reserves  | (298)              | (9 300)            |
| 7. Changes in receivables  | 18 068             | (29 087)           |
| 8. Change in short-term liabilities, except for loans and borrowings                     | 5 137              | 39 466             |
| 9. Change in accruals  | (1 313)            | (838)              |
| 10. Other adjustments  | 308                | -                  |
| <b>III. Net operating cash flows (I+/-II)</b>  | <b>29 789</b>      | <b>10 099</b>      |
| <b>B. Cash flows from investing activities</b>   |                    |                    |
| <b>I. Inflows</b>  | <b>105 762</b>     | <b>328</b>         |
| 1. Sales of intangible assets and tangible fixed assets                                  | 1 241              | 328                |
| 2. Sales of investments in property and intangible assets                                | -                  | -                  |
| 3. From financial assets, including:   | 104 521            | -                  |
| a) in affiliates   | 104 521            | -                  |
| sales of financial assets  | 104 300            | -                  |
| Interest   | 140                | -                  |
| dividends and profit sharing   | 81                 | -                  |
| b) in other entities   | -                  | -                  |
| 4. Other investment inflows  | -                  | -                  |
| <b>II. Outflows</b>  | <b>82 732</b>      | <b>8 145</b>       |
| 1. Purchase of intangible assets and tangible fixed assets                               | 2 932              | 3 208              |
| 2. Investments in property and intangible assets   | -                  | -                  |
| 3. For financial assets, including:  | 79 800             | 4 937              |
| a) in affiliates   | 4 800              | -                  |
| purchase of financial assets   | -                  | -                  |
| long-term loans granted  | 4 800              | -                  |
| b) in other entities   | 75 000             | 4 937              |
| purchase of financial assets   | 75 000             | -                  |
| other  | -                  | 4 937              |
| 4. Other investment outflows   | -                  | -                  |
| <b>III. Net cash flows from investing activities (I-II)</b>                              | <b>23 030</b>      | <b>(7 817)</b>     |
| <b>C. Cash flows from financing activities</b>   |                    |                    |
| <b>I. Inflows</b>  | <b>1 252</b>       | <b>213 092</b>     |
| 1. Net inflows from issue of shares and other equity instruments, plus capital subsidies | -                  | 192 875            |
| 2. Loans and borrowings  | 1 252              | 18 008             |
| 3. Issue of debt securities  | -                  | -                  |
| 4. Other financial inflows   | -                  | 2 209              |

|  | 01.01.- 31.03.2006 | 01.01.- 31.03.2005 |
|--|--------------------|--------------------|
| <b>II. Outflows</b>  | <b>8 229</b>       | <b>155 294</b>     |
| 1. Purchase of treasury shares   | -                  | -                  |
| 2. Dividends and other payments to shareholders                                    | -                  | -                  |
| 3. Other outflows in respect of profit distribution, than payments to shareholders | -                  | -                  |
| 4. Repayment of loans and borrowings   | 7 887              | 137 493            |
| 5. Payment of debt securities  | -                  | 15 000             |
| 6. Other financial liabilities   | -                  | -                  |
| 7. Finance lease payments  | -                  | -                  |
| 8. Interest  | 342                | 2 217              |
| 9. Other financial outflows  | -                  | 584                |
| <b>III. Net cash flows from financing activities (I-II)</b>                        | <b>(6 977)</b>     | <b>57 798</b>      |
| <b>D. Total net cash flows (A.III+/-B.III+/-C.III)</b>                             | <b>45 842</b>      | <b>60 080</b>      |
| <b>E. Balance sheet change in cash, including:</b>                                 | <b>46 328</b>      | <b>60 074</b>      |
| change in cash in respect of exchange differences                                  | (486)              | (6)                |
| <b>F. Cash at the beginning of the period</b>                                      | <b>49 140</b>      | <b>3 822</b>       |
| <b>G. Cash at the end of the period (F+/- D), including:</b>                       | <b>94 982</b>      | <b>63 902</b>      |
| with the limited power of disposal   | 522                | 285                |

## STATEMENT OF CHANGES IN EQUITY

|  | 01.01.-31.03.2006 | 01.01.-31.12.2005 | 01.01.-31.03.2005 |
|--|-------------------|-------------------|-------------------|
| <b>I. Equity at the beginning of the period (opening balance)</b>                                  | <b>584 079</b>    | <b>356 022</b>    | <b>356 022</b>    |
| a) changes in the accounting policy  | -                 | -                 | -                 |
| b) adjustments of fundamental errors   | -                 | -                 | -                 |
| <b>I. Equity at the beginning of the period (OB), upon reconciliation with the comparable data</b> | <b>584 079</b>    | <b>356 022</b>    | <b>356 022</b>    |
| <b>1. Share capital at the beginning of the period</b>   | <b>140 001</b>    | <b>98 982</b>     | <b>98 982</b>     |
| 1.1. Changes in share capital  | -                 | 41 019            | 41 019            |
| a) additions (in respect of)   | -                 | 41 019            | 41 019            |
| - issue of shares  | -                 | 41 019            | 41 019            |
| b) deductions (In respect of)  | -                 | -                 | -                 |
| <b>1.2. Share capital at the end of the period</b>   | <b>140 001</b>    | <b>140 001</b>    | <b>140 001</b>    |
| <b>2. Amounts due in respect of share capital at the beginning of the period</b>                   | -                 | -                 | -                 |
| 2.1. Changes in the amounts due in respect of share capital  | -                 | -                 | -                 |
| a) additions (in respect of)   | -                 | -                 | -                 |
| b) deductions (In respect of)  | -                 | -                 | -                 |
| <b>2.2. Amounts due in respect of share capital at the end of the period</b>                       | -                 | -                 | -                 |
| <b>3. Treasury shares at the beginning of the period</b>   | -                 | <b>(6 176)</b>    | <b>(6 176)</b>    |
| 3.1. Changes in treasury shares  | -                 | 6 176             | 6 176             |
| a) additions (in respect of)   | -                 | -                 | -                 |
| b) deductions (In respect of)  | -                 | 6 176             | 6 176             |
| - sales  | -                 | 6 176             | 6 176             |
| <b>3.2. Treasury shares at the end of the period</b>   | -                 | -                 | -                 |
| <b>4. Share premium at the beginning of the period</b>   | <b>326 740</b>    | <b>157 186</b>    | <b>157 186</b>    |
| 4.1. Changes in share premium  | 178               | 169 554           | 151 326           |
| a) additions (in respect of)   | 178               | 169 941           | 151 333           |
| - issue of shares at a premium   | -                 | 151 328           | -                 |
| - from distribution of profit  | -                 | 14 824            | -                 |
| - positive difference from revaluation of tangible assets  | 178               | 1 580             | 5                 |
| other additions  | -                 | 2 209             | 151 328           |
| b) deduction (in respect of)   | -                 | 387               | 7                 |



|   | 01.01.-31.03.2006 | 01.01.-31.12.2005 | 01.01.-31.03.2005 |
|---|-------------------|-------------------|-------------------|
| assets  |                   |                   |                   |
| - negative difference from revaluation of tangible  | -                 | 387               | 7                 |
| <b>4.2. Share premium at the end of the period</b>  | <b>326 918</b>    | <b>326 740</b>    | <b>308 512</b>    |
| <b>5. Revaluation reserve at the beginning of the period</b>  | <b>(761)</b>      | <b>432</b>        | <b>432</b>        |
| a) changes in the accounting policy (transformation balance sheet)  | -                 | -                 | -                 |
| 5.a Revaluation reserve upon reconciliation to comparable data  | (761)             | 432               | 432               |
| 5.1. Changes in revaluation reserve   | (178)             | (1 193)           | 2                 |
| a) additions (in respect of)  | -                 | 387               | 7                 |
| - transfer of revaluated tangible assets to share premium, in connection with their liquidation or sales      | -                 | 387               | 7                 |
| b) deductions (In respect of)   | 178               | 1 580             | 5                 |
| - transfer of revaluated tangible assets to share premium, in connection with their liquidation or sales      | 178               | 1 580             | 5                 |
| <b>5.2. Revaluation reserve at the end of the period</b>  | <b>(939)</b>      | <b>(761)</b>      | <b>434</b>        |
| <b>6. Other reserve capital at the beginning of the period</b>  | <b>76 199</b>     | <b>82 375</b>     | <b>82 375</b>     |
| 6.1. Changes in other reserve capital   | -                 | (6 176)           | (3 966)           |
| a) additions (in respect of)  | -                 | -                 | -                 |
| b) deductions (In respect of)   | -                 | 6 176             | 3 966             |
| - sales of treasury shares  | -                 | 6 176             | 3 966             |
| <b>6.2. Other reserve capital at the end of the period</b>  | <b>76 199</b>     | <b>76 199</b>     | <b>78 409</b>     |
| <b>7. Profit (loss) from previous years at the beginning of the period</b>                                    | <b>41 900</b>     | <b>23 223</b>     | <b>23 223</b>     |
| <b>7.1. Profit from previous years at the beginning of the period</b>   | <b>41 900</b>     | <b>23 223</b>     | <b>23 223</b>     |
| a) changes in the accounting policy   | -                 | -                 | -                 |
| b) adjustments of fundamental errors  | -                 | -                 | -                 |
| <b>7.2. Profit from previous years at the beginning of the period, upon reconciliation to comparable data</b> | <b>41 900</b>     | <b>23 223</b>     | <b>23 223</b>     |
| a) additions (in respect of)  | -                 | -                 | -                 |
| b) deductions (In respect of)   | -                 | 23 223            | -                 |
| - distribution of profit from previous years  | -                 | 14 823            | -                 |
| - dividend  | -                 | 8 400             | -                 |
| <b>7.3. Profit from previous years at the end of the period</b>   | <b>41 900</b>     | <b>-</b>          | <b>23 223</b>     |
| <b>7.4. Loss from previous years at the beginning of the period</b>   | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| a) changes in the accounting policy   | -                 | -                 | -                 |
| b) adjustments of fundamental errors  | -                 | -                 | -                 |
| <b>7.5. Loss from previous years at the beginning of the period, upon reconciliation to comparable data</b>   | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| a) additions (in respect of)  | 0                 | -                 | -                 |
| b) deductions (In respect of)   | -                 | -                 | -                 |
| <b>7.6. Loss from previous years at the end of the period</b>   | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>7.7. Profit (loss) from previous years at the end of the period</b>  | <b>41 900</b>     | <b>-</b>          | <b>23 223</b>     |
| <b>8. Net result</b>  | <b>83 687</b>     | <b>41 900</b>     | <b>5 753</b>      |
| a) net profit   | 83 687            | 41 900            | 5 753             |
| <b>II. Equity at the end of the period (closing balance)</b>  | <b>667 766</b>    | <b>584 079</b>    | <b>556 332</b>    |
| <b>III. Equity, taking into account proposed profit distribution (loss cover)</b>                             | <b>667 766</b>    | <b>561 679</b>    | <b>556 332</b>    |

### 1. Provisions and write-downs on Ciech SA assets – for the period between 01.01.2006 and 31.03.2006

The following corrections due to establishment and release of provisions and assets write-downs are included in the condensed financial statement of CIECH SA for Q1 2006.

#### Provisions recognised in Q1 2006

thousand PLN

Provision for employee benefits

828

|                                  |              |
|----------------------------------|--------------|
| Cost provision                   | 586          |
| Provision for anticipated losses | 392          |
| <b>Total</b>                     | <b>1 806</b> |

|                                       |                     |
|---------------------------------------|---------------------|
| <b>Provisions released in Q4 2005</b> | <i>thousand PLN</i> |
| Provision for employee benefits       | 1 062               |
| Cost provision                        | 169                 |
| Restructuring provision               | 190                 |
| <b>Total</b>                          | <b>1 421</b>        |

|  |                     |
|--|---------------------|
| <b>Assets written down (addition) in Q1 2006</b> | <i>thousand PLN</i> |
| Long-term financial assets written down          | 3 000               |
| Reserves written down                            | 415                 |
| Receivables written down                         | 642                 |
| <b>Total</b>                                     | <b>4 057</b>        |

|   |                     |
|---|---------------------|
| <b>Assets written down (deduction) in Q1 2006</b> | <i>thousand PLN</i> |
| Reserves written down                             | 185                 |
| Receivables written down                          | 958                 |
| <b>Total</b>                                      | <b>1 143</b>        |

|                                       |                     |
|---------------------------------------|---------------------|
| <b>Deferred tax assets in Q1 2006</b> | <i>thousand PLN</i> |
| Additions                             | 570                 |
| Deductions                            | 62                  |

## 2. Ciech SA financial assets

| CHANGE IN LONG-TERM FINANCIAL ASSETS      | 01.01.- 31.03.2006 | 01.01.- 31.12.2005 | 01.01.- 31.03.2005 |
|---|--------------------|--------------------|--------------------|
| <b>As of the beginning of the period</b>  | <b>481 074</b>     | <b>459 626</b>     | <b>459 626</b>     |
| <b>a) additions (in respect of)</b>       | 4 800              | 47 628             | 4 900              |
| purchase of shares                        | -                  | 40 560             | -                  |
| capital increase                          | -                  | 5 750              | 4 900              |
| transfer from short-term financial assets | -                  | 1 318              | -                  |
| loans granted                             | 4 800              | -                  | -                  |
| <b>b) deductions (In respect of)</b>      | 50 245             | 73 425             | 23 706             |
| sales of shares                           | -                  | 803                | -                  |
| transfer to short-term financial assets   | -                  | 25 243             | -                  |
| other                                     | -                  | 134                | -                  |
| write-down                                | 50 245             | 47 245             | 23 706             |
| <b>As of the end of the period</b>        | <b>435 629</b>     | <b>433 829</b>     | <b>440 820</b>     |

| CHANGE IN SHORT-TERM FINANCIAL ASSETS    | 01.01.- 31.03.2006 | 01.01.- 31.12.2005 | 01.01.- 31.03.2005 |
|--|--------------------|--------------------|--------------------|
| <b>As of the beginning of the period</b> | <b>89 962</b>      | <b>5 394</b>       | <b>5 394</b>       |
| - stocks and shares                      | 26 993             | 1 750              | 1 750              |
| - other short-term financial assets      | 257                | 16                 | 16                 |
| - loans granted                          | 13 572             | -                  | -                  |
| - cash                                   | 49 140             | 3 628              | 3 628              |
| <b>a) additions (in respect of)</b>      | <b>121 095</b>     | <b>84 568</b>      | <b>65 011</b>      |
| - stocks and shares                      | -                  | 25 243             | -                  |

| CHANGE IN SHORT-TERM FINANCIAL ASSETS | 01.01.- 31.03.2006 | 01.01.- 31.12.2005 | 01.01.- 31.03.2005 |
|---------------------------------------|--------------------|--------------------|--------------------|
| - other short-term financial assets   | 253                | 241                | 4 937              |
| - other securities                    | 75 000             | -                  | -                  |
| - loans granted                       | -                  | 13 572             | -                  |
| - cash                                | 45 842             | 45 512             | 60 074             |
| <b>b) deductions (In respect of)</b>  | <b>31 516</b>      | <b>1 750</b>       | <b>1 750</b>       |
| - stocks and shares                   | 25 243             | -                  | -                  |
| - loans granted                       | 4 523              | -                  | -                  |
| - write-down                          | 1 750              | 1 750              | 1 750              |
| <b>As of the end of the period</b>    | <b>179 541</b>     | <b>88 212</b>      | <b>68 655</b>      |

### 3. Ciech SA transactions with consolidated entities

#### List of transactions with consolidated entities as of 31.03.2006

| Name of the company  | Sales of goods and services | Purchase of goods and services | Other operating income | Financial income (interest) | Financial income (dividends) |
|--|-----------------------------|--------------------------------|------------------------|-----------------------------|------------------------------|
| 1. Agrochem Sp. z o.o. Dobre Miasto                          | -                           | 159                            | -                      | -                           | -                            |
| 2. Ciech-Polfa Sp. z o.o.                                    | 197                         | 69                             | 70                     | -                           | -                            |
| 3. Daltrade Plc.   | 5 167                       | -                              | -                      | -                           | -                            |
| 4. Elektrociepłownie Kujawskie Sp. z o.o.                    | 389                         | -                              | -                      | -                           | -                            |
| 5. Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. | 22 753                      | 1 712                          | -                      | 142                         | -                            |
| 6. Inowrocławskie Zakłady Chemiczne Soda Matwy SA            | 452                         | 76 483                         | -                      | -                           | -                            |
| 7. Janikowskie Zakłady Sodowe JANIKOSODA SA                  | 362                         | 81 550                         | -                      | -                           | -                            |
| 8. Polsin Pte. Ltd.  | 764                         | 23                             | -                      | -                           | -                            |
| 9. Przedsiębiorstwo Chemiczne Cheman SA                      | 5 290                       | 16                             | 70                     | 13                          | -                            |
| 10. Transoda Sp. z o.o.                                      | -                           | 3 009                          | -                      | -                           | -                            |
| 11. VITROSILICON SA  | 4 148                       | 11 144                         | -                      | -                           | -                            |
| 12. Zakłady Chemiczne "Alwernia" SA                          | 7 336                       | 4 499                          | -                      | 47                          | -                            |

#### List of transactions with consolidated entities as of 31.12.2005

| Name of the company   | Sales of goods and services | Purchase of goods and services | Other operating income | Financial income (interest) | Financial income (dividends) |
|---|-----------------------------|--------------------------------|------------------------|-----------------------------|------------------------------|
| 1. Agrochem Sp. z o.o. Dobre Miasto                           | -                           | 341                            | -                      | -                           | -                            |
| 2. CIECH-Polfa Sp. z o.o.                                     | 919                         | 342                            | 597                    | -                           | 290                          |
| 3. Daltrade Plc.  | 21 459                      | 2                              | -                      | -                           | -                            |
| 4. Elektrociepłownie Kujawskie Sp. z o.o.                     | 1 684                       | -                              | -                      | -                           | -                            |
| 5. Gdańskie Zakłady Nawozów Fosforowych "FOSFORNY" Sp. z o.o. | 64 155                      | 10 971                         | -                      | 359                         | 1 455                        |
| 6. Inowrocławskie Zakłady Chemiczne SODA MATWY SA             | 1 599                       | 313 239                        | -                      | 43                          | 2 033                        |
| 7. Janikowskie Zakłady Sodowe JANIKOSODA SA                   | 1 153                       | 334 682                        | -                      | 37                          | 6 658                        |
| 8. Petrochemia-Blachownia SA                                  | 54 263                      | 144 884                        | 3 735                  | -                           | 2 150                        |
| 9. Polsin Pte. Ltd.   | 1 060                       | 2 033                          | -                      | -                           | 251                          |
| 10. Przedsiębiorstwo Chemiczne Cheman SA                      | 36 928                      | 169                            | 1 166                  | 34                          | -                            |
| 11. Transoda Sp. z o.o.                                       | -                           | 8 215                          | -                      | -                           | -                            |
| 12. VITROSILICON SA   | 17 644                      | 36 224                         | -                      | -                           | 550                          |

|     |                                 |         |        |   |    |     |
|-----|---------------------------------|---------|--------|---|----|-----|
| 13. | Zakłady Chemiczne "Alwernia" SA | 101 763 | 17 413 | - | 52 | 303 |
|-----|---------------------------------|---------|--------|---|----|-----|

#### List of transactions with consolidated entities as of 31.03.2005

|     | Name of the company                                       | Sales of goods and services | Purchase of goods and services | Other operating income | Financial income (interest) | Financial income (dividends) |
|-----|---|-----------------------------|--------------------------------|------------------------|-----------------------------|------------------------------|
| 1.  | Agrochem Sp. z o.o. Dobre Miasto                          | -                           | 128                            | -                      | -                           | -                            |
| 2.  | CIECH-Polfa Sp. z o.o.                                    | 269                         | 77                             | 67                     | -                           | -                            |
| 3.  | Daltrade Plc.   | 5 440                       | -                              | -                      | -                           | -                            |
| 4.  | Elektrociepłownie Kujawskie Sp. z o.o.                    | 403                         | -                              | -                      | -                           | -                            |
| 5.  | Gdańskie Zakłady Nawozów Fosforowych "FOSFORY" Sp. z o.o. | 31 123                      | 2 158                          | -                      | -                           | -                            |
| 6.  | Inowrocławskie Zakłady Chemiczne SODA MAŁY SA             | 192                         | 78 652                         | -                      | -                           | -                            |
| 7.  | Janikowskie Zakłady Sodowe JANIKOSODA SA                  | 197                         | 83 366                         | -                      | -                           | -                            |
| 8.  | Petrochemia-Blachownia SA                                 | 9 965                       | 44 879                         | 88                     | -                           | -                            |
| 9.  | Polsin Pte. Ltd.  | 141                         | -                              | -                      | -                           | -                            |
| 10. | Przedsiębiorstwo Chemiczne Cheman SA                      | 6 843                       | -                              | 85                     | 67                          | -                            |
| 11. | Transoda Sp. z o.o.                                       | -                           | 2 041                          | -                      | -                           | -                            |
| 12. | VITROSILICON SA   | 4 135                       | 9 893                          | -                      | -                           | -                            |
| 13. | Zakłady Chemiczne "Alwernia" SA                           | 34 452                      | 3 935                          | -                      | -                           | -                            |

#### 4. Additional information of Ciech SA for Q1 ending on 31.03.2006

##### **Accounting policy applicable in development of the periodical report for Q1 ending on 31.03.2006**

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

Detailed information regarding principles and method of calculation of assets and liabilities and measurement of financial result as well as a method of development of financial statements and comparable data at CIECH SA was included in the introduction to the Annual Report developed as of 31 December 2005, publicly disclosed on 11 May 2006.

We would like to inform you that as of the tax year between 1 January 2006 and 31 December 2006, the Company has implemented a simplified method of advance payments in respect of corporate income tax. The Company accounts for a liability towards the Tax Office resulting from the actual tax calculation; a monthly flat rate of an advance payment in respect of the income tax is 440 000 PLN.

### **III. Statement of the Management Board**

This extended consolidated quarterly report of the Ciech Group for Q1 2006 was approved by the Company Management Board on 15 May 2006 at its registered office.

Warsaw, 15 May 2006

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

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

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

.....  
**Kazimierz Przełomski – CFO, Proxy of Ciech SA**