CIECH SPÓŁKA AKCYJNA

WARSAW, UL. PUŁAWSKA 182

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2010

WITH

CERTIFIED AUDITOR'S OPINION

AND

REPORT ON THE AUDIT

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REPORT ON CIECH S.A.'S ACTIVITIES FOR THE FINANCIAL YEAR 2010

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OPINION OF AN INDEPENDENT CERTIFIED AUDITOR

To the Shareholders and Supervisory Board of CIECH S.A.

We have audited the attached financial statements of CIECH S.A. with its registered office in Warsaw, at Puławska 182, including: statement of financial position as at December 31st, 2010, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows for the financial year starting on January 1st, 2010 and ending on December 31st, 2010 and notes including information about the adopted accounting policy and other notes.

The Company's Management Board is responsible for the preparation of financial statements and of the report on activities in accordance with the binding regulations.

The Management Board of the Company and the Members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities satisfy the requirements stipulated in the Accounting Act of September 29th, 1994 (Official Journal of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act".

Our task was to audit and express our opinion on the conformity of the financial statements with the accounting principles (policy) adopted by the Company, to evaluate whether the statements are a reliable and transparent reflection of the Company's economic and financial situation and its financial result as well as to assess the validity of accounting books which form the basis of these statements.

The audit of the financial statements was planned and conducted in compliance with:

- chapter 7 of the Accounting Act,
- national standards for certified auditors, published by the National Council of Statutory Auditors in Poland.

The audit of the financial statements was planned and conducted in a manner allowing us to obtain reasonable certainty and express our opinion on the statements. In particular, the audit assessed the correctness of the accounting principles (policy) applied by the Company and significant estimates as well as documents and accounting records (random assessment) which form the basis for figures and information included in the financial statements. Finally, the audit also included comprehensive evaluation of the financial statements. We believe that the audit was a sufficient basis for expressing our opinion.

In our opinion, the audited financial statements in all major aspects:

- present all information vital for the assessment of Company's economic and financial situation as at December 31st, 2010 as well as of its financial result for the financial year starting on January 1st, 2010 and ending on December 31st, 2010 in a reliable and transparent manner,
- has been prepared in accordance with the International Accounting Standards, the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and in all matters not regulated by these standards – in accordance with the provisions of the Accounting Act and secondary legislation thereto as well as on the basis of valid accounting books,
- is in conformity with the legal regulations having an impact on the content of financial statements and the Company's Articles of Association.

Without raising objections regarding the validity and reliability of the audited financial statements, we would like to draw attention to section 20.1 of Notes and explanations to financial statements in which the Company's Management Board described completed and planned restructuring activities pertaining to further improvement of economic ratios, including return and debt ratios for CIECH S.A. and the Ciech Capital Group.

The report on the Company's activities for the financial year 2010 is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance dated February 19th, 2009 on Current and Interim Information Provided by Issuers of Securities and the Conditions of Recognising as Equivalent Information Required by the Law Provisions of a Country which is not a Member State; the information included in the report is compliant with the audited financial statements from which it was directly taken.

Maria Rzepnikowska
Chief Certified Auditor
performing the audit,
ID 3499

representing persons

entity authorised to audit financial statements
entered onto the list of authorised entities kept
by the National Council of Statutory Auditors
under the no. 73

Warsaw, April 20th, 2011

SUPPLEMENTARY REPORT TO THE OPINION ON THE AUDIT OF FINANCIAL STATEMENTS OF CIECH S.A. FOR THE FINANCIAL YEAR 2010

I. GENERAL INFORMATION

1. Identification data of the audited Company

The Company operates under the business name CIECH Spółka Akcyjna. The Company's registered office is in Warsaw, at Puławska 182.

The Company conducts its activity as a joint stock company, formed with a notarial deed on May 30th, 1995 in the presence of the notary public Paweł Błaszczak in Warsaw (Register A No. 7513/95). The Company was entered in the Commercial Register kept by the District Court for the capital city of Warsaw, 16th Economic Registry Division in Warsaw, in section B under the RHB (Commercial Register) number 44655. Currently, the Company is entered into the register of companies kept by the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under the KRS (National Court Register) number 0000011687.

The Company is the holder of NIP (tax identification number): 118-00-19-377 assigned by the Tax Office Warsaw Żoliborz on June 15th, 1993.

On December 19th, 2001 the Statistical Office granted the Company its REGON (state statistical number): 011179878.

The Company operates in compliance with the Code of Commercial Companies.

In accordance with the Company's Articles of Association, its objectives are:
- agents involved in the sale of fuels, ores, metals and industrial chemicals,
- agents specialised in the sale of other particular products,
- agents involved in the sale of a variety of goods,
- wholesale of pharmaceutical goods,
- wholesale of fuels and related products,
- wholesale of chemical products,
- wholesale of other intermediate products,
- non-specialised wholesale trade,
- cargo handling in sea ports,
- cargo handling in inland ports,
- cargo handling in other points,
- warehousing and storage,
- other credit granting,
- other financial service activities, except insurance and pension funding n.e.c.,
- buying and selling of own real estate,
- renting and operating of own or leased real estate,
- legal activities,
- market research and public opinion polling,
- business and other management consultancy activities,
- activities of head offices and holdings, excluding financial holdings,
- other professional, scientific and technical activities n.e.c..

In the audited period the Company's objectives were the sale of chemicals on the domestic market, export and import of chemical industry products.

The Company's share capital registered in the National Court Register as at December 31st, 2010 amounted to PLN 140,001 thousand, and was divided into 28,000,000 shares of face value of PLN 5 each. The initial capital, recognised in the financial statements, as at December 31st, 2010 amounted to PLN 164,115 thousand and differed from the registered one by the results of hyperinflation.

As at December 31st, 2010, the Company's shareholders holding at least 5% of shares in the share capital included:

- The State Treasury - 36.68% of shares,
- Pioneer FIO and SFIO of Telekomunikacja Polska (together) managed by Pioneer Pekao Investment Management S.A. - 16.51% shares,
- Otwarty Fundusz Emerytalny (Open Pension Fund) PZU "Złota Jesień" - 6.12% shares,

There were no changes regarding the Company's share capital in the audited period.

The following changes in the Company's share capital occurred after the balance sheet day:

On October 28th, 2010, the Extraordinary General Meeting of CIECH S.A. decided to increase the share capital of the Company by not less than PLN 5 and not more than PLN 115,000,000, up to an amount not greater than PLN 255,001,420 by issuing not fewer than 1 and not more than 23,000,000 ordinary bearer shares series D with face value of 5 PLN each. Share subscriptions within the subscription right and additional subscriptions were completed on February 16th, 2011, the allocation of shares was performed on February 25th, 2011. Consequently, the company issued 23,000,000 ordinary bearer shares of PLN 5 each.

On March 14th, 2011, the District Court for the capital city of Warsaw in Warsaw, 13th Economic Division of the National Court Register registered the raise of Company's share capital and amendments of the Company's Articles of Association and registered the raise of Company's share capital from PLN 140,001,420 to PLN 255,001,420 by way of issuance of 23,000,000 ordinary bearer shares Series D with face value of PLN 5 each.

The Company's equity as at December 31st, 2010 amounted to PLN 490,898 thousand.

The financial year for the Company is the calendar year.

Company's related entities include its subsidiaries and affiliates.

As at the date of giving the opinion, the Management Board of the Company comprised:

- Ryszard Kunicki - President of the Management Board,
- Artur Osuchowski - Member of the Management Board,
- Rafał Rybkowski - Member of the Management Board,
- Andrzej Bąbaś - Member of the Management Board.

The following changes concerning the Company's Management Board occurred in the audited period:

On June 21st, 2010, new Members of the Management Board were appointed for the following joint term in office

- Rafał Rybkowski - Member of the Management Board,
- Andrzej Bąbaś - Member of the Management Board.

On September 23rd, 2010 Mr Marcin Dobrzański, a Member of the Management Board of CIECH S.A. filed a resignation from his position effective from September 27th, 2010.

Mr Robert Bednarski, who had been Member of the Management Board up until now, was not appointed for the following joint term in office.

The aforesaid changes were reported and entered in the relevant court register.

2. Information on the financial statements for the previous financial year

The Company's activity in 2009 presented a net loss of PLN 125,767 thousand. The Company's financial statements for the financial year 2009 were subject to audit by a certified auditor. The audit was conducted by the authorised entity Deloitte Audyt Sp. z o.o. On April 28th, 2010, the certified auditor issued an unqualified opinion on these statements, attention was paid to:

1. The Company's financial situation described in section 21.1 of Notes and explanations to the financial statements in which the Management Board explained the reasons for the decrease of profitability and liquidity, the level of working capital and the debt level.
   The Management Board believes that the granting of a consortium loan and the measures described in this section will ensure improvement of the Company's financial situation and its going concern at the same or similar level in the foreseeable future. Therefore, the Management Board believes that the risks linked to CIECH S.A.'s uncertain financial situation will be diminished.
2. Section 37 of Notes and explanations to the financial statements in which the Management Board informed about the error made in the statements for 2008. The error resulted from incorrect application of IAS 39, leading to the distortion of the financial result and of the cash flow hedge. In the financial statements for 2009, the Management Board re-examined the concluded derivative transactions for compliance with the International Financial Reporting Standards and decided to adjust the financial statements in accordance with the principles included in IAS 8.

The General Meeting which approved the financial statements for the financial year 2009 was held on June 21st, 2010. The General Meeting decided to cover whole net loss for 2009, amounting to PLN 125,767 thousand, from the Company's supplementary capital.
Pursuant to the provisions of law, the financial statements for the financial year 2009 were filed with the National Court Register on July 5th, 2010 and submitted for publishing in the official gazette Monitor Polski "B" on July 5th, 2010. The statements were published in Monitor Polski "B" no. 1672 on September 13th, 2010.

3. Identification data of the authorised entity and the chief certified auditor who conducted the audit on its behalf

The audit of the financial statements was conducted pursuant to the agreement of July 7th, 2010 between CIECH S.A. and Deloitte Audyt Sp. z o.o., a company with registered office in Warsaw, al. Jana Pawła II 19, entered in the register of entities authorised to audit financial statements, kept by the National Chamber of Statutory Auditors, under the number 73. On behalf of the authorised entity, the audit of the financial statements was conducted under the supervision of a chief certified auditor Maria Rzepnikowska (ID 3499) in the Company's office between October 18th to 29th, 2010 and between February 7th to 18th, 2011, as well as outside the Company's office, between February 21st, 2011 and the day of issuing hereof.

The entity authorised to audit the financial statement was selected by the Supervisory Board by way of a resolution of June 11th, 2010 based on the authorisation included in Art. 21 of the Company's Articles of Association.

Deloitte Audyt Sp. z o.o. and the chief certified auditor Maria Rzepnikowska confirm that they are authorised to audit financial statements and satisfy the requirements defined in Art. 56 of the law on certified auditors and their professional self-government, entities entitled to audit financial statements and public supervision (Official Journal of 2009, No. 77, item 649) to express an unbiased and independent opinion about the financial statements of CIECH S.A.

4. Data accessibility and the Management Board's statements

No restrictions or limitations related to the scope of our audit occurred.

All the required documents and data were made available to the authorised entity and the chief certified auditor during the audit; moreover, they were provided with exhaustive information and explanations, which was confirmed by the Company's Management Board in its written statement of April 20th, 2011.

II. FINANCIAL AND ECONOMIC POSITION OF THE COMPANY

Below, we present basic items from the income statement and financial ratios which describe the Company's financial result, its financial and economic position in comparison with the corresponding values for the previous year.

Basic values from the income statement (in PLN '000)	2010	2009
Sales revenue	2,222,233	1,901,077
Costs of operating activities	2,098,111	1,738,506
Other operating revenue	26,845	5,979
Other operating costs	17,372	21,411
Financial revenue	94,970	96,412
Financial expenses	219,857	357,106
Income tax	13,746	12,212
Net profit (loss)	(5,038)	(125,767)
Total comprehensive income	(26,198)	(72,254)

Return ratios	2010	2009
-return on sales (operating profit (loss)/ sales revenue)	6.0%	7.7%
-net return on sales (net profit (loss) / sales revenue)	-0.2%	-6.6%
- net return on equity (net profit (loss) / (equity – net profit (loss))	-1.0%	-19.6%
Efficiency ratios		
- asset turnover (sales revenue / total assets)	0.92	0.96
- receivables turnover in days (average level of trade receivables net x 365 days/ sales revenue)	45	54
- liabilities turnover in days (average level of trade liabilities net x 365 days/	66	64
costs of operating activities)	5	5
- inventory turnover in days - (average inventory x 365 days/cost of operating activities)		
Liquidity/Net working capital		
- debt rate (total liabilities / total equity and liabilities)	79.8%	73.8%
- equity to assets ratio (equity / total assets)	20.2%	26.2%
- net working capital (in PLN '000) (total current assets – current liabilities)	(697,295)	(453,366)
- liquidity ratio (total current assets / current liabilities)	0.56	0.53
- increased liquidity ratio ((total current assets – inventories) / current liabilities)	0.55	0.51

The analysis of the aforementioned values and ratios indicates the following tendencies in 2010:

- decrease in return on sales with simultaneous increase in net return on sales and net return on equity,
- decrease of assets and liabilities turnover in days with a simultaneous increase in liabilities turnover in days. Inventories turnover without change,
- increase in the debt rate,
- further decrease of net value of working capital which remained negative,
- retention of Company's liquidity on a low level, as in the previous year.

III. DETAILED INFORMATION

1. Accounting system assessment

The Company possesses documentation required in compliance with art. 10 of the Accounting Act of September 29th, 1994 (Official Journal of 2009 No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act", in particular, documentation referring to: establishment of the financial year and reporting periods which constitute it, evaluation methods regarding assets and liabilities as well as determining financial result, the manner of conducting accounting books, data protection system. The accounting documentation was prepared in compliance with the Accounting Act and, with regards to evaluation of assets and liabilities and the presentation of the financial statements, in compliance with IFRS. It was approved and has been applied since January 1st, 2007 pursuant to an Ordinance No. 11 of the President of the Management Board of CIECH S.A. of July 20th, 2007. Basic principles regarding the evaluation of assets and liabilities and the measurement of financial result have been presented in Notes to the financial statements.

The accounting principles which, in accordance with IFRS, the Company may select have been selected in a manner which provides a proper reflection of the Company's specificity, its financial position and earned financial results. These principles have been applied in a coherent manner and were not altered with relation to principles applied in conducting accounting books and drawing up the financial statement in the previous year.

The Company owns a computer accounting system Oracle Financials which is used to record all business events, with the exception of calculating salaries and related expenses which is done by means of a HR and payroll system TETA. The Oracle Financials system is secured against unauthorised access by passwords and functional limited access. IT system description meets the requirements of Art. 10.1.3(c) of the Accounting Act.

The opening balance is derived from the approved financial statements for the previous financial year and was properly recorded in accounting books for the audited period.

As regards the audited area, the documentation of business operations, accounting books and the relation between accounting records and documents and financial statements satisfy the requirements of chapter 2 of the Accounting Act.

Accounting books, accounting evidence, documentation regarding the adopted accounting policy and approved financial statements of the Company are all stored in conformity with chapter 8 of the Accounting Act.

The Company completed the inventory-taking of assets and liabilities within the scope and deadlines and with the frequency imposed by the Accounting Act. Inventory differences were recognised and accounted for in books for the audited period.

2. Information on the audited financial statements

The consolidated financial statements were prepared as at December 31st, 2010 and include:

- statement of financial position as at December 31st, 2010, presenting the total balance of assets and liabilities in the amount of PLN 2,424,578 thousand,
- income statement for the period from January 1st, 2010 to December 31st, 2010, presenting net loss of PLN 5,038 thousand,
- statement of comprehensive income for the period between January 1st, 2010 and December 31st, 2010, presenting a negative total comprehensive income in the amount of PLN 26,198 thousand,

- statement of changes in equity for the period between January 1st, 2010 and December 31st, 2010, presenting a decrease in equity by PLN 26,198 thousand,
- cash flow statement, presenting a decrease in cash in the period between January 1st, 2010 and December 31st, 2010, presenting a decrease in cash by PLN 12,805 thousand,
- Notes providing information on the adopted accounting policy and other notes.

The structure of assets and liabilities, as well as of the items influencing the financial result are presented in the financial statements.

3. Information about selected significant items in the financial statements

Tangible fixed assets

The tangible fixed assets of the Company include:
- fixed assets – PLN 7,187 thousand,
- fixed assets under construction – PLN 1,591 thousand.

Notes provide a valid description of changes in fixed assets and fixed assets under construction, including the disclosure of potential write-downs on the aforesaid assets.

Long-term investments

Long-term investments of the Company include:
- investment property – PLN 3,630 thousand,
- shares of related entities – PLN 920,383 thousand,
- borrowings granted to related entities – PLN 525,702 thousand,
- investments in bank deposits – PLN 15,841 thousand.

Notes provide a valid description of changes in investments during the financial year.

Structure of inventories

The structure of inventories was appropriately presented in the note on this item in the statement of financial position.

Structure of receivables

The age structure of trade receivables was appropriately presented in the note on this item in the statement of financial position. The audited sample contained neither aged nor redeemed receivables.

Liabilities

The duration and type structure of liabilities by repayment period was appropriately presented in the note on this item in the statement of financial position. Largest values under Company's liabilities include:

- non-current liabilities due to the issue of debt securities – PLN 299,936 thousand,
- other non-current liabilities due to assignment of claims – PLN 33,170 thousand,
- current loans and borrowings and liabilities due to other debt instruments amounting to PLN 1,167,117 thousand, including liabilities due to loans and borrowings of PLN 1,166,435 thousand,
- trade and other liabilities – PLN 423,568 thousand.

Detailed description of raised loans and borrowings together with description of corresponding hedging was disclosed in Notes. The audited sample contained neither aged nor redeemed liabilities.

Prepayments and accruals and provisions for liabilities

Notes regarding prepayments and accruals and provisions for liabilities provide valid description of their structure. Costs and revenue settled in time were appropriately categorised with relation to the audited financial year. Provisions for liabilities were based on reliable estimates. Items were recognised in a comprehensive and valid manner in essential aspects with reference to the whole financial statements.

4. Justification for the opinion given

Regarding the separate financial statements of CIECH S.A. as at December 31st, 2010, we have passed an unqualified opinion; attention was paid to section 20.1 of Notes and explanations to financial statements in which the Management Board described completed and planned restructuring activities pertaining to further improvement of economic ratios, including return and debt ratios for CIECH S.A. and the Ciech Capital Group.

5. Completeness and correctness of the preparation of Notes and explanations and the Report on the Company's activities

The Company confirmed the validity of the going concern principle while preparing the financial statements. The principles of valuation of assets and liabilities, measurement of the financial result and the way of preparing the financial statements were correctly and fully described in the Notes.

For individual assets indicated in the statement on financial position the possibility of using them was presented due to the hedging for the benefit of creditors. Notes provide a full description of accounting items and a clear presentation of other information required by IFRS.

The Management Board prepared and attached to the financial statements a report on the Company's activities in the financial year 2010. The report on the activities includes the information required by Art. 49.2 of the Accounting Act and the Ordinance of the Minister of Finance dated February 19th, 2009 on current and periodic information published by issuers of securities and the conditions of recognising as equivalent the information required by the law provisions of a country which is not a member state. We have examined this report within the scope of information disclosed in it, for which the direct source is the audited financial statements.

IV. FINAL REMARKS

Management Board's statement

Deloitte Audyt Sp. z o.o. and the chief certified auditor received from the Company's Management Board a written statement in which the Management Board declares that the Company has observed the provisions of law.

Maria Rzepnikowska
Chief Certified Auditor
performing the audit,
ID 3499

representing persons

entity authorised to audit financial statements entered onto the list of authorised entities kept by the National Council of Statutory Auditors under the no. 73

Warsaw, April 20th, 2011

GENERAL INFORMATION

Management Board
Ryszard Kunicki
Andrzej Bąbaś
Artur Osuchowski
Rafał Rybkowski

Supervisory Board
Ewa Sibrecht-Ośka
Jacek Goszczyński
Krzysztof Salwach
Sławomir Stelmasiak
Przemysław Cieszyński
Arkadiusz Grabalski
Waldemar Maj

Registered office of the Company
ul. Puławska 182
02-670 Warsaw
Poland

Certified auditor
Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-854 Warsaw
Poland

Dear Shareholders and Investors

Year 2010 was full of challenges for the Ciech Group, we conducted a restructuring process, built a new long-term financing structure and began working on increasing capital. I am very happy to say that this was a successful year. Not only did we face these challenges but we also significantly improved the Group's financial results.

The Company's greatest successes include carrying out the majority of initiatives included in the Group's Restructuring Plan for years 2011-2015 and preparing the new financing structure. Having consolidated its debt and obtained shareholders' consent for raising capital, already at the beginning of 2011, the Company has guaranteed stable financing for the coming 5 years.

In 2010, the Management Board was determined to implement the Group's Restructuring Plan, which has been prepared on the basis of a recommendation from a renowned advisory company – PwC Poland. It assumes an introduction of a range of activities aimed at basing the Group's future on two major divisions (Soda and Organic) and improvement of the financial situation, partial repayment of the debt as well as increasing the Group's potential.

Within these activities, long before the set deadline, we conducted the most important divestments, which ensured the Group the means to repay its debt and brought order to its structure. All this has made Ciech a much more efficient company than a year before.

We have reached agreement with Gothaer Insurance Group regarding the sale of shares of Polskie Towarzystwo Ubezpieczeniowe. A 45.42% block was sold for an amount which exceeds marked expectations – PLN 131.4 million. We have also made a significant profit on the disposal of Group's other non-core assets, such as the property at Powązkowska 46/50 in Warsaw sold for a total of PLN 23.8 million, Elzab SA shares sold for PLN 6 million, Ciech Service shares sold for PLN 3.1 million, or the excess EUA allowance of Soda Poland Ciech Sp. z o.o. sold for PLN 18.1 million. Moreover, at the end of the year we entered into an agreement with Zakłady Azotowe Puławy SA regarding the sale of 89.46% of shares in Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. According to the provisions of this agreement, the forecasted net price for this block will reach approx. PLN 107 million. In addition, the Company in Puławy will have to repay loans granted by Ciech S.A. to the Fosfory Group companies amounting to PLN 120.6 million. Together with proceeds from other restructuring initiatives and received subsidies amounting to PLN 57.1 million, the forecasted proceeds and savings on the restructuring carried out in the year 2010 will exceed PLN 508 million.

Furthermore, in the last quarter of 2010, the Extraordinary General Meeting approved the decision of the Management Board to raise capital for development and further restructuring of the Group. Today, we know that we have successfully carried out this process which is the key to the future of the Ciech Group. The completed public offer provided us with PLN 441.6 million.

The economic situation of the chemical industry improved last year. We noted an increase in sales volumes of major products. This translated into increased revenue of the Group, rising to a record level of PLN 3.96 billion, compared to PLN 3.68 billion in the previous year.

In 2011, our efforts will be concentrated on continuing restructuring processes and implementing the main strategic goal – development of the Group through investments in key divisions: Soda and Organic. These are aimed at, among others, reducing production costs, increasing production capacity and improving the quality and competitiveness of main products. Total expenses on Group's physical investments in years 2011-2015 will amount to approx. PLN 1.2 billion.

I am certain that in the coming years the Ciech Group will keep improving its market position and increasing profitability, which will lead to a growth in the Company's and Group's goodwill. Having completed the planned investment and restructuring activities, the Ciech Group will become one of the most attractive entities in the Polish chemical industry and increase its value for present and future shareholders.

Yours faithfully,

Ryszard Kunicki
President of the Management Board of CIECH S.A.

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Report on CIECH S.A.'s Activities in 2010

1 Characteristics of CIECH S.A.

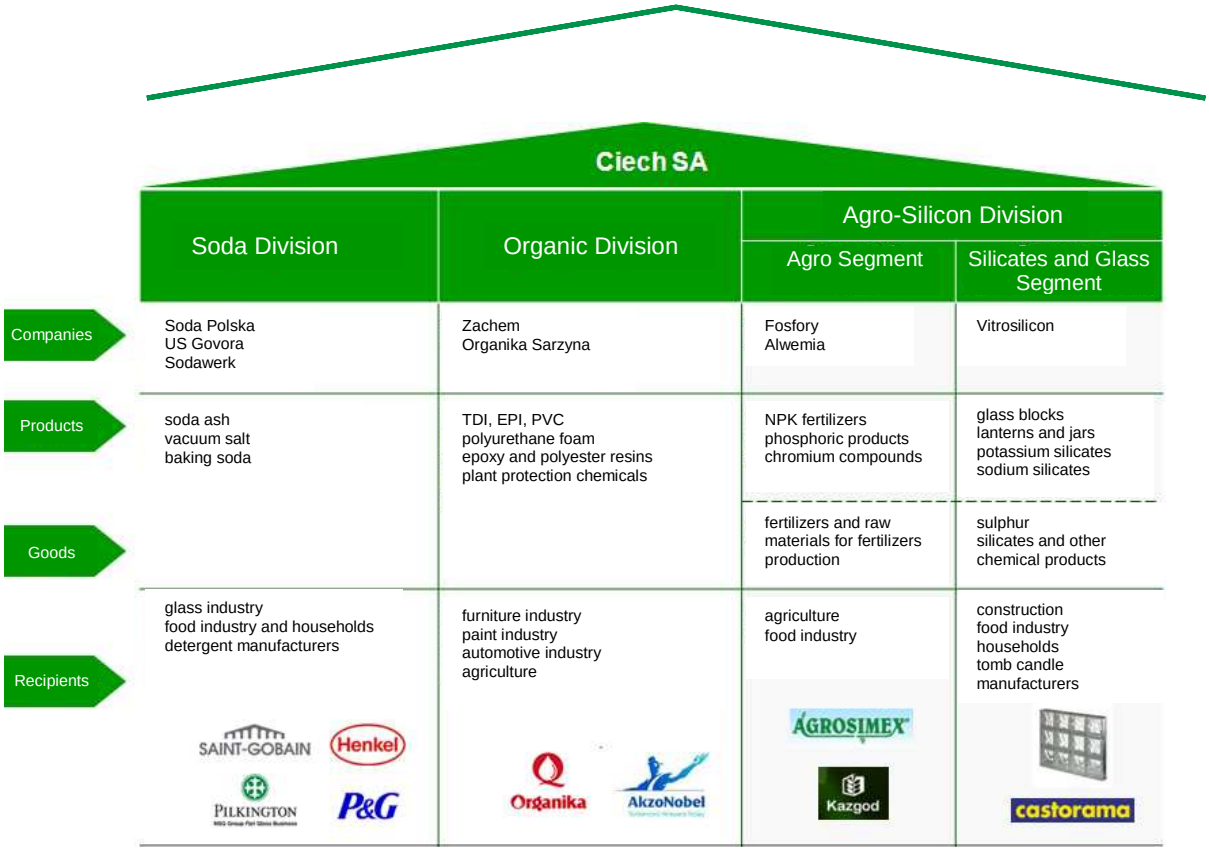
CIECH S.A. is the parent company of the Ciech Group, which includes 49 subsidiaries. CIECH S.A. manages the Capital Group, manages the deliveries of raw materials and the sales of products of its subsidiaries and the goods of other manufacturers.

The Ciech Group's business consists in manufacturing chemical products. Sales are managed mainly by CIECH S.A. as well as domestic and foreign trading and manufacturing companies which are CIECH S.A.'s subsidiaries. Manufacturing companies whose products are sold by Ciech S.A. include Soda Polska Ciech sp. o.o., Zachem S.A., Organika Sarzyna S.A., Fosfory sp. z o.o., Z.Ch Alwernia S.A. and Vitrosilicon S.A.

CIECH S.A. sells chemicals on the domestic market and plays a significant role in foreign trade in the export and import of chemical products. The main products sold by CIECH S.A. in 2010 on the Polish market were: soda ash, isocyanates (TDI), artificial fertilizers, resins, plastics, plant protection chemicals, glass blocks and glass packaging, salt and other chemicals. Main exported products included: soda ash, TDI, phosphate fertilizers, sulphur, plastics, resins, phosphorus compounds, sodium silicate and pharmaceuticals. The biggest market were the EU Member States.

The strategic and operating objectives are accomplished by the Corporate Centre and Divisions. The Corporate Centre concentrates on managing goodwill and finance, controlling, preparing strategies, managing corporate image, etc. Operating activity is managed by three Divisions: Soda, Organic, and Agro-Silicon. The divisions are responsible for strategy operationalisation and financial results. The key processes implemented in the divisions include sale, purchase, supplies, product development. Production is located in manufacturing facilities/companies.

Figure 1.1. Division Structure of CIECH S.A.



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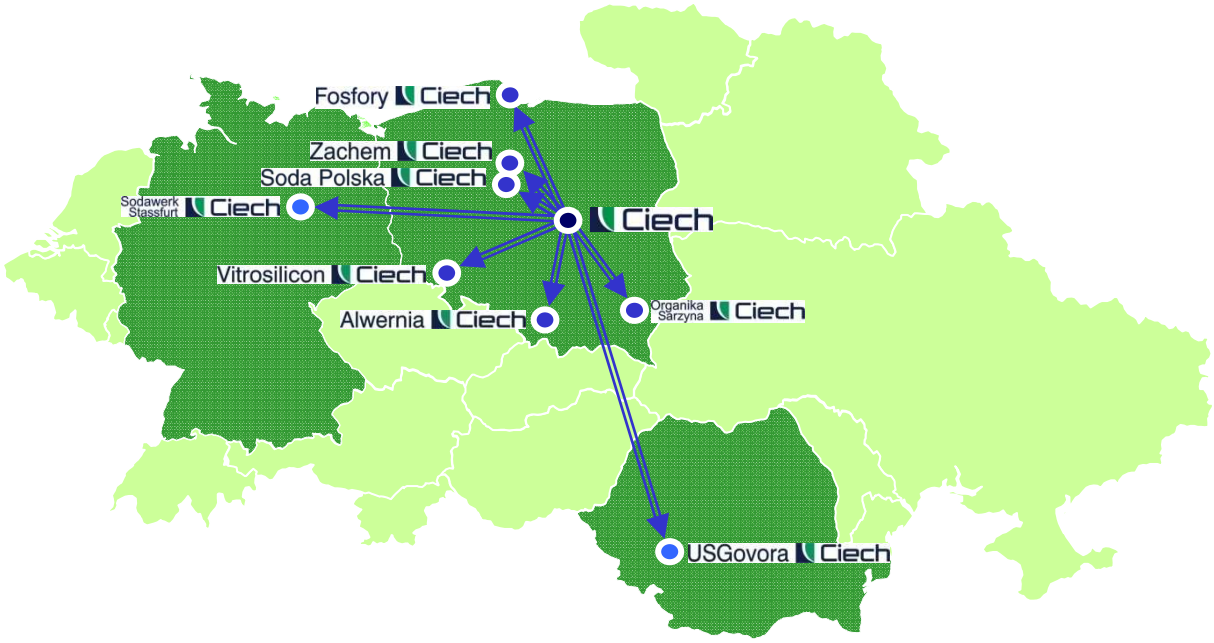


CIECH S.A. does not operate any branches.

2 Major achievements of CIECH S.A.

- On March 30th, 2010, CIECH S.A. signed an annex to a long-term contract for the years 2002-2010, concluded on September 6th, 2002 between CIECH S.A. and a Moroccan customer, Maroc Phosphore S.A., regulating the sale terms for sulphur in 2010. In 2010, the contractual value is approx. USD 35,000 thousand (approx. PLN 100,000 thousand). The domestic supplier is the company KiZChS Siarkopol S.A. The information was announced in Current Report no. 11 of April 2nd, 2010.
- On January 5th, 2010, CIECH S.A. singed an agreement with the State Treasury regarding the amendment of terms of purchase of the Remaining Shares held in Z.Ch."Organika Sarzyna" S.A. and ZACHEM S.A. by the State Treasury, as specified in the Offering. Under the Agreement, the revaluation period was extended by another 12 months and it ended on December 20th, 2010, whereby the revaluation rate in the extended period was increased by an additional 2 percentage points.
- On April 1st, 2010, CIECH S.A. received a letter from the District Court in Hamburg, dated March 15th, 2010, stating that its subsidiary, Chemiepetrol GmbH (in liquidation), with its registered office in Hamburg, registered under the number HRB 33084 in Commercial Register “B”, was cancelled from the Commercial Register by way of decision of the District Court in Hamburg of March 15th, 2010. This information was announced in Current Report no. 9 of April 1st, 2010.
- On April 22nd, 2010, CIECH S.A. sold in block transactions 2,560,000 series B shares in Zakłady Azotowe w Tarnowie-Mościcach S.A. The transaction proceeds amounted to PLN 41,600 thousand. After completing the aforesaid transactions, CIECH S.A. does not hold any shares in Zakłady Azotowe w Tarnowie-Mościcach S.A. This information was announced in Current Report no. 14 of April 22nd, 2010.
- On June 8th, 2010 CIECH S.A. received information from the German Trade Registry in Stendal regarding the registration of increased share capital of the company Soda Deutschland Ciech GmbH by EUR 1,500 thousand. The share capital of the German holding company after the increase equalled EUR 16,525 thousand, CIECH S.A. holds 100% of shares in the company's share capital. The information was announced in Current Report no. 23 of June 8th, 2010.
- On June 11th, 2010, the CIECH S.A. Supervisory Board adopted a resolution on selecting the company Deloitte Audyt Sp. z o.o. with its registered office in Warsaw, Al. Jana Pawła II 19,entered into the register of entities authorised to audit financial statements, kept by the National Council of Statutory Auditors, under the number 73, as a certified auditor, to conduct an assessment of the financial statements of CIECH S.A. and the financial statements of the Ciech Group for the financial year 2010. The information was announced in Current Report no. 24 of June 11th, 2010.
- On June 21st, 2010, in connection with the expiration of the CIECH S.A. Management Board's term of office, the Annual General Meeting of CIECH S.A. appointed the Management Board to the common term of office composed of:

2 Major achievements of CIECH S.A. (continued)

Ryszard Kunicki – President of the Management Board
Artur Osuchowski – Member of the Management Board
Marcin Dobrzański – Member of the Management Board
Rafał Piotr Rybkowski – Member of the Management Board
Andrzej Bąbaś – Member of the Management Board.

On June 21st, 2010, the Annual General Meeting of CIECH S.A. dismissed the following Members of the CIECH S.A. Supervisory Board:

- Grzegorz Kłoczko,
- Marzena Okła-Anuszewska

At the same time, the following persons were appointed to the CIECH S.A. Supervisory Board:

- Przemysław Cieszyński,
  Arkadiusz Grabalski,
  Waldemar Tadeusz Maj.

- On September 23rd, 2010 Mr Marcin Dobrzański, a Member of the Management Board of CIECH S.A. filed a resignation from his position effective from September 27th, 2010.

- On October 11th, 2010 CIECH S.A. and Nafta Polska S.A. in liquidation signed annexes to the agreement regarding the sale of ZACHEM S.A. shares and to the agreement regarding the sale of Z.CH. "Organika-Sarzyna" S.A. shares of March 29th, 2006. The key provisions of the annex to the agreement regarding the sales of ZACHEM S.A. shares extend the realisation period for guaranteed investments by three years for three investment tasks, i.e. electrolysis conversion, implementation of new EPI technology, increase of TDI production capacity to 90 thousand tons p.a. The annex to the agreement regarding the sales of Z.Ch. "Organika-Sarzyna" S.A. shares of March 29th, 2006 extends the realisation period for guaranteed investments by two years for one investment task, i.e. the construction of a production installation of the active substance MCPA with accompanying infrastructure. The information was announced in Current Report no. 52 of October 12th, 2010.

- On November 9th, 2010, in connection with fulfilling the conditions precedent and making payment to the benefit of CIECH S.A., the ownership of 100% shares in the company Ciech-Service Sp. z o.o. was transeferred from CIECH S.A. to SOTRONIC Sp. z o.o. The total share sale price amounted to PLN 3,102 thousand. The information was announced in Current Report no. 64 of November 10th, 2010.

- On December 9th, 2010 an agreement was concluded by virtue of which CIECH S.A. disposed to the benefit of MARVIPOL S.A. of the right to the perpetual usufruct of a land plot of a total area of 1.1876 ha located in Powązkowska Street in Warsaw and the ownership of the office building located on this plot. The sale price amounted to PLN 23,794 thousand. The information was announced in Current Report no. 68 of December 9th, 2010.

- On December 16th, 2010 an agreement regarding the sale of shares in a subsidiary GZNF "FOSFORY" Sp. z o.o. was signed. The parties to this agreement are Zakłady Azotowe "Puławy" (the Buyer) and CIECH S.A. The subject of the agreement was the sales to the Buyer of 51,855 shares, which constitutes 89.46% of the share capital of Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o., effective on the Closing Day, i.e. the second business day after the day when the last party to the Agreement is informed about the fulfilment of the last condition precedent of the agreement, or a different day as agreed by the parties, which shall be null and void unless made in writing. The book value of GZNF "FOSFORY" Sp. z o.o. shares as at December 31st, 2010 is PLN 20,888 thousand. The parties agreed the forecasted share purchase price as PLN 107.2 million on the basis of the estimated Value of the Fosfory Company less the estimated Forecasted Value of the Net Financial Debt. The forecasted price shall be adjusted accordingly, depending on the value of the Net Financial Debt as at the sales transaction Closing Day. An important element of the transaction is the repayment by the Buyer of the loans granted by CIECH S.A. to Fosfory Group companies. The current and forecasted for the transaction closing day loan was PLN 120.6 million. The information was announced in Current Report no. 71 of December 16th, 2010.

- On December 29th, 2010, in connection with the implementation of the agreement on the sales of PTU S.A. shares by subsidiaries of CIECH S.A. (Janikowskie Zakłady Sodowe JANIKOSODA S.A. with its registered office in Janikowo, Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A. with its registered office in Inowrocław), loan agreements were entered into between CIECH S.A. (the Borrower) and:
  - Janokowskie Zakłady Sodowe Janikosoda S.A. (the Lender), regarding an amount of PLN 56,691,553,
  - Inowrocławskie Zakłady Chemiczne Soda Mątwa S.A. (the Lender),
    regarding an amount of PLN 57,188,447.

2 Major achievements of CIECH S.A. (continued)

The loans were advanced on December 30th, 2010. The borrowed resources will be used to reduce the debt from the Loan Agreement of. April 26th, 2010 and to finance the Borrower's working capital. The maturity date of these loans was set to December 26th, 2011. The information was announced in Current Report no. 73 of December 29th, 2010.

- On January 22nd, 2010, a group of 8 banks (Bank DNB Nord Polska S.A., Bank Handlowy w Warszawie S.A., Bank Millennium S.A., Bank Polska Kasa Opieki SA, BRE Bank SA, ING Bank Śląski SA, Powszechna Kasa Oszczędności Bank Polski S.A. and Citibank Europe Plc. Dublin – Romania Branch – being parties to the Status Quo Agreement) concluded a settlement extending the said agreement until February 28th, 2010. By this date, also the separate statements, discussed in Current Report no. 31/2009, were made by the banks: Calyon S.A. Branch in Poland, BNP Paribas S.A. Branch in Poland and Fortis Bank Polska S.A. Maturity date of the financing obtained by CIECH S.A. and Ciech Group companies from Bank Ochrony Środowiska S.A., HSBC Bank Polska S.A., Kredyt Bank S.A. and Bank BPH S.A. has been kept to February 28th, 2010 at the earliest.

- On January 20th, 2010, CIECH S.A. submitted to 15 banks the Statement of analogous wording as the statement described in Current Report no. 31/2009 dated August 14th, 2009. The submitted Statement will be valid until: (i) March 1st, 2010, or (ii) expiry of the Status Quo Agreement, whichever is earlier.
  Extension of the Statement and of the Status Quo Agreement allowed for a continuation and completion of the works related to establishing a new financing structure. The information was announced in Current Report no. 3 of January 22nd, 2010.

- On February 25th, 2010, it was reported that all conditions precedent to implementing the agreement changing the loan agreement of January 23rd, 2008 by and between Soda Deutschland Ciech GmbH (“SDC”), Sodawerk Staßfurt GmbH &Co. KG (hereinafter referred to as: “SWS KG”, “Company”) and Sodawerk Stassfurt Holding GmbH, and the bank COMMERZBANK Aktiengesellschaft were satisfied. The amended agreement was concluded on December 10th, 2009 and it comes into force as of February 26th, 2010. The value of the loan agreement currently in force amounts to EUR 63 million. To secure a portion of the loan, CIECH S.A. issued a corporate guarantee of up to EUR 25 million and a Sponsor’s Letter of Undertaking was signed, which includes CIECH S.A.’s obligations to: cover potential deficits of cash in SWS KG and Sodawerk Stassfurt Holding GmbH over the entire duration of the loan, convert EUR 70 million of the subordinated borrowing granted to SDC by CIECH S.A. to capital within 6 months of signing the Sponsor’s Letter of Undertaking (the obligation may be waived, if CIECH S.A. discloses negative tax effects from the conversion for the SDC Group). The final loan repayment date was extended from December 31st, 2012 to September 30th, 2014. SWS KG is CIECH S.A.’s subsidiary, controlled by a special-purpose company, Soda Deutschland Ciech GmbH, in which CIECH S.A. holds 100% of the capital. SWS KG manufactures light and dense soda ash and baking soda. The information was announced in Current Report no. 5 of February 25th, 2010.

- With regard to Current Reports no. 31/2009 of August 14th, 2009, no. 42/2009 of November 2nd, 2009 and no. 44/2009 of December 16th, 2009 and no. 3/2010 of January 22nd, 2010, the Management Board of CIECH S.A. informs that on March 5th, 2010 it was informed about the signing by a group of 8 banks (Bank DNB Nord Polska S.A., Bank Handlowy w Warszawie S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Citibank Europe plc Dublin – Romania Branch) of an extension of the Status Quo Agreement until March 15th, 2010. By this date, also the separate statements discussed in Current Report no. 31/2009 and made by the banks: Calyon S.A. Branch in Poland, BNP Paribas S.A. Branch in Poland and Fortis Bank Polska S.A. The maturity of the funding granted to CIECH S.A. and to the CIECH Group companies by Bank Ochrony Środowiska S.A., HSBC Bank Polska S.A., Kredyt Bank S.A. and Bank BPH S.A. has been maintained until March 15th, 2010 at the earliest. On March 4th, 2010, CIECH S.A. submitted to 15 banks the Statement of analogous wording as the statement described in Current Report no. 31/2009 dated August 14th, 2009. The submitted Statement will be valid until: (i) March 16th, 2010, or (ii) expiry of the Status Quo Agreement, whichever is earlier. Submission of the Statement and signing of the Status Quo Agreement by the banks allowed for completing works related to establishing a new financing structure in the Group. Correspondingly, on March 16th, 2010, the Status Quo Agreement was extended until March 31st, 2010, on April 1st until April 16th, 2010 and on April 20th, 2010 until April 26th, 2010. The information was announced in Current Reports no. 6 of March 5th, 2010, no.7 of March 16th, 2010, no. 10 of April 1st, 2010 and no. 13 of April 20th, 2010.

- On April 26th, 2010 a loan agreement was signed between, among others: CIECH S.A. as the Borrower and its subsidiaries as the Guarantors (Agrochem Sp. z o.o. with its registered office in Człuchów,

2 Major achievements of CIECH S.A. (continued)

- Agrochem sp. z o.o., with its registered office in Dobre Miasto, JZS Janikosoda S.A., IZCh Soda Mątwy S.A., Soda Polska CIECH sp. z o.o., ZCh Alwernia S.A., Przedsiębiorstwo Chemiczne Cheman S.A., GZNF Fosfory sp. z o.o., ZCh Organika Sarzyna S.A., Polfa sp. z o.o., CIECH Service sp. z o.o., Vitrosilicon S.A., Transclean sp. z o.o. and ZCh Zachem S.A. – later referred to as the "Companies), and a bank consortium (Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A. and DNB Nord Polska S.A. – later referred to as "Organising Banks"). The agreement provides that S.C. US Govora – CIECH Chemical Group S.A. shall accede as a guarantor and borrower. The total maximum amount of loans is the equivalent of PLN 1,340,000,000.

- On April 29th, 2010, all active option transactions entered into between the Issuer and Bank Handlowy w Warszawie S.A. with maturity from 29.04.2010 to 5.08.2010 were prematurely terminated. As at the day of termination, the liability on negative evaluation of the aforementioned hedging instruments equals approx. PLN 17 million. Moreover, in the period from 14.08.2009 to 20.04.2010, i.e. when the Status Quo Agreement discussed in the Report no. 31/2009 remained in force, all option transactions with exercise date during the period of the Status Quo Agreement were settled. Owing to the provisions of the Status Quo Agreement, the amount due to Bank Handlowy resulting from the settled transactions was deferred. The amount of liabilities resulting from the settlement of the aforementioned options equals approx. PLN 43.5 million. At present, the Issuer is not a party to any active option transactions with Bank Handlowy. Refinancing of liabilities incurred as a result of these transactions is provided for in the Ciech Group Debt Refinancing Agreement discussed in the Report no. 16/2010 of April 26th, 2010.

- On May 6th, 2010, CIECH S.A. received information that a consortium of Organising Banks (including: Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A. and DNB Nord Polska S.A.) and Citibank Europe plc. Dublin – Romania Branch – signed an extension of the Status Quo Agreement, as discussed in the Current Report no. 31/2009 of August 14th, 2009, until May 17th, 2010, this allows to complete formalities relating to the signed Debt Refinancing Agreement discussed in the Report no. 16/2010. Also the separate statements, discussed in Current Report no. 31/2009 of August 14th, 2009, were extended to that date by the banks: Calyon S.A. Branch in Poland, BNP Paribas S.A. Branch in Poland and Fortis Bank Polska S.A. The maturity of the funding granted to CIECH S.A. and to the CIECH Group companies by Bank Ochrony Środowiska S.A., HSBC Bank Polska S.A., Kredyt Bank S.A. and Bank BPH S.A. has been maintained until May 17th, 2010 at the earliest.
  Such actions allow to complete formalities relating to the CIECH S.A. Debt Refinancing Agreement discussed in the Report no. 16/2010 of April 26th, 2010.

- On May 17th, 2010 one of the conditions precedent stipulated in the Loan Agreement discussed in Report no. 16/2010 of April 26th, 2010 was fulfilled, namely a loan agreement was signed between the Creditors, including CIECH S.A. and its subsidiaries (Agrochem Sp. z o.o., with its registered office in Człuchów, Agrochem Sp. z o.o., with its registered office in Dobre Miasto, JZS Janikosoda S.A., IZCh Soda Mątwy S.A., Soda Polska Ciech Sp. z o.o., ZCh Alwernia S.A., Przedsiębiorstwo Chemiczne Cheman S.A., GZNF Fosfory Sp. z o.o., ZCh Organika Sarzyna S.A., Polfa Sp. z o.o., CIECH Service Sp. z o.o., Vitrosilicon S.A., Transclean Sp. z o.o. and ZCh Zachem S.A.), a bank consortium (Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A. and DNB Nord Polska S.A.) and BNP Paribas S.A., Branch in Poland, Crédit Agricole Corporate and Investment Bank S.A., Branch in Poland and Fortis Bank Polska S.A. The agreement provides for an accession of S.C.Uzinele Sodice Govora – Ciech Chemical Group S.A.

  The agreement between creditors was entered into as one of the conditions precedent stipulated in the Loan Agreement entered into between the Companies and Organising Banks on April 26th, 2010, as discussed in Report no. 16/2010. Terms of the agreement between creditors include:
  - Loan Organizers, BNP Paribas S.A., Branch in Poland, Crédit Agricole Corporate and Investment Bank S.A., Branch in Poland and Fortis Bank Polska S.A. undertook to prolong the maturity of financing granted to the Companies on the basis of existing loan agreements until: (i) August 24th, 2010 or (ii) the day when loans intended for refinancing of existing debt granted under the Loan Agreement discussed in Report no. 16/2010 have been used, whichever is earlier.
  - CIECH S.A. and, depending on circumstances, Companies undertook to, among others, prolong financing granted by banks such as: HSBC Bank Polska S.A., Bank Ochrony Środowiska S.A., Bank BPH S.A., and Kredyt Bank S.A. until August 24th, 2010.
  - The order of repayment to banks participating in the agreement between creditors was established.

2 **Major achievements of CIECH S.A. (continued)**

- CIECH S.A. and BNP Paribas S.A., Branch in Poland, Crédit Agricole Corporate and Investment Bank S.A., Branch in Poland and Fortis Bank Polska S.A. undertook to make every effort to enter within 5 business days into bilateral loan agreements in order to refinance the existing debt.
- Companies (excluding CIECH S.A.) guaranteed the liabilities of CIECH S.A. following from bilateral loan agreements which will be entered into subject to analogous guarantees granted by these Companies under the Loan Agreement discussed in Report no. 16/2010.
- The principles governing the establishment of hedges to the benefit of BNP Paribas S.A., Branch in Poland, Crédit Agricole Corporate and Investment Bank S.A., Branch in Poland, and Fortis Bank Polska S.A. were defined (provisions regarding the aforementioned hedges should in principle be the same as the provisions for hedges established under the Loan Agreement discussed in Report no. 16/2010, subject to appropriate provisions regarding the order of settlement under hedge). The information was announced in Current Report no. 21 of May 18th, 2010.

- On June 15th, 2010 the company S.C. US Govora – Ciech Chemical Group S.A. acceded to the Loan Agreement of April 26th, 2010 as a guarantor and borrower.

- On June 15th-17th, 2010 CIECH S.A. and its following subsidiaries: Agrochem Sp. z o.o., with its registered office in Człuchów, Agrochem Sp. z o.o., with its registered office in Dobre Miasto, JZS Janikosoda S.A., IZCh Soda Mątwy S.A., Soda Polska Ciech Sp. z o.o., ZCh Alwernia S.A., Przedsiębiorstwo Chemiczne Cheman S.A., GZNF Fosfory Sp. z o.o., ZCh Organika Sarzyna S.A., Polfa Sp. z o.o., CIECH Service Sp. z o.o., Vitrosilicon S.A., Transclean Sp. z o.o. and ZCh Zachem S.A. and a few other subsidiaries signed the following hedging documents which constitute one of conditions precedent stipulated in the Loan Agreement dated April 26th, 2010 discussed in Report no. 16/2010 and stipulated in the agreement between creditors of May 17th, 2010 discussed in Report no. 21/2010:

  - declarations regarding the writing of mortgages on property (the right of ownership and perpetual usufruct of property) for the Companies and CIECH S.A. to the benefit of the following banks: Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A. and DNB Nord Polska S.A. – hereinafter referred to as “Organising Banks” and BNP Paribas S.A, Branch in Poland, Crédit Agricole Corporate and Investment Bank S.A., Branch in Poland and Fortis Bank Polska S.A. – hereinafter jointly with the Organising Banks referred to “Lenders”. The total book value of property on which the mortgages were written amounts to approx. PLN 558 million, they constitute assets of significant value, with their value exceeding 10% of own capital of CIECH S.A. The mortgages secure liabilities of a maximum value of PLN 1,340,000,000. Property encumbered with mortgage constitute all essential property of Ciech S.A. and the Companies;
  - registered pledge agreements between each Company or CIECH S.A. (the Pledgor) and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Pledgee), on the set of movable property and rights of variable composition, including:

    - registered pledge agreements between CIECH S.A. (the Pledgor), and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Pledgee), of June 15th, 2010, on the set of movable property and rights of variable composition with book value of PLN 1,970,261,000, constituting assets of significant value, with their value exceeding 10% of own capital of CIECH S.A., hedging liabilities with maximum amount of PLN 2,010,000,000. By virtue of art. 393 p. 3) of the Code of Commercial Companies, the agreement, for its validity, requires a resolution of the General Meeting of CIECH S.A.;
    - registered pledge agreements between Z.Ch. ZACHEM S.A. (the Pledgor), and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Pledgee), of June 15th, 2010, on the set of movable property and rights of variable composition with book value of PLN 173,557,000, constituting assets of significant value, with their value exceeding 10% of own capital of CIECH S.A., hedging liabilities with maximum amount of PLN 1,340,000,000.
    - registered pledge agreements between GZNF Fosfory Sp. z o.o. (the Pledgor), and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Pledgee), of June 15th, 2010, on the set of movable property and rights of variable composition with book value of PLN 175,157,383.34, constituting assets of significant value, with their value exceeding 10% of own capital of CIECH S.A., hedging liabilities with maximum amount of PLN 1,340,000,000.
    - registered pledge agreements between Z.Ch. Organika Sarzyna S.A. (the Pledgor), and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Pledgee), of June 15th, 2010, on the set of movable property and rights of variable composition with book

2 **Major achievements of CIECH S.A. (continued)**

value of PLN 342,746,000, constituting assets of significant value, with their value exceeding 10% of own capital of CIECH S.A., hedging liabilities with maximum amount of PLN 1,340,000,000.

- registered pledge agreements between Soda Polska Ciech Sp. z o.o. (the Pledgor), and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Pledgee), of June 15th, 2010, on the set of movable property and rights of variable composition with book value of PLN 323,077,978, constituting assets of significant value, with their value exceeding 10% of own capital of CIECH S.A., hedging liabilities with maximum amount of PLN 1,340,000,000.

- agreement on the assignment of rights on insurance policies issued with reference to assets being subject to hedges and conditional assignment of rights regarding the rights on essential trade contracts of the Companies and CIECH S.A. and rights on inter-Group loans and loan instruments of other types which will be used to distribute resources from loans to the Companies, between each Company and CIECH S.A.(the Assignor), and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Assignee);
- agreements on financial pledges on bank accounts of the Companies and CIECH S.A., between each Company and CIECH S.A. (the Pledgor), and Borrowers (the Pledgees),
- agreements on financial pledges on selected stopped bank accounts of the Companies and CIECH S.A., as well as companies: Zachem UCR Sp. z o.o., Boruta Zachem Kolor Sp. z o.o. and Transoda Sp. z o.o. and S.C. US Govora – Ciech Chemical Group S.A., between each of the aforementioned companies (the Pledgor) and the Borrowers (the Pledgees);
- agreements on financial pledges on shares of Companies, between CIECH S.A. or an appropriate Company having shares of the given Company (the Pledgor) and the Borrowers (the Pledgees). The pledges do not cover shares of ZCh Organika Sarzyna S.A. and ZCh Zachem S.A.;
- agreements on registered pledges on shares in Companies, between CIECH S.A. or an appropriate Company having shares in the given Company (the Pledgor) and bank Powszechna Kasa Oszczędności Bank Polski S.A. (the Pledgee). The pledges do not cover shares of ZCh Organika Sarzyna S.A. and ZCh Zachem S.A.;
- agreement regarding pledges on shares in Soda Deutschland Ciech GmbH (under German law), between CIECH S.A. (the Pledgor), and Borrowers (the Pledgees)
- declarations on submission to enforcement made by the Companies, Ciech S.A. and S.C. US Govora – Ciech Chemical Group S.A. to the benefit of each Borrower;
- agreements on conditional ownership transfer to secure components of movable property of Companies and CIECH S.A., between (accordingly) each Company or CIECH S.A. and bank Powszechna Kasa Oszczędności Bank Polski S.A.;
- powers of attorney to bank accounts of Companies and CIECH S.A. granted to the benefit of bank Powszechna Kasa Oszczędności Bank Polski S.A.

- On August 4th, 2010, CIECH S.A. decided to approve a restructuring plan for CIECH S.A. and key related companies of CIECH S.A. for years 2010-2015, having conducted analyses and discussed recommendations regarding undertaking restructuring activities which were presented in an appropriate document prepared by PwC Polska S.A. The approval of the Restructuring Plan results from the fulfilment of obligations resting with CIECH S.A. on account of entering into the Loan Agreement of April 26th, 2010 and the agreement with creditors of May 17th, 2010. The Restructuring Plan received a positive opinion of the Company's Supervisory Board, the resolution was passed on August 4th, 2010.
  The Restructuring Plan assumes an implementation in years 2010-2015 of restructuring initiatives (activities) aimed at improving the financial situation of CIECH S.A. and increasing its capacity to repay the debt and to develop its activities. The initiatives were divided into the quantified, whose effect was recognised in an appropriate financial model, and others, whose effect could not currently be quantified (and whose implementation may constitute an additional source of revenue and savings).

  Detailed information on activities provided for in the Restructuring Plan has been presented in section 20.1 of the financial statements of CIECH S.A.

- On August 9th and 10th, 2010, CIECH S.A. received a notice on the writing of joint ceiling mortgages on assets owned by the subsidiary Zakłady Chemiczne "Organika-Sarzyna" S.A. The total net value of assets on which joint ceiling mortgages were written according to International Financial Reporting Standards amounts to approx. PLN 76,003 thousand (as at July 31st, 2010). Detailed information on assets on which mortgages were written and the list of banks being beneficiaries of the mortgages was announced in corrected Current Announcements no. 38/2010 of November 9th, 2010 and 39/2010 of November 9th, 2010. Writing joint ceiling mortgages follows from the Ciech Group Debt Refinancing Agreement entered into on April 26th,

2 Major achievements of CIECH S.A. (continued)

2010, the Agreement between Creditors and signed documents which were discussed in Current Report no. 29/2010 of June 21st, 2010. The information was announced in Current Report no. 38 and 39 of August 10th and 11th, 2010.

- On August 12th, 2010, all active option transactions entered into between CIECH S.A. and ING Bank Śląski S.A. with maturity from 27.01.2011 to 19.05.2011 were prematurely terminated. Moreover, in the period from 16.07.2009 to 5.08.2010, all option transactions with maturity from 16.07.2010 to 20.01.2011 were settled. The total value of liabilities resulting from the aforementioned transactions is PLN 64 million. In connection with the aforementioned transactions and transactions of premature termination of all active option transactions with Bank Handlowy w Warszawie S.A., CIECH S.A. is not party to any active option transactions. Refinancing of liabilities incurred as a result of the aforementioned transactions is provided for in the Ciech Group Debt Refinancing Agreement. The information was announced in Current Report no. 40 of August 12th, 2010.

- On August 12th, 2010, a mandate letter signed by the European Bank for Reconstruction and Development, the Ministry of Treasury and CIECH S.A. was signed. This document constitutes a confirmation that EBRD is interested in participating in the project aimed at providing the Issuer with long-term financing amounting to PLN 300million in the form of such instrument which will be deemed appropriate. The project has positively completed the preliminary stage in the internal assessment process by EBRD. Financing conditions will be subject to further negotiation and will be dependent on further assessment of the project, the accepted type of instrument and the forecasted transaction structure as well as corresponding approvals granted by the management of CIECH S.A. and EBRD. The information was announced in Current Report no. 41 of August 13th, 2010.

- On August 17th, 2010, were fulfilled all conditions precedent to releasing loans to the benefit of CIECH S.A. and S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. stipulated in the Loan Agreement of April 26th, 2010, discussed in Report no. 16/2010, entered into between CIECH S.A. and its subsidiaries (Agrochem Sp. z o.o., with its registered office in Człuchów, Agrochem Sp. z o.o., with its registered office in Dobre Miasto, JZS Janikosoda S.A., IZCh Soda Mątwy S.A., Soda Polska CIECH sp. z o.o., ZCh Alwernia S.A., Przedsiębiorstwo Chemiczne Cheman S.A., GZNF Fosfory Sp. z o.o., ZCh Organika Sarzyna S.A., Polfa Sp. z o.o., CIECH Service Sp. z o.o., Vitrosilicon S.A., Transclean Sp. z o.o. and ZCh Zachem S.A.), and a bank consortium (Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A. and DNB Nord Polska S.A.) to which, on June 15th, 2010, acceded S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.
  Releasing loans on the basis of the Loan Agreement discussed in Report no. 16/2010 was possible on condition that Bank Handlowy w Warszawie S.A. informed CIECH S.A. (the Loan Agent) of receiving all documents or proofs listed in the annex to the Loan Agreement, or of a discharge of the obligation to receive certain document; representations of CIECH S.A. and its subsidiaries provided for in the Loan Agreement had to be true at that time and there could be no infringement on the provisions of the Loan Agreement. As the conditions precedent to releasing loans were fulfilled, on August 17th, 2010, CIECH S.A. and S.C. US Govora – Ciech Chemical Group S.A. filed an application to pay out the fixed-term loan until August 24th, 2010 and the renewable credit until August 24th, 2010 and August 25th, 2010. The information was announced in Current Report no. 42 of August 18th, 2010.

- Fixed-term loans and renewable credits intended to finance existing debt were paid out on August 24th and 25th, 2010, in accordance with the filed application. The total released and used amount of loans is equal to the equivalent of PLN 1,285 million. The loan was released in the form of a fixed-term tranche of PLN 1,210 million, renewable credit of PLN 30 million and guarantees and letters of credit.

- On October 28th, 2010 the Extraordinary General Meeting of CIECH S.A. decided:
  - to increase the share capital of the Company by not less than PLN 5 and not more than PLN 115,000,000, up to an amount not greater than PLN 255,001,420 by issuing not fewer than 1 and not more than 23,000,000 ordinary bearer shares series D with face value of 5 PLN each. The information was announced in Current Report no. 61 of October 28th, 2010.
  - that the deadline when it will be possible to perform the Series D Shares subscription right shall be set in the issuing prospectus of CIECH S.A. prepared in accordance with appropriate legal regulations in connection with the public offer and applying for the approval of introducing the Series D Shares subscription right, Series D Shares rights and the right to trade Series D Shares on a regulated market managed by Giełda Papierów Wartościowych w Warszawie S.A.

2 Major achievements of CIECH S.A. (continued)

- On October 27th, 2010 CIECH S.A. (the Lender) entered into a Loan Agreement with ZACHEM S.A. (the Borrower), to an amount of PLN 43,000 thousand and USD 9,000 thousand. The loan will be used to finance the Borrower's working capital. The total pay-out of the loan shall take place within 7 weeks after the agreement was signed. The maturity date of the loan was set to December 31st, 2012.

Information on essential events between the balance sheet day and the day of issuing this report was presented in section 32 of notes and explanations to the financial statements of CIECH S.A.

3 Description of factors and events having significant influence on the Company's activities

Positive factors

- A dynamic growth of sales in the domestic chemical industry in the period from January to December 2010, compared to the previous year (on the basis of fixed prices; 12.0% in case of chemicals and chemical products and 15.7% for rubber products and plastics).
- Return to an uptrend in domestic sales of construction and assembly products: over 12 months of 2010 by 3.5% compared to a comparable period in the previous year (chemical industry generates many raw materials and intermediate products used for this production).
- Major increase in the total domestic production of artificial fertilizers (by 26% by volume over 12 months of 2010 compared with the previous year).
- An uptrend regarding prices on world and European markets of artificial fertilizers based on phosphorus over 2010 (with dynamics on the level between several dozen to one hundred per cent compared to the previous year).

Negative factors

- Excess supply of soda ash on the European market (also in connection with deliveries from Turkey) with significantly slow recovery of demand (compared to 15-20% drop in usage in 2009).
- Very low, in the last 4-5 years' perspective, prices of soda ash on European markets (approx.30% lower compared to record prices in the first quarter of 2009); with a simultaneous increase in production costs.
- Large fluctuations of the Polish currency value with reference to Euro, with a strengthening tendency, which is unfavourable to CIECH S.A. export profitability.
- An uptrend in oil prices on the level of the whole of 2010, which resulted in an increase or a suppliers' pressure to increase prices of raw materials for the organic industry.
- Large increase in prices of raw materials used in the production of phosphate fertilizers in 2010.

There have been no atypical events influencing the activities of CIECH S.A.

3.1 Significant risk and threat factors and exposure of CIECH S.A.

Risk of positive trends reversal with respect to the economic growth and market change trends

The activity of CIECH S.A. is connected with many segments of widely understood chemical industry, whose development is directly correlated to the economic situation country- and worldwide. In the last few years, Poland's economic growth was at the level of several percent GDP annually. The forecasts for the following years anticipate a certain decrease in the previous high growth rate resulting from the slow recovery after the global economic crisis (internal demand slowdown, export slowdown and investment slowdown).
Market trends essential for CIECH S.A. are linked with economic conjuncture and the pace of society's enrichment. This results from the fact that the scope of CIECH S.A. target markets is very wide: construction, automotive, furniture, paints and varnishes, household chemistry industries and agriculture and food processing. The risk of changing market trends for CIECH S.A. is practically defined through the risk of fluctuations in the economic growth dynamics in Europe and worldwide.
A deterioration in overall conjuncture may have a negative impact on the activity and financial results of CIECH S.A.

3 Description of factors and events having significant influence on the Company's activities (continued)

3.1 Significant risk and threat factors and exposure of CIECH S.A. (continued)

Risk of a long-term economic stagnation/recession in Europe and around the world

The business of CIECH S.A. relies heavily on the export of chemical products, whose level and profitability depends on the global economic situation in Europe and around the world. The long-term economic downturn may lead to considerably lower foreign turnover in export and at the same time lower revenues from particular segments of CIECH's business activity.

Currency risk
Currency risk is an intrinsic component of running commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, CIECH S.A. is subject to currency exposure connected with considerable surplus of exports over imports. Sources of currency risk which threatens companies within CIECH S.A. include: product sale, purchase of raw materials, loans and borrowings raised and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen CIECH S.A.'s financial results.

Risk of a drop in the value of domestic construction and assembly production
The chemical industry manufactures many raw materials and intermediate products intended for this type of production. Possible aggravation of economic conditions in the area of construction and assembly production may have negative influence on the demand for CIECH S.A.'s products and, consequently, on its financial results.

Conjuncture risk in the furniture industry
The furniture industry is the main recipient of PUR foams and (indirectly) the intermediate product used in its production, toluene diisocyanate (TDI), sold by CIECH S.A. Aggravated situation on the furniture market may result in falling demand for this product and lead to worsening of CIECH S.A.'s financial results.

Risk of a significant drop in demand in the toluene diisocyanate (TDI) segment

CIECH S.A. owns the sole domestic producer of TDI – an intermediate product for the production of polyurethane flexible foam applied mainly in the furniture and automotive industry. The TDI market is a global market but in the European practice the turnover is realised mostly within the continent. Taking into account the target recipients, the situation in the sector of TDI producers is strongly dependent on the overall economic situation. Possible drop in the demand from TDI recipients may have negative impact on CIECH S.A.'s financial results.

Risk of drop in the demand for soda ash in Europe

In 2009, Europe experienced a drop in the demand for soda ash by a dozen per cent compared to 2008. The drop resulted from a decreased demand from the glass industry (in particular with respect to flat glass), which is the recipient of approximately half of soda supplies in Europe.
In a longer perspective, especially in the CEE region, there is a risk of decreasing consumption of soda in the packaging glass industry resulting from implementing environmentally-friendly regulations, which promote multiple use of glass packaging and using cullet in glass production process. Possible drop in the demand for soda ash in the coming years may lead to decreasing prices of the product and have negative impact on Company's financial results.

Main markets' competition risk

There are many domestic and foreign entities dealing with the supply of chemicals to the Polish market. There is a risk that trade conditions offered by CIECH S.A. will not be competitive enough, which will lead to a decrease in chemicals' supply to the domestic market and, consequently, may result in a drop in this area of Group's revenue and have a negative impact on CIECH S.A.'s financial results.

There are the following threats from the competition on particular product markets:

- ***Soda products market***
  CIECH S.A. and the Ciech Group is the only manufacturer in the area of soda products market (soda ash, baking soda) in Poland and practically the only supplier on the market, excluding a negligible import. At the turn of the first and second decades of this century, new soda ash production capacities are or will be created in Europe and the neighbouring countries. In the event of scheduled realisation of all investments (and major growth of supplies to the market within a relatively short period of time),

3 Description of factors and events having significant influence on the Company's activities (continued)

3.1 Significant risk and threat factors and exposure of CIECH S.A. (continued)

significant periodic product oversupply and price decrease could occur in the region. This may have a negative impact on the Company's financial result. A certain risk of growing eastern manufacturers may be expected. On the European market there is a risk of increased supply of cheaper soda ash from natural deposits (so-called trona) delivered by suppliers from the United States of America and Turkey. The size of this threat is also dependent on the exchange rates between USD and EUR. In case of weaker USD, the competitiveness of American soda grows. A particular threat for the Company's position may be additional supplies of Turkish soda ash to the European market originating from a planned increase in exploitation of soda from natural deposits.

- ***TDI market***
  In the coming years, it is planned to considerably increase TDI production capacities in the whole world (by approx. 1/3 or more). In the event of scheduled realization of the planned investments and taking into account the forecasted pace of demand growth at the level of several percent per annum, global TDI oversupply may be expected in the first half of the second decade of this century. Increase of competitors' production capacity on target markets of CIECH S.A. (e.g. Bayer facility in China) as well as the fact that one of the major world manufacturers (Bayer) introduces modern gas technology of producing TDI may lead to a significant drop in TDI prices and, consequently, worsen Group's financial results and weaken its position as exporter.
- ***EPI market***
  In the past two years, Russian manufacturers have activated their business activities on the Asian market and partially withdrawn from the European market, with a significant share of their export (including Bisphenol A, EPI) directed to China. This may entail an improved efficiency of CIECH S.A.'s European operations, on the one hand, but also difficulties in accessing certain resources.
- ***PUR foam market***
  Low technical and capital barriers in entering the market may favour the emergence of new competitors in the future. In addition, recipients tend to launch their own production of PUR foam, which may not only lead to lower demand on the market but may also result in increased product supply (selling surplus production).
- ***Market for unsaturated polyester resins***
  Due to lower demand on the domestic market, Italian resins manufacturers have turned to foreign expansion. Possibly they will need to gain part of Polish market, which will entail fiercer domestic competition and aggravate the operating conditions. Increased competition on this market may result in worsening of CIECH S.A.'s market position.

Raw material and product price risk

A significant portion of CIECH S.A.'s activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature connected with fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries as well as a decrease of demand generated by recipients. On the other hand, falling prices are usually a symptom of decreasing demand and the beginning of an economic downturn. On the domestic market, raw materials are subject to similar tendencies. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of the Company. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation may have negative influence on the activity related to trading in chemical raw materials.
Basic raw materials used by the Ciech Group include: energetic resources – coal, blast-furnace coke and anthracite, used in soda ash production; organic chemicals originating from oil processing (TDA, toluene, propylene, Bisphenol A – BPA, styrene). Prices of energetic resources are characterised by large sensitivity to current economic conjuncture trends and grow during dynamic economic growth. There is a risk of an increase in prices of these raw materials, which will result in a significant drop in profitability of soda ash and organic chemicals produced by the Ciech Group (TDI, epichlorohydrin, resins). Fluctuations of raw materials prices, and most importantly increase in prices, may lead to a deterioration of CIECH S.A.'s financial results.
CIECH S.A. may also suffer due to fluctuations of oil prices. If the uptrend which started in the beginning of 2009 continues in the future, there may be an increase in prices of raw materials for the organic industry, which may have a negative impact on CIECH S.A.'s financial results.
In most segments of the Company's activity goods are not subject to significant price fluctuations. Nevertheless, the organic segment is exposed to price risk correlated with the condition of global economy, current demand and supply situation of final customers, the level of prices of basic raw materials and energy.

Risk of changes in Polish and European law regarding environmental requirements

Environmental protection regulations in Poland undergo changes and become increasingly strict. Due to lack of clarity regarding future regulations and increasing expenditure caused by requirements

3 Description of factors and events having significant influence on the Company's activities (continued)

3.1 Significant risk and threat factors and exposure of CIECH S.A. (continued)

following from these regulations, CIECH S.A. and the Group may be forced to bear significant additional costs in connection with new environmental requirements. Moreover, if, due to frequent changes in environmental protection regulations, CIECH S.A. subsidiaries do not adjust to new environmental regulations before a set deadline or within fixed a time frame, the Companies, its Board Members or employees may be subject to administrative and civil liability and criminal liability. Incompliance with environmental protection requirements may lead to a temporary suspension or permanent shutdown of a particular type of activity.
In addition, in connection with an amendment to EU law regarding industrial emissions, the coming years may bring more severe conditions of using environment by business entities. In compliance with a new industrial emissions directive (IED), amendments to current regulations refer to three main areas: (i) strengthening the role of BREF reference documents, (ii) tightening the requirements regarding large combustion facilities and (iii) introducing new regulations regarding soil protection. As EU will approve the proposed legal changes, the industry will be forced to bear significant expenses on modernising technical infrastructure in a short time. Incompliance with regulatory requirements regarding environmental protection and resulting disturbance to activity and fines may have a significant negative impact on CIECH S.A.'s financial situation or its activity.

4 Primary economic and financial information

Sales revenues

CIECH S.A.'s sales revenues in 2010 amounted to PLN 2,222,223 thousand and were higher than those of 2009 by 17%. The revenues were positively affected by an increase in prices in the organic segment.
Moreover, the revenue earned by the silicates and glass sector in the Agro-Silicon Division was higher than in 2009, which is mainly owing to changing commission contract into a trade operator contract in case of sulphur sales.

Geographical structure of sales revenues

CIECH S.A.'s goods portfolio is characterised by high maturity and the sales are based on stable customer relationships. The main sales market is the domestic market, while Europe remains the main foreign market. Geographical proximity and the absence of trade barriers make the EU countries an obvious sales market for CIECH S.A. In 2010, domestic sales constituted approx. 40% of overall sales revenue and amounted to PLN 890,332 thousand. Foreign sales amounted to PLN 1,331,901 thousand (of which PLN 791,333 thousand were sales to the EU).

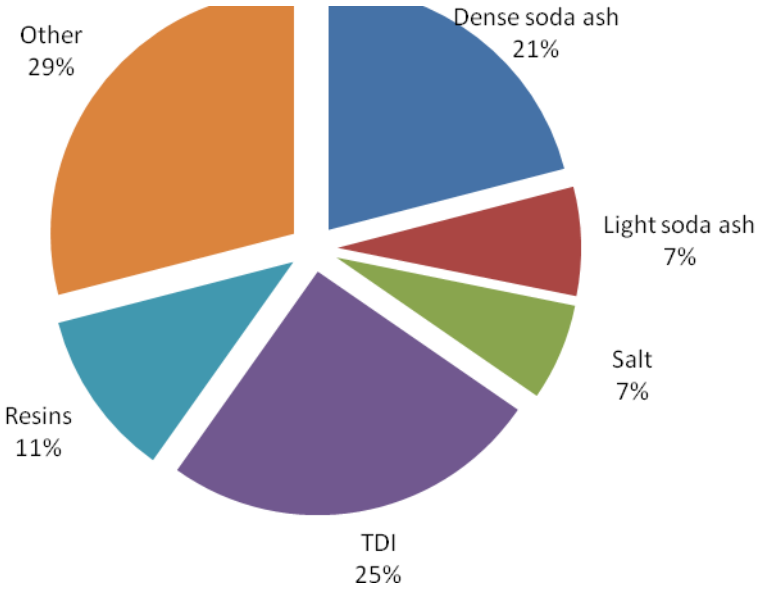
Goods structure of sales revenues

CIECH S.A.'s revenues structure largely reflects the sales structure in the Ciech Group. A substantial portion of products manufactured by the Group's companies is sold by CIECH S.A. As a result, the sales of Ciech Group's main products (soda ash and TDI) are predominant in CIECH S.A.'s revenues structure.

Compared to previous years, the share of organic products in the structure of goods increased in 2010. The share of sales of soda ash in revenues in 2010 was 28%. TDI sales generated 25% of revenues.

0 Primary economic and financial information (continued)

The goods structure in 2010 is presented in the diagram below:



Result on sales and operating result

In 2010, gross profit on sales amounted to PLN 310,420 thousand and in the same period of the previous year – PLN 335,115 thousand. Whereas operating profit for 2010 amounted to PLN 133,595 thousand and PLN 147,139 thousand in the comparable period.

The EBIT margin at the end of 2010 was 6.0% (7.7% the year before), while the EBITDA margin was 6.2% (8.1% the year before).

Net result

Net result for 2010 was PLN (5,038) thousand, net return (0.2%). The net result for 2010 was negatively influenced by debt servicing costs and negative balance of FX differences. The fact of selling shares in Zakłady Azotowe Tarnów S.A. also had a negative impact on the result.

The table below presents basic information about the financial results and profitability:

Table 4.1. Return ratios of CIECH S.A.

Item	Jan – Dec, 2010	Jan – Dec, 2009
Net sales	2,222,233	1,901,077
Gross profit from sales	310,420	335,115
Gross profit from sales	124,122	165,571
Operating profit	133,595	147,139
Net profit	-5,038	-125,767
Assets	2,424,578	1,977,009
Equity	490,898	517,096
Gross return on sales	13.97%	17.63%

4 Błąd! Nieprawidłowy odsyłacz do zakładki: wskazuje na nią samą. **(continued)**

Return on sales	5.58%	8.55%
Operating profit margin	6.02%	7.74%
Net return on sales (ROS)	-0.23%	-6.62%
Return on assets (ROA)	-0.21%	-6.36%
Return on equity (ROE)	-1.03%	-24.32%

Source: CIECH S.A.

Calculation principles:
gross return on sales – gross sales profit for a given period / net sales of products, services, goods and materials,
return on sales – sales profit for a given period / net sales of products, services, goods and materials,
operating profit margin – operating profit for a given period / net sales of products, services, goods and materials,
return on sales (ROS) – net profit for a given period / net sales of products, services, goods and materials,
return on assets (ROA) – net profit / total assets at the end of a given period,
return on equity (ROE) – net profit for / total equity at the end of a given period.

The positive contributors to the presented profit were as follows:

- improved volumes gained in TDI sales compared to the level achieved in a comparable period in the previous year,
- improved volumes and profit margins in the epoxy resins industry compared to 2009,
- increased soda ash sales volumes compared to 2009,
- a dynamic growth of sales in the domestic chemical industry in 2010, compared to a comparable period in the previous year (as per fixed prices: 12% in case of chemicals and chemical products and 15.7% for rubber products and plastics),
- a major increase in the domestic production of artificial fertilizers based on phosphorus (by 26% in terms of quantity, in the period from January to December 2010 compared to a low base in a comparable period in the previous year),
- an uptrend in prices on world and European markets of artificial fertilizers based on phosphorus (an average of a few per cent compared to the third quarter of this year) – an increase of profit margins from sales,
- return to an uptrend in domestic sales of construction and assembly products: over 12 months of 2010 by 3.5% compared to a comparable period in the previous year (chemical industry generates many raw materials and intermediate products used for this production),

The presented results also take into account one-off events, including:

- CIECH S.A. selling its shares in Zakłady Azotowe Tarnów,
- CIECH S.A. selling its shares in Ciech Service Sp. z o.o.,
- CIECH S.A. selling part of property located in Powązkowska Street in Warsaw.

The negative contributors to the presented profit were as follows:

- very low, in the last 4-5 years' perspective, prices of soda ash on European markets (approx. 30% lower compared to record prices in the first quarter of 2009); with a simultaneous increase in production costs.
- excess supply of soda ash on the European market (a new supplier from Turkey) with significantly slow recovery of demand (compared to 15-20% drop in usage in 2009).
- an uptrend in oil prices on the level of the whole of 2010, which resulted in an increase or a suppliers' pressure to increase prices of raw materials for the organic industry.

Balance sheet

Capital structure

As at December 31st, 2010, equity amounted to PLN 490,898 thousand, which is a PLN 26,198 thousand decrease in comparison to the balance as at the end of 2009. The decrease in equity is the result of the generated net loss PLN (5,038) thousand, increased by the drop in a positive valuation of some effective instruments for hedge accounting included in equity, amounting to PLN (30,719) thousand. By contrast, the decrease in equity was bridged by a growth in revaluation capital by PLN 9,559 thousand.

0 Primary economic and financial information (continued)

Assets

As at December 31st, 2010, the value of CIECH S.A.'s assets amounted to PLN 2,424,578 thousand. Within 12 months, the value of assets increased by PLN 447,569 thousand, i.e. by 22%. Assets increase was mainly due to increasing current investments by PLN 246,425 thousand and increasing non-current financial assets by PLN 85,903 thousand.

The assets structure was dominated by fixed assets, whereby its share in total assets equalled 63% in 2010. In previous years, fixed assets constituted 74% of total assets.
The value of fixed assets increased by PLN 67,171 thousand and reached PLN 1,523,011 thousand. The main item in fixed assets were long-term investments amounting to PLN 1,461,926 thousand, whose value increased during the year by PLN 85,903 thousand.
The main item in current assets amounting to PLN 901,567 thousand were short-term investments equal PLN 334,308 thousand, whose value increased during the year by PLN 246,425 thousand. Given the Company's sales-oriented business, the current assets are dominated by trade receivables. As at December 31st, 2010, they amounted to PLN 269,174 thousand. The balance of trade receivables decreased in comparison to the end of 2009 by over 3%, i.e. by PLN 7,476 thousand.

Company's liabilities and debt

As at December 31st, 2010, CIECH S.A.'s total current and non-current liabilities amounted to PLN 1,933,680 thousand, which is an increase in liabilities by 32% in comparison to the previous year's level. The increase was mainly due to a growth in liabilities on loans and borrowings by PLN 562,900 thousand compared to the previous year. At the same time, the loan structure changed: short-term loans and borrowings increased by PLN 689,160 thousand to PLN 1,167,117 thousand. Compared to the previous year, long-term loans and borrowings as at the end of 2010 decreased by PLN 126,260 thousand. The increase in short-term financial liabilities is a result of a consolidation of Group's debt, which released refinancing of all loans previously granted to Ciech Group companies (excluding German companies). CIECH S.A. is the borrower.

Net debt (financial liabilities less cash) at the end of 2010 amounted to PLN 1,431,922 thousand and increased over the year by PLN 574,214 thousand. As at December 31st, 2010, the financial leverage ratio (defined as net debt in relation to the sum of net debt and equity) reached 74%.

The debt rate (calculated as the relation of long-term and short-term liabilities to total assets) increased over 12 months of 2010 from 74% to 80%. This rate indicates that CIECH S.A. made greater use of external borrowing, the cost of which is lower than the cost of equity.

Table 4.2. Debt ratios

Item	31.12.2010	31.12.2009
Debt ratio	79.8%	73.8%
Long-term debt ratio	13.8%	24.6%
Debt to equity ratio	393.9%	282.3%
Equity to assets ratio	20.2%	26.2%

Source: CIECH S.A.

Calculation principles:
debt ratio – current and non-current liabilities / total assets; measure of the share of external funds in financing a company's activity.
long-term debt to equity ratio – non-current liabilities / total assets; measure of the share of non-current liabilities in financing a company's activity.
debt to equity ratio – total liabilities / equity.
equity to assets ratio – equity / total assets; measure of the share of equity in financing a company's activity.

Cash flow statement

Cash flow from operating activities in 2010 decreased by PLN 34,025 thousand and amounted to PLN 32,008 thousand. The main cause of decrease in cash in this area was an increase of interest paid by PLN 52,869 thousand up to PLN 85,406 thousand, which is a result of the consolidation of Ciech Group loans.

In 2010, CIECH S.A. bore investment expenditure linked to purchase of shares in: ZACHEM S.A. and

0 Primary economic and financial information (continued)

Organika-Sarzyna S.A. for a total of PLN 7,309 thousand and PLN 16,063 thousand on account of raising capital in a subsidiary Soda Deutschland Ciech. Borrowings granted amounted to PLN 89,892 thousand. The main source of inflow were proceeds from granted borrowings (equal PLN 44,858 thousand) and proceeds from the disposal of shares in ZA Tarnów (equal PLN 41,600 thousand), as well as proceeds from the disposal of part of property in Powązkowska Street (equal PLN 23,794 thousand). The surplus of investment expenditures over investment inflows in 2010 amounted to PLN 14,251 thousand.

The balance of cash flows from financial activity was negative and amounted to PLN (59,064) thousand, resulting from a surplus of expenses on repayment of loans and borrowings over proceeds from raised loans and borrowings.

Working capital

The financing structure of the Company's activities is mainly the result of the sales-oriented nature of its business. Trading companies finance the bulk of their current assets through trade liabilities and the remaining portion is financed by short-term loans. The working capital is also affected by CIECH S.A.'s operations as the parent company of the Capital Group.

At the end of 2010, the working capital was negative and amounted to PLN (697,295) thousand, while a year earlier it amounted to PLN (453,366) thousand.

Table 4.3. CIECH S.A.'s working capital (PLN '000)

Item	31.12.2010	31.12.2009
1. Current assets	901,567	521,169
2. Cash and other short-term investments	369,439	134,328
3. Adjusted current assets (1-2)	532,128	386,841
4. Current liabilities	1,598,862	974,535
5. Short-term loans and other financial liabilities	1,167,117	477,957
6. Adjusted current liabilities (4-5)	431,745	496,578
7. Working capital (1-4)	-697,295	-453,366
8. Demand for current assets (3-6)	100,383	-109,737
9. Net cash (7-8)	-797,678	-343,629

Source: CIECH S.A.

Table 4.4. Turnover of CIECH S.A.'s major working capital components (in days)

Item	2010	2009
Inventory turnover	5	6
Days sales outstanding	44	53
Days payable outstanding	71	72
Operating cycle	49	59
Cash conversion cycle	-22	-10

Source: CIECH S.A.

Calculation principles:
inventory turnover – inventory at the end of a given period / operating expenses in a given period x number of days in a given period,
days sales outstanding – trade receivables at the end of a given period / net sales revenue for a given period x number of days in a given period,
days payable outstanding – trade liabilities at the end of a given period / operating costs in a given period x number of days in a given period,
operating cycle – inventory turnover plus trade receivables turnover,
cash conversion cycle – operating cycle less trade liabilities turnover.

0 Primary economic and financial information (continued)

Liquidity

Liquidity ratios as at the end of 2010 improved compared to the level as at the end of 2009, however, current liquidity ratios remain below 1. This is caused by the financing structure (large share of short-term loans), nevertheless, this does not threaten liquidity. Having entered into a new long-term loan agreement, on February 10th, 2011, the Company considerably improved its financial stability and liquidity.

Table 4.5. Liquidity ratios

Item	31.12.2010	31.12.2009
Current ratio	0.56	0.53
Quick ratio:	0.55	0.51

Source: CIECH S.A.

Calculation principles:
current ratio – current assets / current liabilities at the end of a given period; measure of company's capability to cover its current liabilities with current assets.
quick ratio – current assets less inventory / current liabilities at the end of a given period; measure of a company's capability to collect in a short period of time cash for the coverage of materially due liabilities.

5 Ciech S.A.'s sales activities

5.1 Explanations concerning the seasonal and cyclical nature of Ciech S.A.'s activity

Seasonality resulting from periodic demand and supply fluctuations has a certain impact on the general sales trends in CIECH S.A. Products clearly influenced by seasonality are agro-chemical products:

- artificial fertilizers,
- raw materials for the production of fertilizers,
- plant protection chemicals.

Fertilizers are sold mainly at the turn of Q1 and Q2 and in Q3 of a year. This is due to intensive field fertilisation in spring and autumn. Similarly, most plant protection chemicals are used in the first half of the year, i.e. the period of intensive plant growth, when approx. 90% of the total sale of these products is realised.

Furthermore, in the soda segment, a seasonal relationship between the volume of some products sold and the progress of winter can be observed. A mild winter is reflected in a decrease in the sale of calcium chloride and other products (anti-ice, salt and chloride mix, waste salt), while the influence on the sale of salt is indirect.

In the case of other products, CIECH S.A.'s revenues and financial results are not influenced by any significant seasonal fluctuations during the financial year. On that account, seasonality plays a relatively small role in CIECH S.A.'s overall sales.

5.2 Information about basic products, goods or services

Characteristics of CIECH S.A.'s main industries and markets

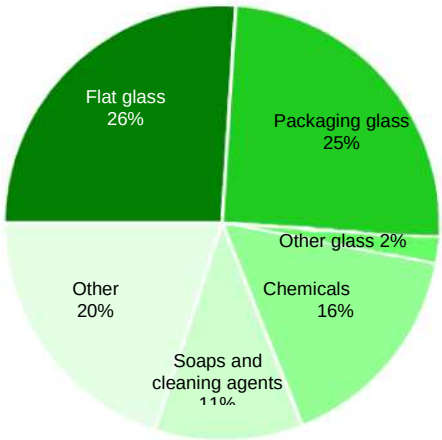
<u>Soda ash</u>

Soda ash
Soda ash is one of the basic raw materials in glass production. It is also used in the production of washing and cleaning agents as well as in the chemical industry, among others, in manufacturing of mineral fertilizers (soda nitre, supertomasine), dyes and pigments. In the global scale, half of the soda ash manufactured is used for the production of glass, 11% for soap and cleaning agents and 16% for various chemicals.

0 Ciech S.A.'s sales activities (continued)

5.2. Information about basic products, goods or services (continued)

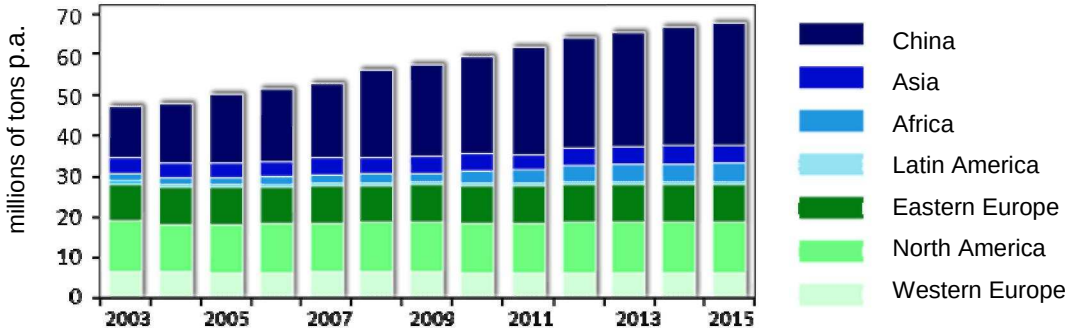
STRUCTURE OF GLOBAL SODA ASH CONSUMPTION



Source: based on Roskill

In Europe, compared to global usage, more soda ash is used for manufacturing glass – 62% (mainly packaging glass) but less for producing soap and cleaning agents (6%). Chemicals production in Europe uses 21% soda ash with 11% attributable to remaining production based on soda ash.

Global soda ash production capacity with forecast until 2015



Source: Own study based on Nexant

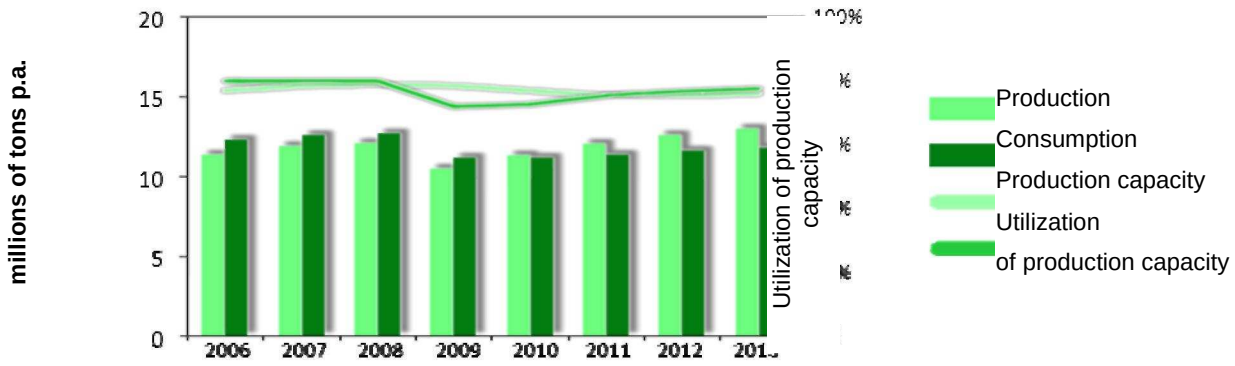
Global soda ash production capacities are estimated at approx. 63 million tons: Asia – 31 million tons (49%), Europe – 15 million tons (24%) and North America – 14 million tons (22%).
The global economic crisis had a major impact on the demand in soda ash markets as it is sold to the sectors of industry which are sensitive to economic conjuncture. In the difficult year 2009 significant drops were recorded in Europe and North America and smaller drops in Asia. According to estimates, nearly 3/4 of the global production capacities were used in 2009. As a result of falling demand, in many local markets an oversupply of soda ash was recorded, which resulted in dropping prices. Surplus soda supply, mainly in Europe and China, became the major problem with which the manufacturers had to deal in the following year.

As forecasted, the situation on the soda market improved in 2010. Preliminary estimates indicate that the global production in 2010 increased by approx. 4-5%. The production dynamics in Poland was much greater and amounted to 13.5% (1,010 thousand tons produced).
However, experts' forecasts indicate that a significant recovery of global demand will not begin until 2011, which will result from changes in the production level on particular geographical markets.

0 Ciech S.A.'s sales activities (continued)

5.2 Information about basic products, goods or services (continued)

European soda ash demand and supply with forecast for



Source: Own study based on Nexant

CIECH S.A.'s operations in terms of soda ash are based on the domestic and European markets. The European soda ash market is highly concentrated and controlled only by a few manufacturers. The largest manufacturer is the Solvay concern which owns production plants in many countries in Europe. Its total European production capacity is equal nearly 5.1 million tons. Solvay's share in the world market is estimated at approx. 17%, while its share in the European market is close to 45%. Following Solvay's unsuccessful transaction in Russia (in June 2010), the Bashkhim Group (Russia) may be considered the second manufacturer on the European level in terms of production capacities with production plants: Sterlitamak (1.8 million tons p.a.) and Bereżniki (0.5 million tons p.a.). Harriman experts assess these amounts to be uncertain, for this reason, we may assume that the Ciech Group with production capacity at the level of over 2.2 million tons holds the second position in the European market ex equo with the Bashkhim Group.

Polish manufacturing companies belonging to CIECH S.A. are the only soda ash manufacturer in Poland and the joint production capacity of Inowrocław and Janikowo facilities amount to 1.2 million tons. The Ciech Group's quantitative share in the European soda ash market equals 14%, in the world market – approx. 3.5%, while in Poland – 98%.

2010 saw further changes in soda ash supply on the European market. After the closure of Dutch facility in 2009, the production was suspended in two other plants in 2010: in Romania (Ocna Mures) and in Ukraine (Lisichansk), which decreased supply by approx. 1 million tons.

European competitors of Ciech Group in terms of soda ash (production capacities in thousands of tons p.a.) in 2010.

Source: own study based on Roskill, Harriman, data from companies

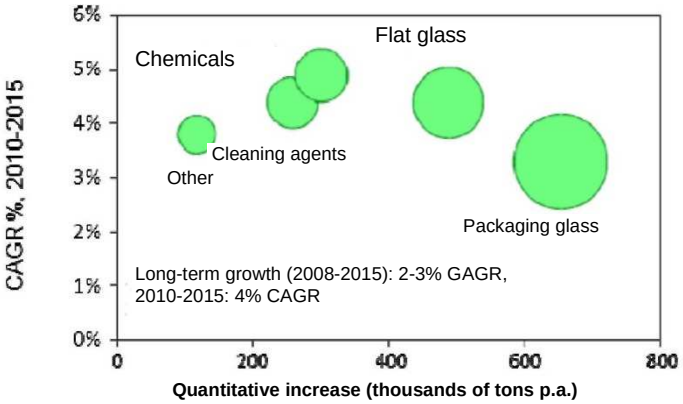
0 Ciech S.A.'s sales activities (continued)

5.2 Information about basic products, goods or services (continued)

The structure of application of soda ash has not changed significantly over many years and neither is it expected to change in the coming years. The demand for soda ash depends mainly on the demand for flat and packaging glass. Customers for flat glass include the construction and automotive industries. These industries' high sensitivity to changes in the economic situation is decisive for changes in demand for soda ash. In case of construction market, 2010 saw a slow recovery with Poland and CEE countries being markets with significant potential for growth. The unstable automotive industry is still victim to large insecurity, with looming stagnation resulting from completion of new car sales support programmes (a system of subsidies).

The market for glass packaging is strictly linked to individual consumption. The consumption of packaging glass per capita (30 kg) in Poland is lower than that in Western European countries (45 to 60 kg per capita), which means that the domestic market has great potential. Experts forecast an increase in the consumption of glass packaging, which will be driven by a growth in consumer markets. The chemical industry is the second common application of soda and allied products. Changes in the product structure in this sector will have an impact on the usage of soda in this industry. The cleaning agents sector proved to be the most resistant sector to the effects of the global crisis as it recorded little fall in demand. An increased demand on liquid and tablet cleaning agents will limit the growth of traditional washing powders production which requires powder raw materials such as soda. By contrast, it is estimated that there will be a significant increase in the usage of cleaning agents in developing countries, which is linked to both lower level of detergents per capita usage compared to European countries and with the increasing population in these countries.

Forecasted changes in demand for products based on soda ash until 2015
(size of the pie = size of the market, 2009)



Source: Own study based on Nexant

Fears expressed by European manufacturers regarding an increased threat to the European market from American manufacturers were not confirmed. Although the import of American soda to Europe increased significantly in 2009 compared to 2008, 2010 saw a major drop in the import of American trona. Eurostat data for 10 months of 2010 indicate a nearly 17% decrease.

The second factor which currently destabilises the European market is the newly opened production of natural soda in Turkey. The estimated production capacity of this facility is currently close to 1 million tons, with the majority of production exported to the European market. In the coming years' perspective (i.e. until 2013), there may be a significant increase in natural soda production in Turkey (even up to 4 million tons p.a.).

Average annual dynamics of change in demand for soda ash (quantitative) with respect to 2010.

	5 previous years	Long-term forecast
World	2%	4%
Europe	1.5%	2%-3%
Poland	2.6%	2%-3%

Source: Ciech Group estimates

0 Ciech S.A.'s sales activities (continued)

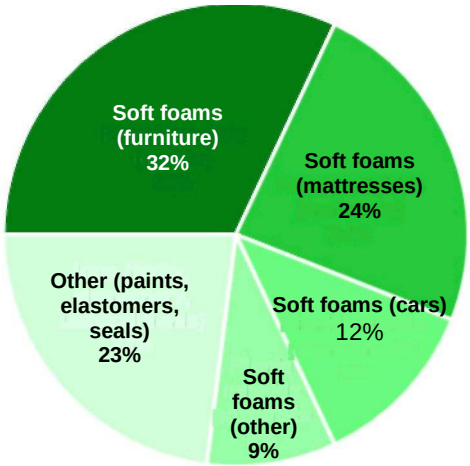
5.2 Information about basic products, goods and services (continued)

2010 brought an expected slight improvement of soda market in a global scale, however, a major recovery of demand will not begin until 2011. Experts forecast that in the coming years the global demand for soda ash will continue to grow by 4% per annum on average. Asia will record the highest growth (5%), including China (6-7%). A slightly worse dynamics will be recorded in Europe (2-3%) and South America (3-4%).

Toluene diisocyanate (TDI)

On a global scale approx. 80% of TDI is used for the production of soft polyurethane foam applied in the production of furniture, car equipment, floor lining, mattresses and packaging. Moreover, TDI is used for the production of coatings – paints, adhesives, binders and sealing compounds.

GLOBAL* TDI USAGE STRUCTURE

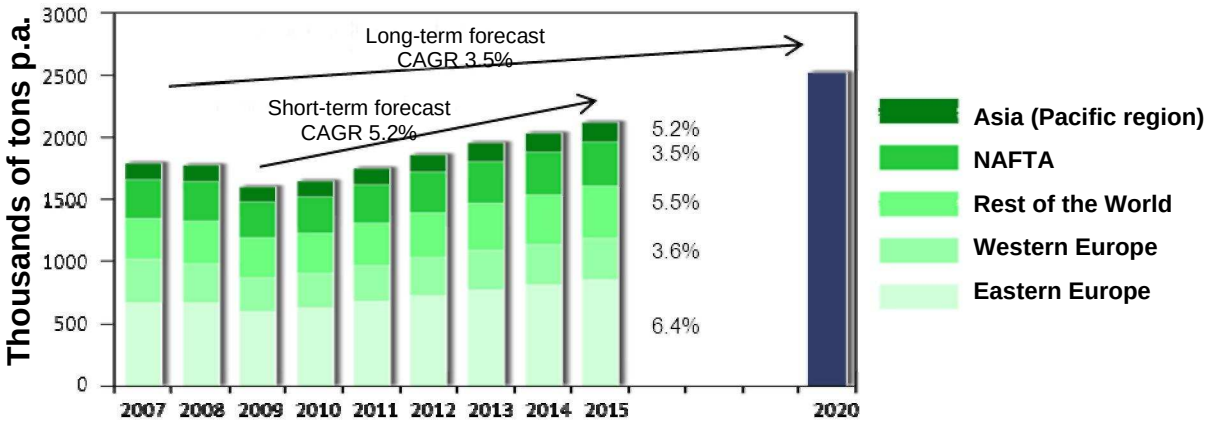


*Divided according to usage in Europe, NAFTA counties and Asia (Pacific region) excluding "Rest of the World" (Africa, Far East, Latin America)

Source: Own study based on Nexant

The size of global demand for TDI in 2010 was estimated at 1.6 million tons. Nexant estimated that in the coming 5 years' perspective, this market will continue to grow by over 5% p.a. on average. Long-term dynamics is evaluated at 3.5%.

Global TDI market growth forecasts



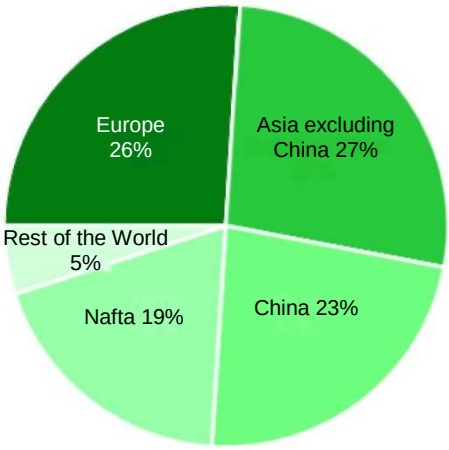
Source: Own study based on Nexant

0 Ciech S.A.'s sales activities (continued)

5.2 Information about basic products, goods or services (continued)

Total global TDI production capacities amount approx. 2.1 million tons p.a. Approx. 50% of this capacity is attributed to Asia, 20% to North America, 26% to Europe. Largest manufacturers are: BASF, Bayer, MITSUI who own respectively: 30%, 21%, and 13% of global TDI production capacity. It is planned to significantly increase production capacities in Europe and Asia in 2011 (by 200 thousand tons p.a. in Hungary – BorsodChem; by 250 thousand tons p.a. in China – Bayer). By 2013, the global production capacities may grow even to approx. 3 million tons, while Asia's share will significantly exceed 50%, if all planned investments are completed.

GEOGRAPHICAL STRUCTURE OF TDI PRODUCTION CAPACITY



Source: Own study based on Nexant

European competitors of Ciech Group (Zachem) in terms of TDI in 2010 (production capacity in thousands of tons p.a.)

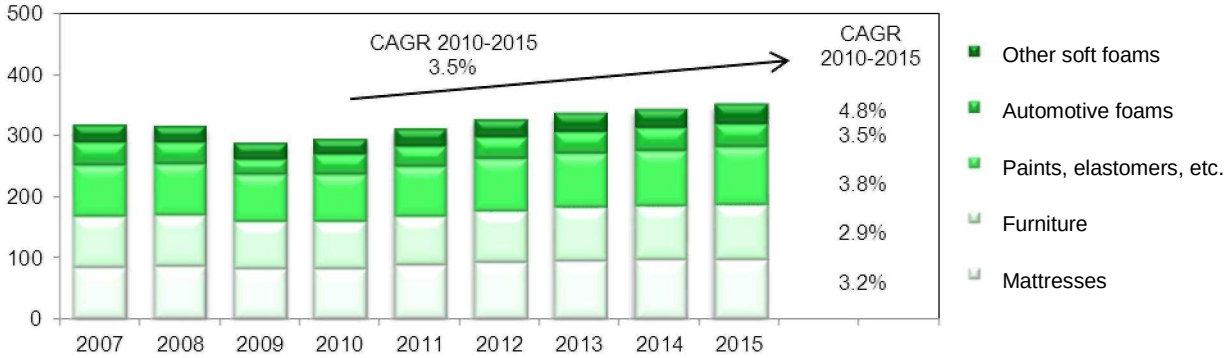
Source: own study by CIECH S.A. based on data from companies

0 Ciech S.A.'s sales activities (continued)

5.2 Information about basic products, goods or services (continued)

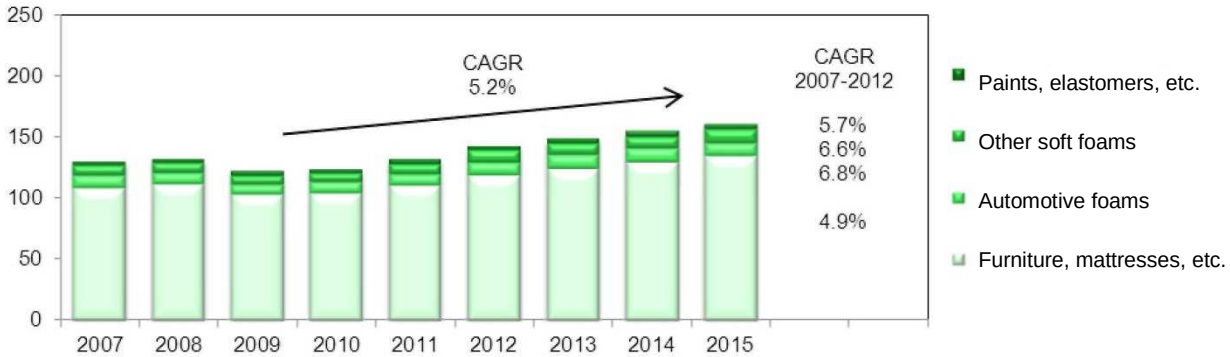
TDI demand dynamics depends on the type of target market. Major European TDI output industries are: upholstered furniture industry, automotive industry and mattress production, etc. In the western part of the continent, the sector of paints, adhesives, insulation and elastomers also plays a vital role. Various European segments of TDI recipients are expected to achieve positive growth dynamics in the coming years, ranging from 3% to 7%. This is mainly due to life quality improvement trends realised through increasing usage of soft foams in furniture.
In case of the automotive industry, the situation may be more varied depending on the region and the level of vehicle market saturation. In a few years' perspective, Western Europe is expected to see an average annual increase in demand nearing 3.5%, Central and Eastern Europe (where the market is relatively small) – by 6.8%.

TDI demand growth forecasts for Western Europe as per end markets



Source: Own study based on Nexant

TDI demand growth forecasts for Central and Eastern Europe as per end markets



Source: Own study based on Nexant

CIECH S.A., operating through Zachem, is one of the few TDI manufacturers in Europe. Its share in the global product market is equal approx. 4%. Half of production is intended for the Polish market which is estimated at approx. 45 thousand tons. The main supplier on the domestic market is Zachem, with a share of approx. 40%. The remaining quantities are imported mainly from Hungary, France and Germany.

Average annual dynamics of change in demand for TDI (by quantity) with respect to 2010.

	5 previous years	Long-term forecast
World	4%-5%	2%-4%
Europe	4%-5%	0%-1%
Poland	6%	2%

Source: Ciech Group estimates

0 Ciech S.A.'s sales activities (continued)

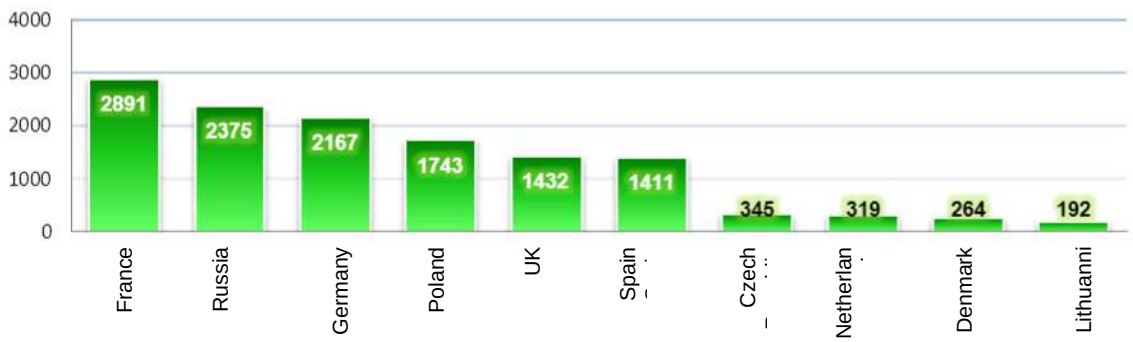
5.2 Information about basic products, goods or services (continued)

Mineral fertilizers

Mineral fertilizers constitute a basic factor increasing the productivity of agriculture which is indispensable to provide food for a growing number of people per arable land area. It is estimated that by 2030, the size of arable area per capita will have dropped from 0.28 ha in 1998 to 0.22 ha, as a result of soil eroding and becoming barren, infrastructural development and urbanisation processes. It is also estimated that the world population will have grown up to 8.5 billion by 2030 and up to 9.2 billion by 2050.

The fertilisation structure in Europe is diverse. The greatest share belongs to nitrogen (approx. 70%), then potassium and phosphorus (approx. 16-17% each). In Poland less nitrogen and more phosphorus and potassium is used. The share of the main fertilizing components amounts to: 58%, 20% and 22%. Past agricultural seasons saw slight changes in the fertilisation structure throughout Europe (and in Poland as well). The importance of nitrogen over other mineral components (phosphorus and potassium) grew.

Fertilizers usage in selected European countries
'000. tons NPK (season 2009/10)



Source: IFA (December 2010).

The largest quantities of fertilizers in the European Union per pure component are consumed in France and Germany (2.9 and 2.2 million tons of NPK respectively). Poland is among the leading consumers with approx. 1.7 million tons of NPK. After the downturn on fertilizers market in the 2008/2009 season resulting from the economic crisis, the following season, 2009/2010 brought a change in the current market trend. The agricultural market recovered. It is estimated that the aggregated global demand for fertilizers increased by 5%. The greatest increase was recorded in the case of phosphate fertilizers (11%), which resulted from recovering demand after a dramatic drop a year before. Consumption of nitrogen-based fertilizers increased by 4% and the demand for potassium fertilizers remained at a similar level.

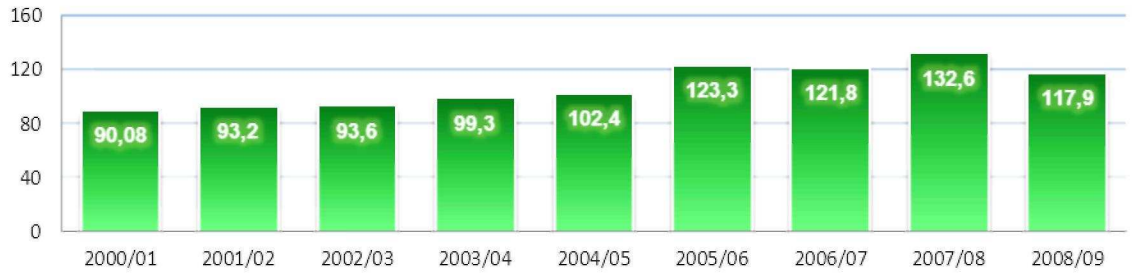
High diversification in changes in demand for mineral fertilizers was recorded in the individual regions. All regions in the world (excluding Latin America) recorded an increased demand for fertilizers, though on different level, from 2% in East Asia to 14.7% in North America. The demand increase pace for the whole of Europe was high and reached 7.7%. Latin America was the only region to see a decrease in fertilising by 1.5%.

In 2010, following a growth in global cereal prices, there was an increase in demand for fertilizers, which resulted in a significant advance in prices of fertilizers on the global market. According to IERiGŻ (the Institute of Agricultural and Food Economics), world prices of fertilizers increased on average by approx. 37%, including the greatest increases regarding superphosphates and ammonium phosphates (which nearly doubled), urea by 50%. Only the potassium salt was cheaper by approx. 22%.
The domestic market is the main area of CIECH S.A.'s operations in terms of fertilizers. In terms of mineral fertilizers sales, Poland is among the small markets on a global level with an annual usage of 1.7 million tons, which corresponds to a low NPK usage per 1 ha of arable land. According to the data of the Central Statistical Office (GUS), in the last season 2008/2009 the consumption of fertilizers in Poland reached 118 kg NPK per 1 ha of arable land, which is a decrease of 11% in comparison with the previous season. A smaller consumption was recorded in all groups of fertilizers: nitrogen by 4%, phosphorus by 19% and potassium by 20%.

0 Ciech S.A.'s sales activities (continued)

5.2 Information about basic products, goods or services (continued)

Usage of mineral fertilizers in Poland between 2000-2009
(in kg of pure component per 1 ha of arable land)

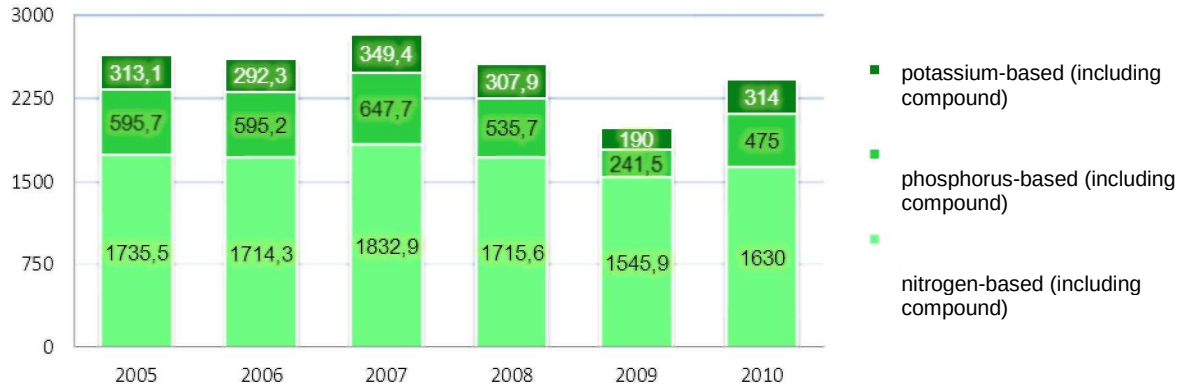


Source: GUS

2010 reversed the downward trend and brought a growth in the fertilizer production in Poland. After a drastic decrease in the production of all types of fertilizers in the critical year 2009, the following year 2010 saw a significant increase in the production of fertilizers. Production of phosphorus-based fertilizers doubled, whereas the production of potassium-based fertilizers grew by 65%, which means that there is a need to rebuild lacking nutrient elements in the soil which was severely limited in the previous year. The increase in nitrogen-based fertilizers production was the smallest, i.e. a mere 5%.

The following graph presents the production of fertilizers in Poland per pure component over the past years.

Production of fertilizers in Poland per pure component
between 2005-2010 (thousands of tons)



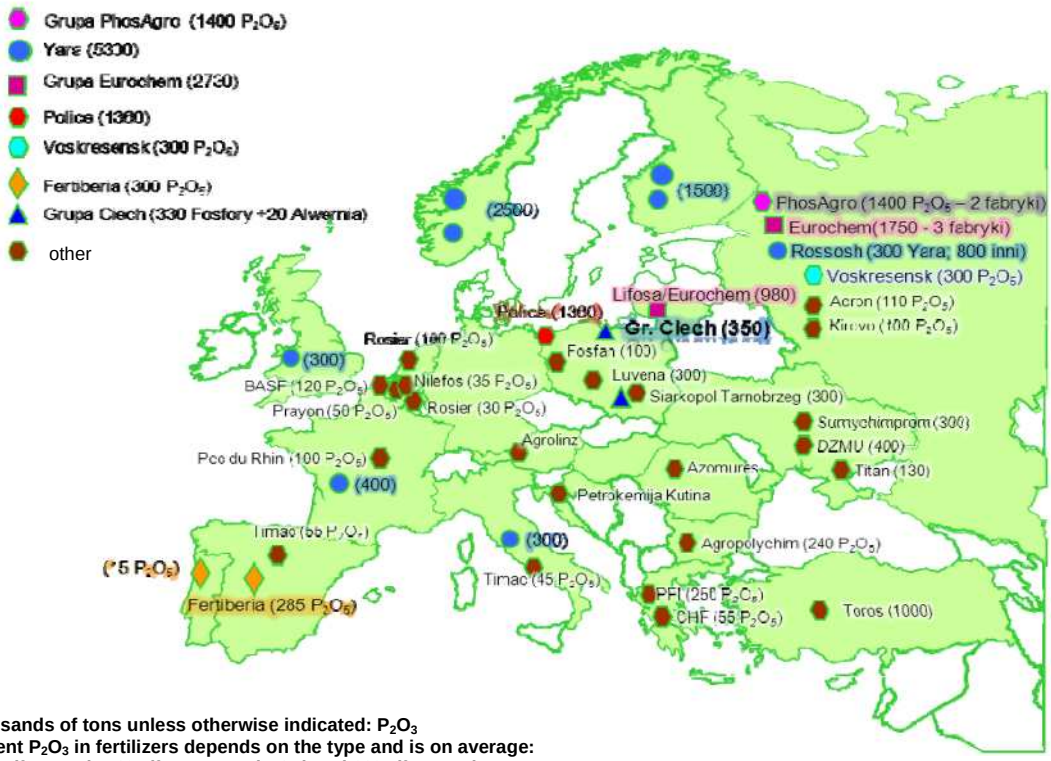
Source: GUS

CIECH S.A. and the Ciech Group sells 95% of produced fertilizers on the domestic market, where it competes against many entities, In addition, fertilizers and intermediate products from Eastern Europe, Asia and Africa are also imported into the Polish market.

0 Ciech S.A.'s sales activities (continued)

5.2 Information about basic products, goods or services (continued)

Leading manufacturers of phosphate and compound fertilizers in Europe (production capacities in thousands of tons p.a.)*



***thousands of tons unless otherwise indicated: P_2O_3**
Content P_2O_3 in fertilizers depends on the type and is on average:
6-30% (for NPK): 48% (for DAF and TSP) and 62% (for MAP)

Source: Own study based on SRI, data from companies

The largest European producer is Yara with its European NPK plants in Finland, Norway, France, Italy, Great Britain and Russia. In the years 2008-2009 Yara closed its plants in Lithuania and Hungary. Yara's total production capacity amounts to 5.3 million tons. There is also major production capacity in Turkey, Greece, Spain, Belgium, Poland and Ukraine.

Consumption and forecasted consumption of mineral fertilizers in Europe in the period 2009-2012 (in million tons NPK)

	2009/2010	% change	2010/2011 forecast	% change	2011/2012 forecast	% change
N	10.4	2.7	10.7	3.3	10.9	1.4
P_2O_5	2.4	24.0	2.5	5.5	2.6	3.3
K_2O	2.6	16.1	2.8	7.9	2.9	3.3
N+P+K	15.3	7.7	16.0	4.4	16.3	2.0

Source: IFA (December 2010).

Experts of the fertilizer industry expect the 2010/2011 season to experience further improvement on the global fertilizers market. Preliminary forecasts for global consumption show a nearly 5% increase. A large upward trend in potassium fertilizers (+16%) and a continued improvement in phosphate fertilizers (+6%) are expected. It is assumed that nitrogen fertilizers will see a growth dynamics at the level of 1.6%. Increase will appear in all regions of the world (excluding Middle East and Eastern European and Central Asian countries).
The following, 2011/2012 season is forecasted to bring further, but slightly smaller increase of approx. 3.8% worldwide. The growth dynamics between the demand for particular fertilizer components will balance – the demand for potassium will grow by 7.2%, phosphorus – by 4.7% and nitrogen – by 2.6%. Growth is forecasted

0 Ciech S.A.'s sales activities (continued)

5.2 Information about basic products, goods and services (continued)

for all regions and it should be encouraged by the development of the biofuels market and the absence of balance in the food market globally. It is expected that during the coming five seasons, the average growth dynamics will reach 3%.
The coming 2010/2011 season in Europe will bring a growth in the usage of fertilizers by 4.4% and by another 2% in the following season. Medium-term forecasts (5 seasons) indicate an increased demand for fertilizers in Europe on an average level of 2.5% a year.

Long-term forecasts for Poland up to 2019 indicate an increased usage of fertilizers per pure component by 15% for nitrogen, 20% for phosphorus and 25% for potassium, which signifies an average annual dynamics of 1.4%, 1.8% and 2.3% respectively. This shows that the slowest growth will be seen in terms of nitrogen, which did not fall as dramatically as phosphorus or potassium in the previous years. EFMA experts (the European Fertilizer Manufacturers Association) forecast that, following a lower usage of phosphorus and potassium fertilizers in the past two years, it may be necessary to supplement a shortage in these two components in the coming years. This will brings a greater growth dynamics for phosphorus and potassium than for nitrogen.

Average annual dynamics of change in demand for fertilizers (by quantity) with respect to the 2009/2010 season.

	2 previous seasons	Forecast for the 5 coming seasons until 2014/15.
World	-1.8%	3%
Europe	-10%	2.5%

Source: own calculations based on IFA (May 2010).

The following tables present the sales structure of main products.

Table 5.2.1.CIECH S.A.'s sales structure of goods and materials between 01.01.2010 and 31.12.2010

Name of product, group of products, goods, services	Quantity in thousand tons	Net sales	% share
TDI	65.3	560,047	25.20%
Dense soda ash	704.5	465,645	20.95%
Epoxy resins	23.3	240,417	10.82%
Light soda ash	239.1	160,486	7.22%
Dry salt	341.2	104,044	4.68%
Raw materials for the production of fertilizers	156.7	121,751	5.48%
Baking soda	67.1	63,497	2.86%
Other	-	506,346	22.79%
Total		**2,222,233**	**100.00%**

Table 5.2.2. CIECH S.A.'s sales structure of goods and materials between 01.01.2009 and 31.12.2009

Name of product, group of products, goods, services	Quantity in thousand tons	Net sales	% share
TDI	62.5	514,305	27.05%
Dense soda ash	653.2	512,949	26.98%
Epoxy resins	21.8	149,950	7.89%
Light soda ash	219.2	167,103	8.79%
Dry salt	317.1	93,618	4.92%
Raw materials for the production of fertilizers	75.2	71,315	3.75%
Baking soda	70.4	66,349	3.49%
Other	-	325,487	17.12%
Total		**1,901,077**	**100.00%**

0 Ciech S.A.'s sales activities (continued)

5.3 Changes in the markets

CIECH S.A., being the parent and the entity which realizes the greatest sales within the Ciech Group did not record in 2010 a dependence on one or more recipients or suppliers, its sales to any recipient did not exceed 10% of revenue.

CIECH S.A. is a major supplier and recipient for the majority of Ciech Capital Group companies, including:

- Soda Polska CIECH S.A.;
- ZACHEM S.A.;
- "Organika-Sarzyna" S.A.

Approx. 40% of revenue from sales of products, goods and services earned by the Ciech Group in 2010 came from the domestic market.

Table 5.3.1. Ciech S.A.'s net sales in the period between 01.01.2010 – 31.12.2010 and in the comparable period ('000 PLN)

Direction	2010	2009
domestic	890,332	869,967
export:	1,331,901	1,031,110
- European Union	791,555	679,188
- Other European countries	65,589	49,218
- Africa	147,099	60,121
- Asia	224,356	184,439
- Other	103,524	58,144

Table 5.3.2. Revenues on products and services received from major external customers ('000 PLN)

Company	2010	2009
KOPALNIE I ZAKŁADY CHEMICZNE SIARKI "SIARKOPOL" SPÓŁKA AKCYJNA W GRZYBOWIE"	9,336	2,042
LOTOS OIL S.A.	87	25
WARSZAWSKIE ZAKŁADY FARMACEUTYCZNE POLFA SPÓŁKA AKCYJNA	66	57

5.4 Information about changing sources of supply in production materials, goods and services

Table 5.4.1. CIECH S.A.'s net purchase of goods in the period between 01.01.2010 – 31.12.2010 and in the comparable period ('000 PLN)

Direction	2010	2009
domestic	1,712,483	1,473,397
import:	200,255	168,237
- European Union	56,410	78,260
- Other European countries	14,455	19,415
- Africa	29,308	5,461
- Asia	100,082	65,101
- Other	-	-

0 Ciech S.A.'s sales activities (continued)

0 Information about changing sources of supply in production materials, goods and services (continued)

Table 5.4.2. CIECH S.A.'s largest suppliers between 01.01.2010 and 31.12.2010

Supplier	Net purchase	Share	Relationship with CIECH S.A.
GK SODA MĄTWY	716,364	38%	Subsidiary
GK ZACHEM S.A.	486,170	25%	Subsidiary
Other	710,204	37%	-
Total	**1,912,738**	**100%**	**-**

Table 5.4.3. CIECH S.A.'s largest suppliers between 01.01.2009 and 31.12.2009

Supplier	Net purchase		Relationship with CIECH S.A.
GK SODA Mątwy	708,740	43%	Subsidiary
GK ZACHEM S.A.	497,696	30%	Subsidiary
Other	435,198	27%	-
Total	**1,641,634**	**100%**	**-**

6 Investment activity Description of the main capital investments and methods of their financing

6.1 Physical investments

The total investment expenditure of **CIECH S.A.** in 2010 amounted to PLN 2,101 thousand. The main investment projects included the Company's IT development (completion of development of an application for consolidation and controlling) as well as the implementation of solutions to improve data security in CIECH S.A.'s IT systems. In addition to IT expenditures, preparations for the construction of CIECH S.A.'s office at ul. Powązkowska were under way.

6.2 Description of the main capital investments and methods of their financing

Capital investments and divestments made in the current reporting period and description of the methods of their financing

The strategy of CIECH S.A. and the Ciech Group defines the main growth directions and capital investment and divestment activities in relation to companies producing and trading in products from the so-called "basic portfolio", divided into commodity groups by divisions operating within CIECH S.A. The actions taken in 2010 concentrated on integration within the Soda Division, which contributed to the strengthening of its structure and as a result enabled the Division to compete effectively with major market players. In addition, the performance of obligations taken in the previous years within the Organic Division continued – fulfilment of the conditions of privatisation agreements concerning companies forming the Division (ZACHEM S.A. and Z. Ch. "Organika-Sarzyna" S.A.). Measures organising the Group's structure continued, mainly with regard to further divestment of companies not being part of the core business.

Investments

In December 2007, CIECH S.A. granted Soda Deutschland Ciech a loan amounting to EUR 95.1 million for the purchase of shares in Sodawerk Holding Strassfurt GmbH – a controlling entity of a German Capital Group and to refinance this company's liabilities.
Following the sale of gas voids in May 2009, the Soda Deutschland Ciech Capital Group recorded a significant financial surplus which could be used to refinance Company's debt.
As a result of an agreement with Commerzbank – bank providing finance for German companies – the company obtained an approval to gradually repay the CIECH S.A. loan provided that Soda Deutschland Ciech GmbH is recapitalised (converting loan repayment into Company's shares). This process has been carried out since mid-2009. Recapitalisation of Soda Deutschland Ciech lead to a change in the German Capital Group's financing structure.

0 Investment activity Description of the main capital investments and methods of their financing (continued)

0 Description of the main capital investments and methods of their financing (continued)

In 2010, the share capital of Soda Deutschland Ciech was raised twice:
1. in Q2 2010 by EUR 1.5 million – increase from EUR 15.025 million do EUR 16.525 million by way of creating a new share covered by a sole shareholder – CIECH S.A.
2. in Q4 2010 by EUR 2.4 million – increase from EUR 16.525 million do EUR 18.925 million by way of creating another share covered by a sole shareholder – CIECH S.A.

As at 31.12.2010, the share capital of Soda Deutschland Ciech amounted to EUR 18.925 million.

Capital divestments in CIECH S.A.

Basic information about main companies covered by divestments carried out in 2010.

Company	Selling entity	Project status
Azoty Tarnów	CIECH S.A.	Transaction value amounting to PLN 41.6 million. The cash transfer was realised in 2010.
Ciech Service	CIECH S.A.	Transaction carried out on November 9th, 2010 – a transfer of share ownership to Sotronic Sp. z o.o. for PLN 3.1 million. The cash transfer was realised in 2010.
PKCh	CIECH S.A.	Transaction carried out on 02.09.2010 through a transfer of share ownership to Azoty Tarnów for PLN 50 thousand. The cash transfer was realised in 2010.

Moreover, on December 16th, 2010, CIECH S.A. entered into a conditional agreement with Zakłady Azotowe "Puławy" S.A. with registered office in Puławy regarding the sale of shares in GZNF "FOSFORY" Sp. z o.o. Parties set the forecasted share purchase price at PLN 107.2 million.

6.3 Capital investments and divestments planned in the next 12 months

Capital investments

Obligations assumed in previous years were fulfilled within completed capital investments, they will be spread over time and include: in the Organic Division – fulfilling privatisation agreements regarding companies being part of the Division, buying employee shares of ZACHEM S.A. and Z. Ch. “Organika-Sarzyna” S.A.

In compliance with the Sponsor’s Letter of Undertaking dated December 10th, 2009 signed by CIECH S.A., Commerzbank AG and Soda Deutschland Ciech GmbH, CIECH S.A. must carry out a SDC share capital raise by EUR 70 million. The assumed source of Soda Deutschland Ciech GmbH recapitalisation will be a partial repayment of a loan granted to SDC by CIECH S.A. (as at December 31st, 2010, the borrowing amounted to approx. EUR 84 million). The final decision regarding the form of Soda Deutschland Ciech GmbH recapitalisation will depend on the analysis of the transaction's tax consequences.
In addition, pursuant to the Sponsor’s Letter of Undertaking, CIECH S.A. is responsible for providing SDC with additional funding amounting to EUR 3.9 million increased by interest, in the form of a capital raise or granting a subordinate borrowing, in order to allow SDC to fulfil their obligations under the agreement regarding the borrowing granted to SDC by Tibor von Wiedebach. The borrowing together with interest, repaid by SDC in October 2010, equalled EUR 4.116 million.

Divestments

The implementation of the Restructuring Plan will be of key importance for the shaping of CIECH S.A.'s future results. The Plan assumes an implementation in years 2010-2015 of restructuring initiatives aimed at improving the financial situation of CIECH S.A. and increasing its capacity to repay the debt and to develop its activities. The total amount of net revenue and savings which could be obtained on account of carrying out

0 Investment activity Description of the main capital investments and methods of their financing (continued)

0 Capital investments and divestments planned in the next 12 months (continued)

restructuring initiatives presented in the Restructuring Plan is estimated at approx. PLN 600 million. The main prerequisites behind implementing divestment projects described in the Plan were: (i) to concentrate on soda and organic products, (ii) high sensitivity to economic fluctuations on agrochemical markets, (iii) relatively small importance of the silicates and glass market activities, (iv) withdrawal from companies whose operations are not directly linked to CIECH S.A.'s activities (e.g. agro-chemistry, silicates, glass, pharmacy or transport).

The initiatives were divided into the quantified and others whose effect could not currently be estimated (and whose implementation may constitute an additional source of revenue and savings).

Within quantified initiatives, the Restructuring Plan assumes, among others:

- Sale of all owned share blocks in companies which were previously basic for the CIECH S.A., i.e. GZNF Fosfory, Alwernia, Vitrosilicon, in order to solicit cash and withdraw from non-strategic markets.
- Sales of shares in non-basic companies, i.e. Transoda, Polfa (and Polfa Hungaria) in order to solicit cash, decrease resources involvement in ownership supervision and increase the transparency for investors.
- Sales of selected organised parts of Zachem company, having analysed the future production profitability and the economic effects of the decision, in order to solicit cash.

Other initiatives described in the Restructuring Plan include:

- Preparing and carrying out sales of shares in small non-basic companies owned by Zachem (8 companies), Organika Sarzyna (9 companies) and Cheman, owned by Ciech Finance, in order to solicit cash, decrease resources involvement in ownership supervision, decrease the risk of involving financial resources and increase the transparency for investors.
- Liquidating the involvement in 48 companies, i.e. beginning six and continuing 30 liquidation processes and monitoring bankruptcy processes and disposal of marginal share blocks in 12 companies in order to decrease the risk of involving financial resources and decrease resources involvement in ownership supervision.

Basic information about main companies covered by divestments carried out by CIECH S.A.

Company	Project status	Project completed by
Transclean	Project completed	-
GZNF Fosfory (Group)	A conditional agreement on the sales of company's shares signed.	2011
Vitrosilicon	Change of divestment process.	2012
Alwernia	Talks with potential investors in progress.	2011
Cheman	Restructuring process in progress.	2011
Polfa	Talks with potential investors in progress.	2011
Transoda Sp. z o.o.	Talks with potential investors in progress.	2011
Chemia.com S.A.	Talks with potential investors in progress.	2011

6.4 Feasibility analysis of investment projects

The investment policy of CIECH S.A. and the Ciech Group has been adapted to current capital raising capabilities so as to fully secure planned physical and capital investments.

0 Investment activity Description of the main capital investments and methods of their financing (continued)

6.4 Feasibility analysis of investment projects (continued)

Sources of financing for investment activities conducted by CIECH S.A. and Ciech Group:

- funds gained on the issuance of D series shares performed in the first quarter of 2011,
- funds from divestments which will be conducted progressively. in accordance with the adopted Restructuring Plan,
- external financing in the form of EU funds,
- External financing in the form of bank loans and funds from planned, long-term financing provided by EBRD,
- funds earned on operating activity.

7 Funds management in CIECH S.A.

7.1 Loans, borrowings, sureties and guarantees

Loans and borrowings

On April 26th, 2010 a loan agreement was signed between, among others, CIECH S.A. (the Borrower), its subsidiaries (the Guarantors) and a bank consortium. The total maximum amount of loans is the equivalent of PLN 1,340,000,000.

Signing of the aforementioned agreement was followed by further steps necessary to fulfil conditions precedent to the agreement and repayment of the loan, including:

- on May 17th, an agreement between creditors was signed stipulating the order of repayments to banks participating in the agreement between creditors. The banks also undertook to prolong the maturity of existing financing to August 24th, 2010 at the latest. Pursuant to this agreement, companies participating in the agreement granted sureties for liabilities of CIECH S.A. and S.C. US Govora – Ciech Chemical Group S.A. on account of future bilateral loan agreements; the document established the principles of establishing collateral to the benefit of the following banks: BNP Paribas S.A., Credit Agricole CIB S.A. and Fortis Bank Polska S.A.
- on June 14th bilateral loan agreements were signed with the following banks: BNP Paribas S.A., Credit Agricole CIB S.A. and Fortis Bank Polska S.A. for a total amount equivalent to approx. PLN 42 million.
- on June 15-17th collateral required in accordance with the loan agreement and the agreement between creditors were established.
- Organising Banks approved of the Ciech Group's restructuring plan approved by the CIECH S.A. Management Board on August 4th, 2010.

Fixed-term loans and renewable credits intended to finance existing debt were paid out on August 24th and 25th, 2010, in accordance with the filed application. The total released and used amount of loans is equal to the equivalent of PLN 1,285 million. The loan was released in the form of a fixed-term tranche of PLN 1,210 million, renewable credit of PLN 30 million and guarantees and letters of credit.

Other details regarding loans and borrowings granted in 2010 by the Company have been discussed in section 2 of this Report on CIECH S.A.'s Activities.

Table 7.1.1. Borrowings granted by Ciech S.A. in 2010

Borrower	Repayment date	Granted borrowing in PLN according to the exchange rate as at 31.12.2010	Terms of granting	Borrower's relationship with CIECH S.A.	Additional Information
ZACHEM S.A.	31.12.2012 (partial repayment of PLN 12,500 on 25.08.2010)	96,992	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary	
POLFA sp. z o.o	26.12.2011	3,960	Interest amounting to EURIBOR 1M + margin payable at the end of each day of the month	Subsidiary	*EUR 1,000
POLFA sp. z o.o	26.12.2011	1,482	Interest amounting to LIBOR 1M + margin payable at the end of each day of the month	Subsidiary	*USD 500

0 Funds management in CIECH S.A. (continued)

7.1 Loans, borrowings, sureties and guarantees (continued)

AGROCHEM CZŁUCHÓW	26.12.2011	37,558	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
AGROCHEM DOBRE MIASTO	26.12.2011	4,097	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
Z.CH.ALWERNIA	26.12.2011 (partial repayment of PLN 5,000 on 24.08.2010)	10,959	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
Z.CH.ALWERNIA	26.12.2011 (partial repayment of PLN 5,000 on 24.08.2010)	10,000	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
CHEMAN S.A.	26.12.2011	923	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
CHEMAN S.A.	26.12.2011 (partial repayment of PLN 4,500 on 27.09.2010)	7,000	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
GZNF FOSFORY sp. z o.o.	26.12.2011 (partial repayment of PLN 10,000 on 27.09.2010)	88,956	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
Z.CH.ORGANIKA SARZYNA S.A.	26.12.2011 (partial repayment of PLN 10,000 on 30.08.2010)	72,885	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
TRANSCLEAN Sp. z o.o.	26.12.2011	1,027	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
VITROSILICON S.A.	26.12.2011 (partial repayment of PLN 3,000 on 09.12.2010)	33,626	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
VITROSILICON S.A.	26.12.2011	1,045	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
VITROSILICON S.A.	26.12.2011	17,892	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary
VITROSILICON S.A.	26.12.2011	10,000	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary

0 Funds management in CIECH S.A. (continued)

7.1 Loans, borrowings, sureties and guarantees (continued)

SODA POLSKA Ciech sp. z o.o.	26.12.2011	124,483	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary	
ZACHEM S.A.	31.12.2012	43,000	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary	
ZACHEM S.A.	31.12.2012	26,677	Interest amounting to LIBOR 1M + margin payable at the end of each day of the month	Subsidiary	*USD 9,000
JZS JANIKOSODA S.A.	31.12.2010 (full repayment on 30.12.2010)	600	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary	
ZCH SODA MĄTWY S.A.	31.12.2010 (full repayment on 30.12.2010)	700	Interest amounting to WIBOR 1M + margin payable at the end of each day of the month	Subsidiary	

*Borrowings granted in the currency recognised according to the NBP average exchange rate of 31/12/2010.

Table 7.1.2. Borrowings granted to CIECH S.A. in 2010

Lender	Repayment date	Amount of borrowing including capitalised interest in PLN	Terms of granting	Borrower's relationship with CIECH S.A.	Additional Information
IZCH.SODA MĄTWY S.A.	Final maturity on December 26th, 2011	57,188	Annual interest rate according to a variable % rate being the sum of an appropriate WIBOR 1M base rate, margin and the obligatory cost	Subsidiary	
JZS.JANIKOSODA S.A.	Final maturity on December 26th, 2011	56,692	Annual interest rate according to a variable % rate being the sum of an appropriate WIBOR 1M base rate, margin and the obligatory cost	Subsidiary	

0 Funds management in CIECH S.A. (continued)

7.1 Loans, borrowings, sureties and guarantees (continued)

Table 7.1.3. Guarantees and sureties granted or effective in 2010

Sureties:

Beneficiary's name	Amount of loans covered by surety in whole or in specific part		Surety period	Financial terms, including surety fee due to the company		Nature of relations between CIECH S.A. and the beneficiary
	currency in '000	PLN '000.				
PKN ORLEN S.A.		1,200	No fixed term	Payment to CIECH S.A. equal to 1% of the surety value	Cheman S.A.	Subsidiary
COMMERZBANK AG	EUR 25,000	99,008	30.09.2014	To the loan agreement of January 23rd, 2008 for EUR 75 million	Soda Deutschland Ciech GmbH	Subsidiary
BANK CONSORTIUM	EUR 13,000	51,484	31.12.2013	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. – Romania	Subsidiary
Total CIECH S.A.		**151,692**				

Guarantees:

Beneficiary's name	Total amount of guarantees granted, backed in whole or in specific part		Guarantee period	Financial terms, including guarantee fee due to the company	Principal	Nature of relations between CIECH S.A. and the beneficiary
	currency in '000	PLN '000.				
GATX RAIL Poland sp z o.o. S.A.	EUR 64	253	until 30.12.2011	Payment collateral to tank lease agreements	ZACHEM S.A.	Subsidiary
SG Equipment Leasing Polska" Sp.z o.o.-Warszawa	EUR 1,666	6,598	until September 30th, 2011	-	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. – Romania	Subsidiary

0 Funds management in CIECH S.A. (continued)

7.1 Loans, borrowings, sureties and guarantees (continued)

Air Products, LLC and Air Products Chemicals Europe B.V.	USD 38,500	114,118	2013	The surety was estimated on the basis of half-yearly deliveries under the contract concluded by ZACHEM S.A. in 2004, and annexed in October 2007. The value of annual supplies amounts to USD 77 million	ZACHEM S.A.	Subsidiary
ING Lease Romania IFN S.A.	EUR 2,237	8,858	April 30th, 2013	Payment collateral to lease agreements	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. – Romania	Subsidiary
Total CIECH S.A.		**129,827**				

In 2010, CIECH S.A. did not receive any guarantees or sureties.

Table 7.1.4. Loan agreements concluded and annexed by Ciech S.A. in 2010

Bank	Type of loan	Loan amount: '000	Loan currency '000	Interest rate	Maturity	Date of agreement/annex
Bank Consortium	Consortium	1,180,604	PLN	WIBOR 1M + bank margin	26.12.2011	26.04.2010
Bank Consortium	Consortium	7,129	EUR 1,800	EURIBOR 1W + bank margin	26.12.2011	26.04.2010
Bank Consortium	Consortium	1,482	USD 500	LIBOR 1M + bank margin	26.12.2011	26.04.2010
CA-CIB S.A., branch in Poland	Bilateral	11,865	EUR 2,996	WIBOR O/N + bank margin	24.12.2011	14.06.2010
BNP Paribas S.A., branch in Poland	Bilateral	8,979	PLN	WIBOR 1M + bank margin	26.12.2011	14.06.2010
Fortis Bank Polska SA	Bilateral	20,368	PLN	WIBOR 1M + bank margin	26.12.2011	11.06.2010

7.2 Information on the issue of securities

In 2010, Ciech S.A. did not issue securities.
In the second half of 2010, CIECH S.A. began preparing its issuing prospectus in order to raise share capital. Share subscriptions within the subscription right and additional subscriptions were completed on February 16th, 2011, the allocation of shares was performed on February 25th, 2011. Consequently, the company issued 23,000,000 ordinary bearer shares each worth PLN 5.

7.3 Financial instruments

CIECH S.A.'s financial results may be subject to fluctuations due to changing market conditions, in particular, product performance, exchange rates and interest rates. Through risk management the Company optimises the variability of future cash flows and limits potential economic losses arising from changing market conditions.

0 Funds management in CIECH S.A. (continued)

0 Financial instruments (continued)

Sources of currency risk which threatened the Company in 2010 included: purchase of raw materials, product sale, loans and borrowings raised and cash in foreign currencies.

In 2010, CIECH S.A.'s portfolio included the acquired EUR/PLN currency put options and the issued EUR/PLN call options (converted into synthetic forwards in the process of restructuring), constituting a collateral for up to 70% of the currency operating exposure of CIECH S.A.
As stipulated in the Loan Agreement of April 26th, 2010, CIECH S.A. prematurely terminated all active option transactions and as at the end of 2010 was not party to any active option transactions.

In CIECH S.A. derivatives are measured at fair value with the use of models of financial instrument valuation using generally available data from active markets.

The Company applies hedge accounting in order to limit the variability of revenues generated by the Company, resulting from exchange rate fluctuations on the market. The analysis of the effect of applying hedge accounting is presented in section 30.2 of CIECH S.A.'s financial statements.

Information about financial instruments has been presented in detail in notes and explanations to the financial statements in section 30.

7.4 Objectives and principles in financial risk management in CIECH S.A.

The aim of financial risk management policy is to indicate areas requiring risk analysis, to present means to identify and measure it, to establish activities undertaken in relation to identified risk areas and to define organisational solutions in the risk management process.

CIECH S.A. is exposed to the following financial risks:

- customers credit reliability risk,
- liquidity risk,
- market risk, including:
    - currency risk,
    - interest rate risk,
    - raw material and product price risk

While fulfilling its main goals, CIECH S.A. aims to avoid excessive market risk. This aim is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of debt. When assessing risk, the Group takes into account the portfolio effect resulting from the variety of conducted business activity. Risk effects are materialised in the cash flow statement, balance sheet and the statement of results for CIECH S.A.

Financial risk management covers processes of identifying, measuring and establishing the manner of responding to it, including processes related to currency exchange rates and interest rate fluctuations.
CIECH S.A. monitors risk areas which are the most important for the Company's activity.

The aforesaid categories of risk have been presented in detail in notes and explanations to the financial statements in section 29.

Methods of securing material types of planned transactions in relation to which hedge accounting is applied

Transactions secured by hedge accounting are defined as highly reliable transactions. Their occurrence is anticipated in the Company's Financial Plan. Moreover, these are transactions with regular customers, which makes their occurrence probable.

8 Explanation of differences between the financial results and previously published forecasts

CIECH S.A. did not publish forecasts for separate results in 2010.

9 Employment information

At the end of 2010, CIECH S.A. employed 271 people. In the comparable period, i.e. at the end of 2009, the company employed 285 people.
Drop in employment by 14 persons results from the employment restructuring process carried out in 2010 and from natural redundancies.

10 Changes in the organisation, management and financial assets in CIECH S.A.

10.1 Changes in the basic management principles in CIECH S.A. and the Ciech Group

The management of the Company and the Group in 2010 underwent a slight change. Until August 2010, it was centred around four divisions, which operated as production and sales centres based on a specific portfolio of products, and around the Corporate Centre focused on managing value, finances, corporate image, financial controlling as well as developing and implementing strategies. Since September 2010, management has been organised around three divisions: Soda Division, Organic Division and Agro-Silicon Division (formed by merging Agro Division with Silicates and Glass Division) and the Corporate Centre which operates as before. The current three divisions are, as before, responsible for the strategy operationalisation and financial results in their product and market areas. The key processes implemented in the divisions include sale, purchase, supplies, and product development. Whereas production and physical investments are realised by production companies attributed to particular divisions. The portfolios of products defined for each division have been classified according to parameters ensuring the achievement of strategic goals with regard to increase in value and the development of a competitive and strong player in the chemical market.

Together with changing the organisational structure, the Group changed the allocation of responsibilities of particular Members of the Management Board, these are as follows:

President of the Management Board – Ryszard Kunicki

- Representing of the Management Board and CIECH S.A.
- Managing the works of the Management Board
- Supervising the implementation of the Ciech Group's development strategy.
- Supervision over the ownership supervision over Group's companies.
- Supervising the implementation of resolutions and other tasks undertaken by the Management Board of CIECH S.A., the General Meeting and the Supervisory Board.
- Supervising the information policy of CIECH S.A. and Ciech Group.
- Supervising the employment and remuneration policy in CIECH S.A. and in Ciech Group companies.
- Coordinating and supervising enterprises relating to CIECH S.A. assets management.
- Creating policy in terms of transport, forwarding and cargo insurance services relating to CIECH S.A.'s activity.
- Supervising the control and audit tasks.
- Supervising policies relating to quality management, information security and continued operations.
- Supervising tasks relating to occupational health and safety.
- Supervising the implementation of Ciech Group's development strategy as carried out by the Organic Division.
- Creating and coordinating trade policy in CIECH S.A. and Ciech Group as carried out by the Organic Division.
- Creating and coordinating investment policy in CIECH S.A. and Ciech Group as carried out by the Organic Division.
- Supervision over domestic companies within the Ciech Chemical Group in the area supervised by the Organic Division.

Member of the Management Board – Andrzej Bąbaś

- Supervising restructuring processes in Ciech Group
- Supervising the disposal of redundant components of fixed and financial assets in Ciech Group
- Supervising the implementation of efficiency improvement projects in Ciech Group companies
- Supervising the implementation of Ciech Group's development strategy as carried out by the Agro-Silicon Division.
- Creating and coordinating trade policy in CIECH S.A. and Ciech Group as carried out by the Agro-Silicon Division.

0 10 Changes in the organisation, management and financial assets in CIECH S.A. (continued)

0 Changes in the basic management principles in CIECH S.A. and the Ciech Group (continued)

- Creating and coordinating investment policy in CIECH S.A. and Ciech Group as carried out by the Agro-Silicon Division.
- Supervision over domestic and foreign companies within the Ciech Chemical Group in the area supervised by the Agro-Silicon Division.
- Supervision over non-productive foreign companies

Member of the Management Board – Artur Osuchowski
- Creating policy regarding investments, research and development.
- Supervision over gaining EU funds for enterprises carried out by the Ciech Group.
- Supervising the implementation of Ciech Group's development strategy as carried out by the Soda Division.
- Creating and coordinating trade policy in CIECH S.A. and Ciech Group as carried out by the Soda Division.
- Creating and coordinating investment policy in CIECH S.A. and Ciech Group as carried out by the Soda Division.
- Supervision over domestic and foreign companies within the Chemical Group Ciech in the area supervised by the Soda Division.

Member of the Management Board – Rafał Rybkowski
- Supervising the financial activity of Ciech Group and CIECH S.A.
- Creating information and telecommunication policies in CIECH S.A. and Ciech Group and supervision over its implementation.

10.2 Changes in the organisational affiliations in the Ciech Group

The following changes regarding the companies of Ciech Group in which CIECH S.A. holds direct shares occurred in the four quarters of 2010:

Ciech FINANCE Sp. z o.o.
- On January 8th, 2010 the District Court registered a raise of Company's share capital by PLN 250 thousand by establishing 500 new shares worth PLN 500 each. The above shares were in acquired by the previous sole shareholder, CIECH S.A., in exchange for cash. CIECH S.A.'s share remains the same. The aforementioned raise of Company's share capital occurred during an Extraordinary General Meeting on October 19th, 2009.

Chemiepetrol GmbH (in liquidation)
- On March 15th, 2010, Chemiepetrol GmbH (in liquidation), with its registered office in Hamburg, registered under the number HRB 33084 in Commercial Register "B", was cancelled from the Commercial Register by way of decision of the District Court in Hamburg. Chemiepetrol GmbH was wound up by way of decision of the General Meeting on November 26th, 2007. CIECH S.A. owned a majority stake in the Company (60% of shares in the share capital).

Daltrade Plc
- On June 1st, 2010, the General Meeting adopted resolutions regarding:
    - Changes to the Company's legal form from Plc (public – equivalent to S.A.) to Ltd (limited – equivalent to Sp. z o.o.).
    - Decrease of the Company's share capital from GBP 1,004,937 to GBP 10,049.37 by decreasing the face value of each share from GBP 1 to GBP 0.01.

Soda Deutschland Ciech GmbH
- On June 3rd, 2010, the District Court in Stendal registered a raise of Company's share capital by EUR 1,500 thousand (Commercial Register B). CIECH S.A. covered the entire issuance and remains the sole shareholder of Soda Deutschland Ciech GmbH. The Company's share capital after raise amount to EUR 16,525 thousand.
- On November 17th, 2010, the District Court in Stendal registered a raise of Company's share capital by EUR 2,400 thousand (Commercial Register B). CIECH S.A. covered the entire issuance and remains the sole shareholder of Soda Deutschland Ciech GmbH. The Company's share capital after raise amount to EUR 18,925 thousand.

0 Changes in the organisation, management and financial assets in CIECH S.A. (continued)

0 Changes in the organisational affiliations in the Ciech Group (continued)

ZACHEM S.A.

- On April 14th, 2010, CIECH purchased 493,815 shares for PLN 2,504 thousand, which constitutes 3.33% of ZACHEM S.A. share capital. This increased CIECH S.A. share in the share capital of ZACHEM S.A. from 87.34% to 90.67%.

Zakłady Azotowe w Tarnowie-Mościcach S.A.

- On April 22nd, 2010, CIECH S.A. sold in block transactions all owned shares in Zakłady Azotowe w Tarnowie-Mościcach S.A., i.e. 2,560,000 shares, which constitutes 6.5% of the Company's share capital. After completing the aforesaid transactions, CIECH S.A. did not hold any shares in the Company.

Z.Ch. "Organika-Sarzyna" S.A.

- On June 15th, 2010, CIECH S.A purchased 184,816 shares for PLN 4,805 thousand, which constitutes 2.18% of the share capital in Z.Ch. "Organika-Sarzyna", this increased its share in the Company's share capital from 90.87% to 93.05%.

Polskie Konsorcjum Chemiczne Sp. z o.o.

- On July 19th, 2010 the "Conditional agreement on the sales of shares in Polskie Konsorcjum Chemiczne Sp. z o.o." was signed. The Seller was CIECH S.A., a shareholder of Polskie Konsorcjum Chemiczne S.A., which sold 1,000 shares of total face value of PLN 50,000. The Buyer was Zakłady Azotowe w Tarnowie – Mościcach S.A., a shareholder of Polskie Konsorcjum Chemiczne Sp. z o.o. The sales agreement was entered into on condition that the Seller's share ownership will be transferred after the Buyer has fulfilled conditions precedent defined in the Sales Agreement. As conditions precedent had been fulfilled and the Buyer made payment for the sale of Company's shares to the Seller's bank account on August 31st, 2010, the transfer of share ownership was performed on the first business day after the sales amount was credited on the Seller's bank account, i.e. September 1st, 2010. Following the transaction, CIECH S.A. no longer remains a shareholder in Polskie Konsorcjum Chemiczne Sp. z o.o.

Ciech Service Sp. z o.o.

- On November 10th, 2010, once conditions precedent defined in the sales agreement of June 24th, 2010 had been fulfilled, the ownership of 100% shares in Ciech Service Sp. z o.o. was transferred to the company SOTRONIC Sp. z o.o. The conditional agreement on the sale of all shares in Ciech Service Sp. z o.o. for a total sales price of PLN 3,102,000 was entered into on condition:
  - that Ciech Service is exempted from all hedges established in connection with entering into loan agreements within 120 days after the Ciech Service shares sales agreement has been signed
  - that Ciech Service and Ciech Group companies will sign annexes to service agreements by virtue of which it will be possible to terminate these agreements with a contractual period of notice, provided that the period of notice will not expire before the fifth anniversary of the transfer of the Company share ownership to the Buyer.

VITROSILICON Spółka Akcyjna

- On November 10th, 2010, the Extraordinary General Meeting of Vitrosilicon S.A. raised the share capital of Vitrosilicon S.A. from PLN 8,395,545 to PLN 33,395,545, i.e. by PLN 25,000,000 by issuing 5,000,000 free bearer shares series "F" with face value of PLN 5 each, with numbers from 1,679,110 to 6,679,109. Series "F" shares do not need to be acquired, they were allocated to present shareholders proportionally to their share in the Company's share capital. The registration of the share capital raise was made by virtue of a decision of the District Court in Zielona Góra, 8th Commercial Division of the National Court Register of November 25th, 2010. The Management Board of Vitrasilicon S.A., by their letter of 01.12.2010, performed the allocation of shares Series "F" (proportionately to Shareholders' share in the share capital), CIECH S.A. was allocated 4,151,650 shares, which constitutes 83.03% of the entire share issuance. CIECH S.A. share in the share capital of Vitrosilicon S.A. both prior to and after the raise is equal 83.03%. The second shareholder of Vitrosilicon S.A. is Soda Polska Ciech Sp. z o.o. The share capital raise of Vitrosilicon S.A. did not cause the Company to move in the Group's structure.

FOSFORY Group

- On December 16th, 2010 was signed an agreement regarding the sale of shares in a subsidiary GZNF Fosfory Sp. z o.o. The parties to this agreement are Zakłady Azotowe "Puławy" (the Buyer) and CIECH S.A. The subject of the agreement is the sales to the Buyer of 51,855 shares, which constitutes 89.46% of the share capital of Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o., effective on the Closing Day, i.e. the second business day after the day when the last party to the agreement is informed about the fulfilment of the last condition precedent of the Agreement, or a different day as agreed by the parties,

0 Changes in the organisation, management and financial assets in CIECH S.A. (continued)

0 Changes in the organisational affiliations in the Ciech Group (continued)

which shall be null and void unless made in writing. The book value of GZNF "FOSFORY" Sp. z o.o. shares as at December 31st, 2010 is PLN 20,888 thousand The Parties agreed the share purchase price as PLN 107.2 million on the basis of the estimated Value of the Fosfory Company less the Forecasted Value of the Net Financial Debt. The forecasted price shall be adjusted accordingly, depending on the value of the Net Financial Debt as at the sales transaction Closing Day.

<u>The following changes regarding the companies of Ciech Group in which CIECH S.A. holds indirect shares occurred in the four quarters of 2010:</u>

VITROSILICON Spółka Akcyjna

- In 2010, there was a change in an affiliate to VITROSILICON S.A. – Huta Szkła Wymiarki S.A. VITROSILICON S.A. raised its share in the HS Wymiarki S.A. share capital to 36.19% by purchasing 12,841 small shareholders' shares, which constitute 1.05% of the share capital.

Polsin Private Limited, Singapore:

- On July 13th, 2010, Polsin Pte. Ltd. signed an agreement regarding the sale of entire owned block of ELZAB S.A. shares (2,036,570 shares, 12.62% of the share in the share capital, 19.54% of General Meeting votes) for a total of PLN 6,069 thousand gross (PLN 5,969 thousand net). The transaction was closed on September 20th, 2010, after the buyer paid the amount due for the second share tranche. From this date on, ELZAB S.A. shares are no longer recognised in Ciech Group structure.

SODA MĄTWY S.A. and JANIKOSODA S.A.

- On December 29th, 2010, a major Agreement regarding the sale of PTU S.A. shares to Gothaer Finanzholding AG was carried out. The subject of the Agreement are 15,003,180 shares in the share capital of PTU S.A., which constituted a total of 45.42% of the share capital and 46.12% of the overall number of votes at the General Meeting. The balance sheet value of the non-current financial investment in PTU S.A. equalled as at December 31st, 2009: PLN 34.4 million. The face value of one PTU S.A. share was PLN 2. The final sales price equalled PLN 131,400 thousand.

SODA MĄTWY S.A.

- **Zakład Gospodarki Popiołami Sp. z o.o.**
  - In March 2010, Soda Polska CIECH Sp. z o.o. covered 500 new shares from raising share capital in Zakład Gospodarki Popiołami Sp. z o.o. and increased its share in the share capital from 29.28% to 29.56%.
  - On 21.05.2010, the Extraordinary General Meeting adopted a resolution on raising the Company's share capital from PLN 13,530,000 to PLN 13,770,000 by creating 240 new shares, the new shares were covered by a partner – LAFARGE CEMENT S.A. The registration of the said share capital increase in the National Court Register was made on September 29th, 2010. Soda Polska Ciech Sp. z o.o. share in the share capital decreased from 29.52% to 28.66%, which did not have impact on the Company's position in Group structure.
- **Centrozap S.A.** – Succeeding raises of the Company's share capital, in which Soda Polska Ciech S.A. did not participate, resulted in a change of Soda Polska Ciech S.A. share from 0.00031% to 0.00014%, which did not impact the Company's position in Group structure.

ZACHEM S.A.

- **Boruta – Zachem Kolor Sp. z o.o.** – on May 6th, 2010, ZACHEM S.A. became the owner of 98 shares in Boruta – Zachem Kolor Sp. z o.o. purchased on April 26th and 27th, 2010 from minority shareholders and increased its share in the share capital from 95.52% to 96.01%.
- **Boruta – Zachem Kolor Sp. z o.o.** – On November 25th, 2010, the District Court passed a decision to register resolutions of the Annual General Meeting of Boruta Zachem – Kolor Sp. z o.o. of June 29th, 2010, regarding the redemption of Company's "own" shares by decreasing the share capital from PLN 20,105,000 to PLN 19,305,000. 800 own shares worth PLN 1,000 each were redeemed and the Company's share capital was decreased by decreasing the value of one share from PLN 1,000 to PLN 826. Consequently, the share capital was decreased from PLN 19,305,000 to PLN 15,945,930. The share capital is divided into 19,305 shares with face value of PLN 826 each.
- **ZACHEM UCR Sp. z o.o.** (a subsidiary of ZACHEM S.A.) by way of an agreement of May 26th, 2010, the company disposed of 255 shares in METALPUR Sp. z o.o., which constituted 24.52% of the share capital and, from this day on, Zachem UCR owns no shares in **METALPUR Sp. z o.o.**
- **Bydgoski Park Przemysłowy** – on June 24th, 2010, the Annual General Meeting raised the Company' share capital up to PLN 37,135,000

0 Changes in the organisation, management and financial assets in CIECH S.A. (continued)

0 Changes in the organisational affiliations in the Ciech Group (continued)

through creation of 1,684 shares which were covered by the City of Bydgoszcz. The share capital raise was registered in the National Court Register on 26.08.2010. ZACHEM S.A. did not cover new shares, its share in the share capital decreased from 9.91% to 9.46%, which had no impact on the Company's position in Group structure.

- **ZACHEM UCR Sp. z o.o.** – ZACHEM UCR Sp. z o.o. sold a block of 50 shares in MD-proeco Sp. z o.o. (0.61% of share capital) by way of an agreement of 17.12.2010. Shares were transferred to the buyer (PETRO Remont Sp. z o.o. with registered office in Płock) on the day of payment, i.e. on December 20th, 2010. ZACHEM UCR Sp. z o.o. no longer remains a shareholder of MD-proeco Sp. z o.o.

ORGANIKA-SARZYNA S.A.

- **Zakład Usługowo-Produkcyjny Drewrem-Organika Sp. z o.o.** – A Court Decision of 28.10.2010 removed Zakład Usługowo-Produkcyjny Drewrem-Organika Sp. z o.o. from the Register of Companies. The decision has been validated.
- **Zakład Mechaniczno-Remontowy Chemrem-Organika Sp. z o.o.** – on 26.11.2010, Organika-Sarzyna S.A. sold all 2,093 owned Company shares (11.89% of the share capital) and no longer remains a shareholder of ZMR Chemrem-Organika Sp. z o.o.
- **Stocznia Ustka S.A. in liquidation** – A Court Decision of 07.10.2010 removed Stocznia Ustka S.A. from the Register of Companies. The decision has been validated.
- **Zakład Chemiczny Silikony Polskie Sp. z o.o. –** on 29.12.2010, the Extraordinary General Meeting adopted a resolution regarding the redemption of 1,215 shares from pure profit, without decreasing share capital. The redemption refers to shares owned by Organika-Sarzyna S.A. On 30.12.2010, Organika-Sarzyna S.A. signed an agreement regarding the sale of a block of 1,215 shares in Zakłady Chemiczne Silikony Polskie Sp. z o.o. in order to redeem them. Organika Sarzyna currently holds 3,994 shares in the Company. After the share redemption, Organika-Sarzyna S.A. share in the Company's share capital amounts to 24.73%.
- **Zakład Usług Energetycznych Wod-Rem Sp. z o.o.** – on December 16th, 2010, Organika Sarzyna S.A. disposed of a block of 291 shares in the Company (24.94% of the share capital) and no longer remains a Shareholder in Wod-Rem Sp. z o.o.
- **Zakład Usług Elektro-Energetycznych El-Chem Sp. z o.o. –** on December 16th, 2010, Organika Sarzyna S.A. disposed of a block of 184 Company shares (24.73% of share capital) and no longer remains a shareholder of El-Chem Sp. z o.o.
- **Organika International Transport Sp. z o.o. in liquidation** – on 24.11.2010, the District Court Decision on completing bankruptcy proceedings including liquidation of assets was validated. An application for removing the Company from the Register of Companies was filed.
- **Tarpan Sp. z o.o. in liquidation** – By virtue of an agreement of 09.12.2010, Organika Sarzyna S.A. disposed of 1 Company share (0.14% of share capital) and no longer remains a shareholder of Tarpan Sp. z o.o.

"Alwernia" S.A.

- **SOC-AL. Sp. z o.o. –** on May 6th, 2010, Alwernia S.A. purchased from the Alvezz company 62 shares in SOC-AL. Sp. z o.o. and became the sole Shareholder of SOC-AL. Sp. z o.o. Previously, ALWERNIA S.A. share in the share capital was 95.12%.
- **Uniontex S.A. in liquidation**– on October 15th, 2010, Alwernia S.A. sold a block of 36 shares in Uniontex S.A. (0.002% of share capital) and no longer remains Company's shareholder.
- **Wizów S.A.** – On October 15th, 2010, Alwernia S.A. sold 2 shares in Wizów S.A. (0.00025% of share capital) and no longer remains Company's shareholder.
- **Centrozap S.A. –** by virtue of an agreement of November 12th, 2010, Alwernia S.A. sold a block of 34,304 shares in Centrozap S.A. (0.011% of share capital) and no longer remains Company's shareholder.

Ciech FINANCE Sp. z o.o. – a special purpose vehicle in Ciech Group which conducts works aimed at increasing the efficiency of divestment activities performed by Ciech Group. The Company is a special purpose entity, its primary aim is to concentrate "in one place" all assets which were deemed redundant or those which do not lie within the basic area of Ciech Group activity, conduct and complete important restructuring processes and then complete the release of involved financial resources (divestment). In the 4th quarter of 2010, the Company purchased from Group companies shares of the following entities:

- **Uniontex S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a total of 215 Uniontex S.A. shares, including a block of 200 shares from Zachem S.A., by way of the Agreement of November 15th, 2010, and a block of 15 shares from Soda Polska Ciech Sp z o.o., by way of the Agreement of 30.11.2010.
- **Fabryka Obuwia Butbędzin S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a block of 2,208 shares from ZACHEM S.A. by way of the Agreement of November 15th, 2010
- **Fabryka Obuwia Butbędzin S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a block of 1,539 shares from ZACHEM S.A. by way of the Agreement of November 15th, 2010.
- **Wistom S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a total of 3.245 Wiston S.A. shares, including a block of 2.174 shares from ZACHEM S.A., by way of the Agreement of November 15th, 2010, and a block of 1.071 shares from Soda Polska Ciech Sp z o.o., by way of the Agreement of 30.11. 2010.

0 Changes in the organisation, management and financial assets in CIECH S.A. (continued)

0 Changes in the organisational affiliations in the Ciech Group (continued)

- **Fabryka Papieru Szczecin – Skolwin S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a block of 68,973 shares from ZACHEM S.A. by way of the Agreement of November 15th, 2010.
- **Zakłady Tworzyw Sztucznych Pronit S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a total of 1.817 ZTS Pronit S.A. shares, including a block of 1.114 shares from ZACHEM S.A., by way of the Agreement of November 15th, 2010, and a block of 703 shares from Soda Polska Ciech Sp z o.o., by way of the Agreement of November 30th, 2010.
- **Len S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a total of 3.774 Len S.A. shares, including a block of 2.355 shares from ZACHEM S.A., by way of the Agreement of November 15th, 2010, and a block of 1.419 shares from Soda Polska Ciech Sp z o.o., by way of the Agreement of November 30th, 2010.
- **Pro-Agro S.A.** – Ciech Finance Sp. z o.o. purchased a block of 3,450 Pro-Agro S.A. shares from ZACHEM S.A. by way of the Agreement of November 15th, 2010.
- **Chemomontaż S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a block of 1,420 Chemomontaż S.A. shares from ZACHEM S.A. by way of the Agreement of November 15th, 2010.
- **Południowe Zakłady Przemysłu Skórzanego Chełmek S.A. in liquidation** – Ciech Finance Sp. z o.o. purchased a block of 3,940 Chełmek S.A. shares from ZACHEM S.A. by way of the Agreement of November 15th, 2010.
- **Huta Szczecin S.A.** – Ciech Finance Sp. z o.o. purchased a block of 882 Huta Szczecin S.A. shares from Soda Polska Ciech Sp. z o.o. by way of the Agreement of November 30th, 2010.
- **Zakład Gastronomiczno-Hotelowy MIREX Sp. z o.o. in liquidation** – Ciech Finance Sp. z o.o. purchased a block of 27 MIREX Sp. z o.o. shares from ZACHEM S.A. by way of the Agreement of November 15th, 2010.

11 Information about the acquisition of own shares

In the financial year 2010, the Company did not acquire own shares.

12 Description of the use of issue proceeds by the Issuer

The issuing prospectus of CIECH S.A. was made available on January 6th, 2005 and is available at http://www.ciech.com/PL/Inwestorzy/Strony/Prospekt_emisyjny_2004.aspx , on February 10th, 2005 the shares of CIECH S.A. had their debut on the Warsaw Stock Exchange. The Issuer defined in the prospectus an investment plan covering a range of projects of the total value of expenditures in the amount of PLN 500-600 million, realised in 2005-2006. To finance the investment plan, CIECH S.A. used all its issue proceeds as well as its own and borrowed funds in the form of long-term investment loans. In 2010, issue proceeds were no longer used.

In the second half of 2010, CIECH S.A. began preparing its issuing prospectus in order to raise share capital. Share subscriptions within the subscription right and additional subscriptions were completed on February 16th, 2011, the allocation of shares was performed on February 25th, 2011. Consequently, the company issued 23,000,000 ordinary bearer shares each worth PLN 5. Funds gained on the new share issuance will be used for repayment of Ciech Group's debt on account of loans and for financing of tasks in accordance with the approved investment plan. The investment plan was approved by banks in the loan agreement of February 10th, 2011.

13 Information on CIECH S.A. share price

On February 10th, 2005, CIECH S.A. shares had their debut on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange). Company shares are listed on the Stock Exchange basic market in continuous trading. They are currently listed on the following indices: WIG, sWIG80 and WIG-Chemia.

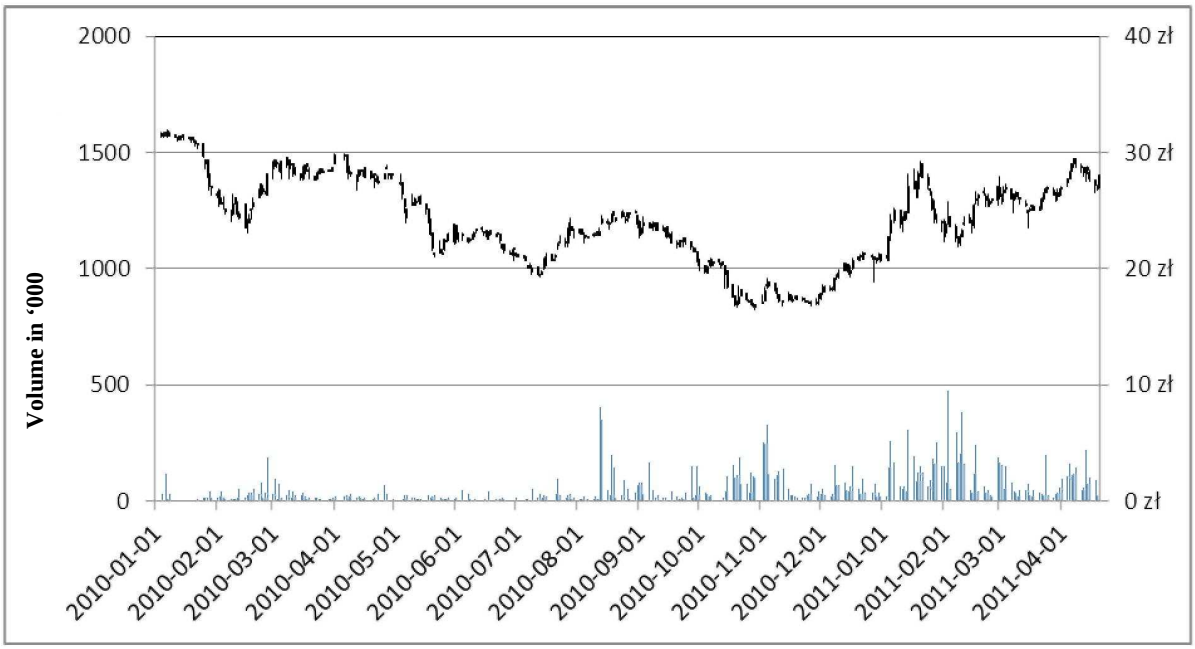


Figure1 CIECH S.A. share price

After a period of dynamic growth in 2009, CIECH S.A. share price consolidated in 2010. The first months of 2011 saw the CIECH S.A. share price soaring, even though the price was recalculated by the value of the cut subscription right in connection with the issuance of Series "D" shares on January 31st, 2011.

	unit	2009	2010
Number of shares	*million*	28	28
Closing price on last quotations in the year	*PLN*	37.20	24.89
Company capitalisation at the end of the year	*PLN million*	1,042	697
Maximum price in the year	*PLN*	43.00	37.50
Minimum price in the year	*PLN*	16.00	19.30
Trade volume per session			
average value	*thousands of shares*	32,717	32,621
median value	*thousands of shares*	20,462	15,079

Figure 2 Key data on CIECH S.A. shares listed on GPW in Warsaw

The maximum share price in 2010 was PLN 37.50, recorded on January 7th, 2010. The minimum share price in 2010 was PLN 19.30, recorded on October 29th, 2010. The average volume in 2010 was 32,621 shares, with a median value of 15,079 shares.

14 Development prospects for CIECH S.A.

The growth prospects of CIECH S.A. and the Ciech Group result from their position on the market and in the chemical industry as well as from the forecast conditions of the Group's business environment in Poland and around the world.

CIECH S.A. and the Ciech Group has a strong position in many product markets and is:

- the second European manufacturer of soda ash;
- the third European manufacturer of baking soda;
- the leading Polish manufacturer of vacuum salt;

0 Development prospects for CIECH S.A. (continued)

- the sole Polish producer and main supplier of the domestic market in soda ash and baking soda, calcium chloride, TDI, ECH, epoxy resins, glass blocks, sodium tripolyphosphate and non-fertilizer phosphoric acid;
- a major supplier of European markets in soda ash and baking soda, TDI, calcium chloride, ECH, non-fertilizer phosphoric acid, glass blocks and lanterns.

In a short- and medium-term perspective, the most important macroeconomic factors in the environment of CIECH S.A. and the Group will be:

- Weak activity of financial markets after the global crisis (negative influence – difficulties in obtaining capital, slowdown of trade exchange; positive influence – interest in Groups' divestments considering the revaluation of goodwill).
- Low level of economic activity in developed countries (negative influence – savings programmes in Euro zone which may have a negative impact on Polish export scale or significant fluctuations of chemical products' prices).
- Average pace of development on Group's target markets (negative influence – low food prices and pressure on fertilizers prices, average production dynamics in construction industry and demand for glass and chemicals for construction throughout Europe; positive influence – stronger integration within the fertilizer industry).

In the opinion of CIECH S.A., macroeconomic factors favouring further development and strengthening of the CIECH S.A. position on the current and associated markets shall dominate in the long-term prospect. These include:

- Visible growth of Poland's GDP, relatively high in comparison to other EU countries (increasing demand and investments, including foreign investments).
- Introduction of the Euro (planned elimination of currency risk connected with export within the EU, vital for CIECH S.A.)
- High potential of growing demand for chemicals in Poland, where their consumption per capita, amounting to EUR 400, is still approx. 3-4 times lower than in the Western Europe.

An important group of factors which influence the development perspective for CIECH S.A. and the Ciech Group are changing legal regulations regarding environmental protection, largely shaped at the EU level, including mainly:

- planned changes to currently effective principles regarding allocation of CO_2 emission allowance (EUA) granted within EU ETS pursuant to National Allocation Plans from 2013 which would come in force in the 3rd settlement period, i.e. 2013-2020.
- planned changes to Polish and European regulations regarding environmental requirements, in particular those referring to more severe conditions of environment usage by business entities.

14.1 Characteristics of external and internal factors material for the development of CIECH S.A.

General external factors

Situation in industries that are CIECH S.A.'s customers in Poland

Poland is the biggest selling market for the Ciech Group. The largest domestic recipients of CIECH S.A.'s products include: the chemical industry, plastics industry, glass industry and agriculture.
Development in these economic sectors depends on the economic situation in Poland. Sold industrial production in fixed price terms in 2010 increased by 9.8% compared to the previous year (analogous to a 3.2 decrease in 2009). Similarly, the dynamics of the chemical industry indicated: in the production of chemicals and chemical products (excluding pharmacy) – an increase of 12.0% and in the production of rubber products and plastics – an increase of 15.7%. In the same period, pharmaceutical production grew by 6.0%.
The year 2009 was characterized by a slowdown in the economic development of Poland down to 1.7% GDP. The sale in the chemical sector decreased significantly (by approx. 3%). From the beginning 2010, we could observe an accelerated economic growth in the country. Estimates of the Central Statistical Office assume a growth in GDP dynamics up to approx. 3.8% in the whole of 2010. Forecasts for 2011 assume that this pace will at least remain at the level of 3.5 – 4.0%. Expected accelerated GDP growth indicate a positive outlook for the chemical industry which usually develops in line with the whole economy.

Economic situation in Europe and around the world

CIECH S.A.'s business is largely based on the sales of chemical products on foreign markets. The volume and profitability of sales depend on the global economic situation in Europe and around

0 Development prospects for CIECH S.A. (continued)

0 Characteristics of external and internal factors material for the development of CIECH S.A. (continued)

in the world. A global economic downturn usually affects the demand for raw materials on international markets, thus reducing CIECH S.A.'s export turnover.

Various regions of the world recover after the 2008-2009 crisis in their own pace. The fastest growing markets in 2010 were not only the so-called emerging markets but also Germany, Japan and the USA. According to the IMF report of October last year, the global GDP was expected to rise in 2010 by 4.8% (by 9.4% in "Emerging Asia", by 3.3% in the USA and by 3.7% in Central and Eastern Europe). In 2011, we expect that the global scale GDP dynamics will record a slight downturn down to 4.2%.

According to the American Chemistry Council (ACC), the global chemical production increased by 8.8% in 2010. ACC assumes that 2011 will see a slight decrease of the development pace down to 5.4%.

In December last year, the European Chemical Industry Council (CEFIC) confirmed its previous forecasts regarding a very dynamic development of chemical industry in the European Union in 2010 at the level of 10% (production volume increase). Simultaneously, the growth rate forecasted for 2011 is significantly lower, approx. 2.5%. Overall, the return to production levels from before the last crisis is not expected before 2013. According to CEFIC, further successes in the European chemical industry will depend on consolidation activities in production, due to increasing competition from Asian suppliers, including petrochemical suppliers from Middle East.

Financial situation of agriculture

A portion of CIECH S.A.'s revenues covering mineral fertilizers and plant protection chemicals is generated by sales to the agricultural sector. In the Company's opinion, in the long-term, the volume of demand for mineral fertilizers in Poland and Central and Eastern Europe should continue to grow. The material factors favouring an increase in the consumption of agrochemicals in Poland and thus the demand for products manufactured by the CIECH S.A. Group are processes improving the financial situation and profitability of agricultural production, including: production quoting and direct subsidies. It should translate into a growth of CIECH S.A.'s revenues. On the other hand, the lack of significant improvement in the purchasing capacity of the agricultural sector may equal stagnation in the demand for fertilizers and plant protection chemicals and, as a result, stagnation in the CIECH S.A.'s revenues related to agrochemical products.

According to data from the Institute of Agricultural and Food Economics (IERiGŻ), compared to the previous year, 2010 saw an improvement in market conditions for domestic agriculture (in particular with respect to plant production requiring direct application of fertilizers and plant protection chemicals). However, there was a certain deterioration of these conditions in the last quarter of previous year. The synthetic index of economic situation in agriculture (SWKR) in December 2010 was higher than the year before (an increase from 100.5 to 101.3). There should not be any major changes in the conditions of Polish agriculture in the coming months.

Economic situation in the raw materials market

Import of chemical raw materials to Poland constitutes a significant portion of CIECH S.A.'s turnover. The raw materials markets are characterised by a cyclical nature connected with fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of sales intermediaries and a decrease in demand from customers. On the other hand, falling prices are usually a symptom of decreasing demand and the beginning of an economic downturn. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive effect on CIECH S.A.'s import of raw materials. Significant fluctuations of demand and prices may be caused by changes in the economic situation resulting, for instance, from quick economic growth or economic stagnation. Strong fluctuations of demand and prices may have negative influence on the activity related to trading in chemical raw materials by the CIECH S.A.

REACH implementation

In accordance with REACH regulation, CIECH S.A. and the Ciech Group Companies which trade in substances in quantities exceeding 1 ton p.a. will complete full registration of these substances by defined deadlines, which will allow them to continue their activities within current scope. By November 30th, 2010, Ciech Group companies concentrated on registering heavy tonnage substances (over 1,000 tons p.a.). As at January 24th, 2011, the Group registered 33 substances.

PLN/EUR relations

Export sale of CIECH S.A. is settled mostly in EUR. A strong Euro means

0 Development prospects for CIECH S.A. (continued)

0 Characteristics of external and internal factors material for the development of CIECH S.A. (continued)

higher profitability of exports, both for CIECH S.A. and other manufacturers from the chemical industry in Poland. Furthermore, it increases volumes of turnover carried out by the Company for other manufacturers. As a result, the PLN/EUR exchange rate influences profitability of sales revenues. If the Polish zloty becomes stronger against the EUR, the profitability of exports will decline, and CIECH S.A.'s export volumes will decrease.

Internal factors

Maintaining cost and quality competitiveness

The competitiveness of CIECH S.A. and the Ciech Group concentrates on basic market factors, i.e. costs, quality, marketing, market position. The most important factors are:

- cost competitiveness based on the effects of the large scale of manufacturing, specialisation, standardisation and effects of experience,
- quality leadership and quality control systems,
- competition based on the enterprise's market power (market leader),
- cost leadership and diversification.

Competitiveness of companies is to a great extent connected with innovations. Therefore, the basis for competition is innovative product and process technologies. Within the framework of the adopted investment strategy, CIECH S.A.'s Companies implement a number of innovative process and product solutions.

Liabilities connected with the purchase of ZACHEM S.A., Z.Ch. "Organika-Sarzyna" S.A., S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. and Soda Deutschland Ciech.

Pursuant to the Privatisation Agreements regarding ZACHEM S.A., Z.Ch. "Organika-Sarzyna" S.A., S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., CIECH S.A. is charged with obligations connected mainly with the implementation of investment packages, employee guarantees and minority interest buyout options.

- **Obligations following from the Privatisation Agreement of ZACHEM S.A.**

In accordance with agreement provisions, by December 20th, 2011, the Company must realise a total investment of PLN 176.1 million in ZACHEM S.A. The investment deadline was prolonged by three years, i.e. until 2014 for specified investment tasks (electrolysis conversion, implementation of new EPI technology, increase of TDI production capacity up to 90 thousand tons p.a.).

The agreement contains "a restricting condition". The restricting condition is calculated as the ratio of long-term capital to fixed assets on the basis of the Separate Financial Statements, prepared according to PAS. Pursuant to the agreement, this ratio is to grow as follows: in 2007 by 20 pp in relation to the ratio calculated as at the date of sales, i.e. on December 20th, 2006, and in every subsequent year by another 10 pp until 2010 (total increase in 2007-2010 by 50 pp). CIECH S.A. shall pay Nafta Polska S.A. a penalty amounting to PLN 150 thousand for every full percentage point below the required ratio. Every full percentage point in excess of 10 pp deviation from the required ratio shall be followed by a penalty of PLN 500 thousand.

Annex no. 1, concluded on December 23rd, 2009, stipulates that fulfilment date of the "restricting condition", which was set in the previous Agreement at December 31st, 2009. (+ 40 pp) will take place on December 31st, 2010, with a restriction that in case CIECH S.A. does not meet the newly set deadline, Nafta Polska S.A. will be entitled to both the contractual penalty for non-fulfilment of the "restricting condition" by the end of 2010 and the contractual penalty which it would be entitled to in case the contractual level is not met by the end of 2009. Additionally, it was agreed that the fulfilment date of the "restricting condition" which was set out in the previous Agreement at December 31st, 2010, shall be December 31st, 2011. If the "restricting condition" is fulfilled by December 31st, 2010, as stipulated by the provisions of the original Agreement (i.e. +50 pp), the "restricting condition", as at December 31st, 2011, will not be examined anymore and no contractual penalty for non-observance of the restricting condition in 2009 will be charged. When necessary, CIECH S.A. will provide ZACHEM S.A. with financial support to ensure that the restricting condition is fulfilled.

On January 11th, 2011, CIECH S.A. and Nafta Polska signed annex 3 to the agreement on the sale of ZACHEM S.A. shares by virtue of which the ZACHEM S.A.'s obligation to meet a certain level of constant capital/ fixed assets ratio by December 31st, 2010 was prolonged by June 30th, 2011, the payment of potential penalty for not meeting this ratio level by December 31st, 2009 and December 31st, 2010 was also deferred until this deadline (in case this condition is not fulfilled by June 30th, 2011).

0 Development prospects for CIECH S.A. (continued)

0 Characteristics of external and internal factors material for the development of CIECH S.A. (continued)

If the required ratio level is not met by June 30th, 2011, the Company will have to pay a contractual penalty for not maintaining the appropriate ratio level in ZACHEM S.A. amounting to PLN 150,000 for every percentage point of the difference between the Initial Value increased by 40 percentage points and the actual Ratio value as at December 31st, 2009; regardless of the obligation to pay a contractual penalty for not meeting the Ratio level by December 31st, 2010, which level the Company was expected to meet in accordance with the agreement version in force on January 11th, 2011 (in case the required Ratio level is not met by December 31st, 2010). In case the difference exceeds 10 percentage points, the contractual penalty for each full percentage point of the difference over 10 percentage points will be increased to PLN 500,000. Moreover, if the required Ratio level is not met by June 30th, 2011, the Company will have to pay Nafta Polska an additional amount constituting 6.5% of the sum of contractual penalties discussed above.

If the Ratio level reached by June 30th, 2011 will be equal to the Initial Value increased by 50 percentage points, the Ratio level as at December 31st 2011 will not be tested and the Company's obligation to maintain the Ratio level will not apply.
A separate obligation of CIECH S.A. following from the the Agreement is the purchase of ZACHEM S.A. employee shares, to be implemented between 2008 and 2011.
The Agreement includes a Company's obligation to file an offer to the State Treasury to purchase remaining ZACHEM S.A. shares.

- **Obligations following from the Privatisation Agreement of Organika Sarzyna**

In accordance with agreement provisions, by December 20th, 2011, the Company must realise a total investment of PLN 130 million in Organika Sarzyna. The deadline for realising the investment guaranteed in the agreement was prolonged by two years, i.e. until 2013, for one investment task (the construction of a production installation of the active substance MCPA with accompanying infrastructure).

At the same time, until the end of 2011, the Company must fulfil the condition of maintaining the liabilities' structure in Organika Sarzyna on such level that the value of constant capital (equity/ own funds, non-current provisions and liabilities with maturity over one year) constitutes at least 110% of fixed assets as defined in the Accounting Act (with the exception of the right of the perpetual usufruct of land gained by virtue of a law or by way of an administrative decision).

A separate obligation of Ciech S.A. following from the the Agreement is the purchase of Organika Sarzyna employee shares, to be implemented between 2008 and 2013.
The Agreement includes a Company's obligation to file an offer to the State Treasury to purchase remaining Organika Sarzyna shares.

<u>The offer to purchase the remaining shares of Zachem and the offer to purchase the remaining shares of Organika Sarzyna</u>

While performing the agreement to purchase shares of Zachem and the agreement to purchase the shares of Organika Sarzyna, on December 20th, 2006 the Company placed to the State Treasury an irrevocable offer to purchase the remaining shares of Zachem and an irrevocable offer to purchase the remaining shares of Organika Sarzyna, which were later amended by agreements between the Company and the State Treasury of January 5th, 2010 and December 28th, 2010. The State Treasury is entitled to accept the offers within ten years after they were placed, i.e. until December 20th, 2016. The share unit purchase price for which the Company undertook to buy the shares of Zachem and Organika Sarzyna is equal to the purchase price for which these shares were acquired from Nafta Polska, adjusted in accordance with principles defined in the agreement between the State Treasury and the Company of December 28th, 2010 based on the WIBOR 12M rate for the period ending on December 20th, 2011.
The Company filed an alternative proposal, namely, to convert existing liabilities to equity by making a contribution to the Company of 762,224 shares of Zachem and 429,388 shares of Organika Sarzyna which are owned by the State Treasury.

- **Soda Deutschland Ciech Group**

Soda Deutschland Ciech Group recognised in its balance sheet the obligation to repurchase Elektrociepłownia. Elektrociepłownia was sold on September 1st, 1999 by KWG GmbH (a subsidiary of Soda Deutschland Ciech) for the benefit of VASA Kraftwerke – Pool for EUR 115.8 million. KWG's contractual obligation is to repurchase the power plant until December 31st, 2014. KWG also retains the possibility to acquire the power plant. This possibility may be realised on January 1st of every year of the term, i.e. until December 31st, 2014. As at December 31st, 2010, the respective obligation amounts to PLN 128,734 thousand. The sale and buyback transaction essentially constitutes a form of sale and lease back.

0 Development prospects for CIECH S.A. (continued)

0 Characteristics of external and internal factors material for the development of CIECH S.A. (continued)

Investment projects and actions connected with obtaining funding from available aid funds

In the first quarter of 2010, optimal plans of physical investments for particular Group Companies were finally agreed. In 2010, Ciech Group Companies would spend over PLN 238 million on investment projects, including over PLN 110 million on innovative and environmentally friendly solutions aimed at improving production efficiency and product quality as well as environmental indices.
In the first half of 2010, within restructuring activities undertaken in order to reduce Ciech Group's debt, the Group finally optimised realisation periods for key investment projects and the level of expenditure in particular realisation years.
In the third quarter of 2010 the Group continued the realisation of key investment projects and physical investment plans as well as enterprises conducted together with specialised advisory companies, all these were aimed at optimising operating costs in the area of maintaining operations and energy purchase in Ciech Group.
By the end of Q3 2010, the Ciech Group gained subsidies for the realisation of nine projects planned within its area of activity. Group Companies implement projects on the basis of currently effective subsidy agreements. Subsidised projects included investment projects in the area of environmental protection, implementation of new, innovative technologies of manufacturing the Group's key products as well as conducting research and development works. A training-advisory project for Ciech Group's employees is also being implemented. The total amount of subsidies granted exceeds PLN 140 million.

In the fourth quarter of 2010 the Group continued the realisation of key investment projects and physical investment plans as well as enterprises aimed at optimising operating costs, this included signing annexes with PGE Obrót S.A. regarding the purchase of electricity pursuant to conditions previously negotiated during an offering tender process (estimated savings of PLN 5-7 million within one year in relation to the planned/ market increase in electricity prices in 2011).

14.2 Expected financial situation of the Ciech Group

The Management Board of CIECH S.A., pursuant to the assumptions of the applied strategy, expects that the results for 2011 will exceed those gained in 2010, both in terms of operating profit (EBIT, EBITDA) and net profit.
The improvement of the results will be facilitated by the following:

- visible higher demand in the Soda Division, improved margins compared to 2010,
- higher demand for plant protection chemicals compared to the previous year,
- lower financial costs due to a reduction of debt and more favourable financing conditions (achieved through a newly negotiated loan agreement),
- implementation of the restructuring plan,

The most important tasks of CIECH S.A. for 2011 will be to continue the restructuring plan implementation, improve operating efficiency of CIECH S.A. and CIECH S.A.'s companies and implement the investment plan.

14.3 Strategic priorities for CIECH S.A. and the Ciech Group

Mission

The Company's mission is development through value formation in particular chemical market segments in which the Group is competent and where it forms a strong and durable competitive position. The Group pertains to strengthen its market position, among others, by building a leader position in the chemical industry in the region and also by striving to increase Group's profitability and its value for shareholders.

Strategy of CIECH S.A. and the Ciech Group

Dynamic changes which take place in the economic environment of CIECH S.A. and the Ciech Group became a prerequisite to change the strategy so as to adapt it to new conditions. The financial crisis which started in the second half of 2008 and the following economic downturn, high level of debt in CIECH and the Ciech Group and lack of possibilities of achieving a satisfactory competitive position on certain markets, all these factors provoked the Group to undertake restructuring activities.

To this end, in 2009 the Group began activities and initiatives which finally shaped into an integrated restructuring programme a year later. Its implementation is aimed at ensuring conditions

0 Development prospects for CIECH S.A. (continued)

0 Strategic priorities for CIECH S.A. and the Ciech Group (continued)

for a long-term growth, optimisation of liabilities structure and improvement of Group's profitability. The Restructuring Plan, which was drawn up on the basis of these assumptions (in the operating and investment area) was approved by the Issuer's Management Board and the Supervisory Board in August 2010. The total amount of net revenue and savings which could be obtained on account of carrying out restructuring initiatives presented in the Restructuring Plan is estimated at approx. PLN 600 million. Restructuring activities will be carried out between 2010 and 2015.

Strategy implementation and realisation of the restructuring programme will lead to a substantial restructuring of the Ciech Group **resulting** in:

- Concentrating and specialisation of the Group in two segments: soda and organic;
- Limiting the size of product and raw materials portfolio;
- Full integration in two Divisions;
- Clear management structures on particular levels:
  - Corporate (strategy and finance): managed by the Management Board in cooperation with the Corporate Centre
  - Division (operations): the Division level managed by Heads of Divisions using their subordinate functional and operating units
  - Production (companies): the level of Companies, which are subordinated to Divisions, responsible for completing goals and tasks agreed together with Heads of Divisions
- Modern production base (selected investments concentrated on two segments),
- Increased efficiency resulting from greater specialisation,
- Increased competition capability in selected markets,
- Lower financing costs and further growth of innovation thanks to EU funds,
- Even greater care for natural environment.

Meeting Group's strategic goals will be achieved through acting in **three key areas**:

1. **Development of the Group** – realising development and modernising investments, product development, meeting environmental requirements and fulfilling obligations following from purchase agreements on Zachem and Organika Sarzyna.
2. **Optimisation of Group's liabilities structure** – change of financing structure, decrease of debt level and reduction of financing costs.
3. **Integration and restructuring of Group's operating activities** – concentrating on Soda and Organic Divisions and divestment of main assets of the Agro-Silicon Division as well as integration of purchase and sale function at the level of particular Divisions.

Priority – Development of the Group

CIECH S.A. assumes that total expenses on Group's physical investments in years 2011-2015 will amount to approx. PLN 1.2 billion. Investments attributable to the Group's key Soda and Organic Divisions amount to PLN 1.1 billion. Certain investments were classified as requiring additional financing from European Union funds (at present the amount of subsidies exceeds PLN 140 million). Investment's aim is to maintain an optimal level of production capacity and also to implement projects connected with:

- The implementation of new, more efficient and innovative production technologies,
- Fulfilment of obligations following from purchasing agreements on companies: Z.Ch.“Organika-Sarzyna” S.A. and ZACHEM S.A.
- Environmental protection.

Soda Division will spend the majority of its development funds on improving the competitiveness of its main product, i.e. soda ash. With current production capacity in Poland and Germany maintained, the Divisions intends to raise the efficiency of supplying facilities with energy, which constitutes the main component of production costs. Modernisation of power plants in Inowrocław and Janikowo is aimed at improving the efficiency of energy production and reduction of emitted pollution. The Division's German facility is planning to make use of the possibility of earlier repurchase of the power heating plant (modern building powered with gas). At present, the power heating plant is in the hands of an external owner. Repurchase of the plant will allow the SDC group to reduce energy supply costs. At present, the Division is performing analyses which will help it to select the most optimal solution in terms of investment financing and involvement of external partners.

Funds connected with the planned development of Soda Division will also be spent on increasing baking soda production capacity. The intended increase in production capacity up to 30 tons p.a. will be carried out in Poland and in Germany. The product has a growth potential which is, among others, connected with new applications in the pharmaceutical industry and in industrial waste treatment processes. In

0 Development prospects for CIECH S.A. (continued)

0 Strategic priorities for CIECH S.A. and the Ciech Group (continued)

the long run, it is also planned to develop highly processed salt types (salt tablets, salt bricks, granules) at the expense of low processed products (so-called wet salt). Increasing the volume of highly processed products will result in raised margins for this product category and stronger competitive position of the Soda Division on the salt market.
The Organic Division is concentrated on increasing production capacity and reducing production costs thanks to improvement of owned technology. These activities will increase profitability and EBITDA level as well as improve the competitive position of the Divisions in terms of main products.

Approx. 70% of investment expenditure in the Organic Division is connected with development projects for TDI and EPI production lines, as well as converting electrolysis with eliminating asbestos and freon R22 (all abovementioned investments in Zachem). The largest project carried out by Organika Sarzyna is the construction of an innovative MCPA production facility for over PLN 100 million.

In case of TDI, the Division will modernise and further improve facility's production capacity up to 90 tons p.a. and, in a longer perspective, implement modern production technology based on gas phase phosgenation. Simultaneously, the penetration of world TDI markets will continue. The Division aims at further improving the Group's position on neighbouring markets and in South America, South-East Asia and in Africa.

As for the Brine Electrolysis Facility, it is planned to conduct a significant modernisation and increase the production capacity up to 90 tons chlorine p.a. and min. 90 tons of highest quality sodium hydroxide p.a., while decreasing energetic costs by at least 15%.

In case of epichlorohydrin (EPI), it is planned to increase the scope of production to min. 35 tons p.a. through implementation of new production technology based on glycerine (GTE technology), which will result in a significant reduction of raw materials and energy production costs and an increase in sales volume. This project will also ensure a backward integration, by using a side product – hydrogen chloride. As for MCPA, it is planned for conduct a thorough production modernisation, to significantly increase facility's production capacity (by 50%) and to continue the penetration of target markets, especially, foreign markets.

As for Epoxide Resins, lower EPI product costs will have a positive impact on the reduction of production costs in the category of Resins produced mainly on the basis of EPI. In the epoxides and polyester resins segment, it is planned to further increase production volume as well as extend the offer and diversify recipients' market.

Priority – Optimisation of CIECH and Ciech Group's liabilities structure

- The Management Board of CIECH S.A. strives to optimise the financing structure. The first stage of conducted works was to negotiate the Loan Agreement of 26.04.2010, which allowed for debt consolidation, reduced the number of banks, organised the hedges, facilitated the process of liquidity management in the Group and allowed for adopting long-term financing.
- Starting from the third quarter of 2010. CIECH S.A. had negotiated with commercial banks which provide financing for the Group regarding target financing structure and negotiating a long-term loan agreement, which was entered into on February 10th, 2011. It is essential to involve the European Bank for Reconstruction and Development (EBRD) in the financing process, the bank will grant to CIECH S.A. a long-term loan amounting to an equivalent of PLN 300 million. A long-term loan agreement will ensure that the Ciech Group has a stable long-term financial structure, will allow for financing investment projects and offer more favourable financing conditions (lower financing cost, less strict credit conditions, debt servicing level adapted to cash flow generated by the Group).

An important element of the Ciech Group's restructuring programme is the issuance of CIECH S.A. shares on the Warsaw Stock Exchange. Capital raise by way of issuing share with subscription right supplements investment financing.

In the second half of 2010, CIECH S.A. began preparing its issuing prospectus in order to raise share capital. Share subscriptions within the subscription right and additional subscriptions were completed on February 16th, 2011, the allocation of shares was performed on February 25th, 2011. Consequently, the company issued 23,000,000 ordinary bearer shares each worth PLN 5. Finds gained on the new share issuance will be used for repayment of Ciech Group's debt on account of loans and for financing of tasks in accordance with the approved investment plan.

Priority – Integration and restructuring of operating activities

Restructuring of the Capital Group is a response to the condition of the Group and its environment. The global economic

0 Development prospects for CIECH S.A. (continued)

0 Strategic priorities for CIECH S.A. and the Ciech Group (continued)

crisis lead to a severe downturn on product markets where CIECH and the Ciech Group operate. These changes have impaired Group's function and had a negative impact on its financial result. The Restructuring Plan has been prepared and carried out in order to adapt the Group to new market conditions as well as possible. Another reason to implement the Plan is a high level of Group's debt and related debt servicing costs. Furthermore, the Group has suffered from inability to gain a satisfactory competitive position on certain markets.

Group's essential aims in terms of integration and restructuring of operating activities include:

1. **Concentration** of the activity on two most prospective segments and corresponding divisions: the Soda and Organic Division.
2. **Organisation restructuring** and integration of purchase and sales function at the Division level.
3. **Divestment** of selected companies and disposal of certain production and non-operative assets.

Current strategy of the Ciech Group assumes a concentration of the activity on two most prospective segments and corresponding divisions: the Soda and Organic Division. These correspond to 36.8% and 37.8 of Group's revenue for 2010 respectively.

Within Soda Division products, CIECH has a strong competitive position on an attractive market. As for the Organic Division, CIECH has recognised corresponding product markets as prospective, however, CIECH's competitive position on these markets is not as strong as in case of soda.

Apart from concentrating on those two chemical market segments, CIECH S.A. will also strive to maintain profitable trade in goods such as sulphur, mineral fertilizers and raw materials for fertilizers production.

In terms of integration and restructuring, it is planned to separate auxiliary functions and sell them, and to change organisational structures. This will result in further integration of purchase and sales function at the Divisions level and allow for concentrating on production activity in companies. Thanks to integrated sales activity, Divisions will strengthen their competitive positions in supply for international groups. Integrating purchase activities is aimed at using the scale effects during negotiation with the largest suppliers.

As for the Agro-Silicon Division, CIECH will conduct divestments of companies within this division (possibly without breaking off trade relations with them). This is a consequence of low attractiveness of the majority of related product markets and lack of significant synergy effects.

The restructuring will significantly reduce the product portfolio. These activities are aimed at narrowing specialisation and concentrating operations on the most prospective markets. The plan also assumes that the competitiveness of CIECH Group will improve in the following segments: TDI, EPI, epoxy and polyester resins, plant protection chemicals, baking soda and salt.

The divestment plan includes around 80 projects. The most important among them include sales of shares of the following companies: Azoty Tarnów SA, PTU, GZNF Fosfory, Alwernia, Vitrosilicon, Ciech Service, Polfa, and Transoda. The following divestment projects worth PLN 206.0 million were implemented in 2010:

- Disposal of PTU block of shares,
- Disposal of Azoty Tarnów S.A. block of shares,
- Disposal of 100% shares of Ciech Service,
- Disposal of Elzab S.A. block of shares,
- Disposal of Polskie Konsorcjum Chemiczne sp. z o.o. block of shares,
- Disposal of the property in Powązkowska Street in Warsaw.

Moreover, the Group entered into a conditional sales agreement regarding shares in GZNF Fosfory for an estimated price of PLN 107.2 million.

An essential element of the on-going divestment processes is the assumption that all loans granted by the Issuer to subsidiaries will be repaid once their shares are disposed of by the Issuer. The amount of loans granted by the Issuer to companies which form part of divestment processes exceeds PLN 200 million.

Sales of non-operative assets refers to redundant lots owned by the Group's companies with total area of approx. 95 ha.

15 Additional Information

15.1 Information about concluded agreements significant for CIECH S.A.'s business activity (including agreements concluded between the shareholders, insurance agreements, partnership and cooperation agreements)

Information on existing agreements which are important for the activity of CIECH S.A. have been discussed in section 2 of this Report on CIECH S.A.'s Activities.

15.2 Information about agreements concluded with the entity authorised to audit CIECH S.A.'s financial statements

Information about agreements concluded with the entity authorised to audit the financial statements was presented in section 25 of the notes and explanations to the financial statements.

15.3 Transactions with related entities

CIECH S.A. did not conclude any transactions on non-market conditions with its related entities. Sales to and purchases from related entities are realised at market prices.

A description of transactions concluded by CIECH S.A. with its related entities included in section 28.2 of CIECH S.A.'s financial statements for the period 01.01.2010 – 31.12.2010.

15.4 Information about natural environment protection

The majority of Ciech Group production companies have implemented environmental management systems compliant with ISO 14001 requirements and possess appropriate certificates. Zachem and Organika Sarzyna are signatories of the Responsible Care Program. The companies owned by CIECH S.A. apply the environmental management system as a basic tool for continuing reduction of environmental impact, at the same time, they optimise the use of own resources and build a positive image in the Group's environment. In 2010, works on implementing the environmental activities coordination system in CIECH S.A. companies were continued, this will facilitate management of this area from the corporate centre level.

At present, Ciech Group prepares the implementation of the Environmental and Social Action Plan (ESAP) agreed upon with EBRD within the loan agreement signed in February 2011.
In connection with an amendment to EU law regarding industrial emissions, the coming years may bring more severe conditions of using environment by business entities. In compliance with a new industrial emissions directive (IED directive), amendments to current regulations refer to three main areas:

- Increasing the importance of BREF reference documents in defining best available techniques (BAT) requirements for individual facilities. The European Commission will enact so-called BAT conclusions which will work as abbreviated versions of BREF documents and will become the legally binding basis for issuing a permit.
- Introducing stricter requirements for combustion facilities regarding basic pollution (SO2, NOx and ash), in particular for facilities which are powered with coal, and changing the definition of source of combustion – currently, the chimney.
- Introducing new regulations regarding soil protection, including the obligation to draw up a soil and underground water condition report for harmful substances in order to establish the initial condition of the ground which the given entity will be obliged to recreate after completing activity.

As EU will approve the proposed legal changes, the industry will be forced to bear significant expenses on modernising technical infrastructure in a short time. The proposed amendments to EU law will influence production companies within the Ciech Group to a different degree. In compliance with the amendment to EU law, these facilities will be subject to more severe emission standards which will come in force in 2016. Consequently, it will be necessary to conduct a complex modernisation of both power heating plants, including a construction of combustion gas desulphurisation and denitrification plants.

With respect to applied technical, technological and organisational solutions, and with reference to allowable size of emission to environment, production companies owned by CIECH S.A. fulfil, in most cases, the best available technique criteria. Some Companies are currently conducting

0 Additional information (continued)

0 Information about natural environment protection (continued)

investment tasks which will allow them to adjust to BAT standards. The largest among such projects is the conversion of the brine electrolysis facility applying the asbestos-based diaphragm technology into a more modern membrane method applied by the Zachem Company.

The REACH ordinance in force since June 1st, 2007 refers to safe application of chemical substances produces or imported (from outside EU) in amounts exceeding 1 ton p.a.. Manufacturers and importers who trade with such substances within the EU customs area have been forced to register – preliminary registration until December 1st. 2008, the proper registration in three terms, depending on the amount of substances being traded.
11 companies operating within CIECH completed the preliminary registration in the European Chemicals Agency (ECHA) for a total of 705 substances subject to the REACH provisions. In the first registration stage, which finished on November 30th, 2010, the Companies registered 33 large-tonnage substances, which constitutes approx. 14% of the portfolio of substances subject to registration. The remaining substances will be registered in further terms defined in the REACH Ordinance: until June 1st, 2013, for tonnage between 100-1,000 tons p.a. and until June 1st, 2018, for tonnage between 1-100 tons p.a.

15.5 CIECH S.A.'s major research and development achievements

Science-industry cooperation

CIECH S.A., in cooperation with the Experts Board at the President of the Management Board of CIECH S.A., continues to conduct activities aimed at strengthening the science-industry cooperation.
In 2010 the Group continued the realisation of particular enterprises and projects pursuant to signed framework agreements with 5 institutions (Institute of Heavy Organic Synthesis "Blachownia", Institute of Industrial Organic Chemistry, Industrial Chemistry Research Institute, Fertilizers Research Institute and its "IChN" division in Gliwice) and 7 universities (Warsaw University of Technology, Wrocław University of Technology, Poznań University of Technology, Rzeszów University of Technology, University of Technology and Life Sciences in Bydgoszcz, West Pomeranian University of Technology, Nicolaus Copernicus University in Toruń), this included the extension of the product offer and change or improvement of technological processes. Some projects received subsidies within aid programmes aimed at providing financial support to scientific institutions searching for innovative solutions.

Realization of scheduled research and development activities
In 2010, CIECH S.A. companies bore research expenditure amounting to PLN 7,732.63 thousand. The key research projects realized in 2010 included:

1. "New TDI production technology – gas-phase phosgenation": carried out by Zachem in cooperation with the scientific consortium of the Industrial Chemistry Institute and Warsaw University of Technology.
   a. *Project expenditure in the research stage: PLN 30 million, including over PLN 15 million of subsidies within the MNiSW IniTech programme.*
   b. *Implementation of the research project results: Building a new amine phosgenation line on industrial scale, which will result in decreased amount of surplus phosgene applied in the production process by approx. 60% and reduction of TDI production energetic costs by approx. 40%.*

   A technical-executive project of a TDA gas-phase phosgenation laboratory facility was designed in 2010. The estimate date of starting research in the laboratory facility is July 2011.
2. "Research on production of sorbent from baking soda": carried out by Soda Polska Ciech in cooperation with Częstochowa University of Technology and the Inorganic Chemistry Institute. The project covers research on implementing new, profitable applications of baking soda.
   a. *Project expenditure – PLN 200 thousand*
   b. *Extending market offer by selling the product in segments characterised by attractive margins and high growth potential, increase of sales by approx. 20 thousand tons, increase of gross profit by PLN 3 million p.a.*

   Acting in concert with the industrial partner, technical scale tests are to be conducted in 2011.
3. "Covering glass packaging with chromatic nanocoating" Vitrosilicon
   a. *Project expenditure – PLN 700 thousand*
   b. *Estimated implementation effects – increase in revenue by approx. PLN 3 million p.a. resulting from selling a new state-of-the-art product.*

   The project was awarded additional financing within Action 1.4 – 4.1 of the Operational Programme Innovative Economy and is carried out pursuant to subsidy agreement with Polish Agency for Enterprise Development.

0 Additional information (continued)

0 CIECH S.A.'s major research and development achievements (continued)

Co-financing for CIECH's undertakings

In 2010, the Ciech Chemical Group continued activities aimed at supporting its operations with aid funds, in particular, EU funds allocated for 2007-2013.
The projects realized with the support of external funds are determined based on the analysis of investment plans, research and development plans and other initiatives.
In 2010, the Ciech Group's companies, in cooperation with the Corporate Centre, successfully applied for co-financing from EU and domestic funds for their research projects and investment undertakings (innovative and environmentally-friendly).
By the end of 2010, the procured funding exceeded PLN 141 million *(including the project of construction of a facility for channelling and isolating fly-ash, in which Soda Polska Ciech Sp. z o.o. holds a 29% share).* All projects are realised pursuant to subsidy agreements signed with Implementing Institutions.
In 2010, the Group was awarded subsidies for three projects (included in the aforementioned amount):

- Complex organisation of the water-sewage management in Zakłady Chemiczne ZACHEM (Subsidy amounting to PLN 6,300 thousand (30% of qualified costs)).
- Change of toluene diisocyanate (TDI) manufacturing technology in Z.Ch. Zachem (Subsidy amounting to PLN 15,055,880 (50.19% of qualified costs)).
- BarvaGlass packaging glass – Vitrosilicon turns vision into reality – Vitrosilicon S.A. (Subsidy amounting to PLN 7,805,225 (49.67% of qualified costs)).

In 2010, the Group completed the "Development of Boilers in Elektrociepłownia Janikowo – CKTI-2 boiler" project which received subsidies within Action 4.5 of the Operational Programme Infrastructure and Environment. Beneficiary – Soda Polska Ciech Sp. z o.o. – received reimbursement of 30% of borne qualified costs amounting to PLN 13.4 million.

CIECH S.A. and Group companies' absorption of external funds when realizing investment and other initiatives is a vital decisive factor due to the chances of broadening their scope, most importantly, of realising them using state-of-the-art and innovative technologies and tools as well as their faster than planned realization.

Optimization of CIECH S.A. and the Group's companies operating activity

In 2010, works aimed at implementing system solutions within the Group with regard to the operating activity of the Group's companies were continued. These activities were aimed at gaining benefits resulting from the scale effect through management consolidation in certain operating activity aspects at the corporate level.

- **Optimization of power expenses borne by CIECH S.A. companies**

In 2010, an undertaking aimed at optimizing the Ciech Group's companies power expenses was continued. The undertaking is realized within the Group in cooperation with a renowned consulting agency.
On December 14th, 2010 the negotiation stage was completed and the contracts were signed for consolidated purchase of electricity in the TPA system in 2011 by the Ciech Group Companies. After an offering tender process, the company PGE Obrót S.A. was selected as the electricity supplier on the liberated energy market. The following Ciech Group companies entered into agreements for year 2011: Soda Polska Ciech Sp. z o.o., ZCh Zachem S.A., ZCh Organika-Sarzyna S.A., GZNF Fosfory Sp. z.o.o., ZCh Alwernia S.A., Vitrosilicon S.A.
In 2011, the total electricity volume will exceed 450 thousand MWh and the total net value of agreements for the Ciech Group Companies will amount to approx. PLN 104 million net (excluding distribution charges amounting to PLN 28 million and excluding VAT).
The supplies will be supplemented by an in-house electricity generation by heat and power plants owned by a Group company – Soda Polska Ciech – which will contribute around 450 thousand MWh.
The negotiated terms and conditions of purchasing energy in TPA system for the year 2011 and the carrying out of the task to optimise the energetic area of the Ciech Group by creating a Balance Group will generate savings with regards to the forecasted increase of electricity prices in 2011. Estimated savings exceed PLN 5 million.
The optimization of the electricity purchase electricity balance costs will contribute to improved financial ratios of the Ciech Chemical Group Companies.

- **Optimization of the current maintenance and repair costs**

The undertaking is aimed at optimizing expenditures in the area of operating expenses in 2010 and the following years. Optimisation and restructuring activities were coordinated in the area of movement maintenance in the following respect:

- ZACHEM S.A./ Zachem UCR – the process of selling Zachem UCR
- A concept of selling Zachem UCR Sp. z o.o. involving the sale of the Company in a block with

0 Additional information (continued)

0 CIECH S.A.'s major research and development achievements (continued)

a long-term service agreement regarding maintenance of movement and repair work for ZACHEM S.A. Potential savings have been initially estimated at approx. 16% compared to the currently borne costs. Potential investors have filed binding offers. The enterprise is to be completed in 2011.

- US Govora – cooperation with respect to establishing a new organisational model for movement maintenance and repair works services in US Govora.
- Soda Polska CIECH Sp. z o.o. – in connection with completing a 3-year contract on movement maintenance in the Inowrocław Plant and power heating plants, a countrywide tender invitation was carried out in Poland in order to generate greater competitiveness in the area of movement maintenance and repair works services provided to the benefit of Soda Polska Ciech Sp. z o.o.

15.6 Proceedings linked to CIECH S.A.'s liabilities or debt

There are no proceedings under way against Ciech S.A. regarding obligations or debt whose value constitutes at least 10% of Ciech S.A.'s equity.

15.7 Information about off-balance sheet items

The table below presents off-balance sheet items, including guarantees and sureties granted by CIECH S.A. to other entities (from outside the Ciech Group). The description of sureties and guarantees granted to related entities (within the Ciech Group) has been included in the table "Sureties and guarantees granted".

PLN '000

OFF-BALANCE SHEET ITEMS	31.12.2010	31.12.2009
Contingent liabilities	**281,519**	**344,799**
Due to guarantees and sureties granted	281,519	344,799
Other off-balance sheet items	**22,066**	**27,619**
Other trade sureties	–	9,400
Other	22,066	18,219
Total off-balance sheet items	**303,585**	**372,418**

As at December 31st, 2010, contingent receivables did not occur in CIECH S.A.

The value of contingent liabilities and other off-balance sheet liabilities as at December 31st, 2010 amounted to PLN 303,585 thousand, which is a decrease in comparison to December 2009 by PLN 68,833 thousand.
The main cause of this difference is termination of sureties and guarantees on liabilities of a subsidiary GOVORA amounting to EUR 15,000 thousand, on liabilities of a subsidiary ZACHEM S.A. amounting to PLN 4,500 thousand and on liabilities of a subsidiary CHEMAN S.A. amounting to PLN 9,000 thousand. A surety on a liability of ZACHEM S.A. amounting to PLN 40,000 was also withdrawn. The growth resulted from the fact that a subsidiary Govora obtained a surety amounting to EUR 13,000 (equivalent of PLN 51,484 thousand) in connection with a consortium loan it had raised. The remaining difference results from the changes in exchange rates applied in the measurement of liabilities.
Other contingent liabilities in the amount of PLN 22,066 thousand include:

- contingent liability of PLN 1,728 thousand in connection with claims filed by Polska Żegluga Morska (Polish naval authority),
- contingent liability of PLN 17,253 thousand due to not achieving the ratio required by the agreement for the purchase of ZACHEM S.A.'s shares,
- contingent liability of PLN 3,085 thousand due to non-compliance by CIECH S.A. with information obligations under the agreement with AVAS regarding the purchase of S.C. Uzinele Sodice Govora-Ciech Chemical Group.

Compared to 2009, this item increased by PLN 3,847 thousand. The main cause of this change was an increase in the contingent liability due to non-achievement of the ratio required under the agreement for the purchase of ZACHEM S.A. by PLN 2,253 thousand and increase in the contingent liability due to non-compliance of CIECH S.A. with information obligations under the agreement with AVAS regarding the purchase of S.C. Uzinele Sodice Govora- Ciech Chemical Group amounting to PLN 1,466 thousand.

0 Additional information (continued)

0 Information about off-balance sheet items (continued)

The aforesaid items do not include the value of suits filed by third parties, described in section 24.1 of the notes and explanations to the financial statements.

15.8 Information about the employee share ownership plan control system

CIECH S.A. does not operate an employee share ownership plan.

15.9 Information about agreements that may affect the proportions of shares held by the existing shareholders and bondholders

Neither in 2010 nor between the balance sheet day and the publication date of this statement, were there any agreements that may affect the proportions of shares held by the existing shareholders and bondholders.

15.10 Remunerations of the Management Board and Supervisory Board of CIECH S.A.

This information has been included in section 28.4 of notes and explanations to CIECH S.A.'s financial statements.

15.11 Establishment of the total number and face value of all of the Company's shares as well as shares of related entities held by the management and supervisory staff

From the declarations submitted by the management and supervisory staff, it appears that as at December 31st, 2010:

- Mr Artur Osuchowski, Member of the Management Board, held 2,100 shares in CIECH S.A.

On March 7th, 2011, a Member of the Management Board of CIECH S.A., Mr Artur Osuchowski, informed of his purchase of 1,725 Issuer's shares Series "D", having made a subscription to perform the subscription right for Issuer's shares Series "D" (while at the day of lodging the information, the Issuer's shares Series "D" were represented in the regulated market trade conducted by Giełda Papierów Wartościowych w Warszawie S.A. by rights to Issuer's shares Series "D"). Purchase price of 1 Issuer's share Series "D" was equal to the issuance price, i.e. PLN 19.20. The transaction was accounted for on March 3rd, 2011. The purchase and registration transaction was performed on the regulated market.

Other persons holding managerial and supervisory positions did not hold any shares in CIECH S.A. or shares of related entities.

16 Statement on the application of Corporate Governance

Pursuant to § 91 section 5 item 4) of the Ordinance of the Minister of Finance of February 19th, 2009 on current and periodic information published by Issuers of securities and the conditions of recognising as equivalent the information required by the law provisions of a country which is not a member state (Journal of Laws no. 33/2009 item 259), the Management Board of CIECH S.A. has passed a Statement on the application of Corporate Governance in CIECH S.A. in 2010.

Information included in the Statement fulfil the requirements of the report on applying "Good Practices of GPW listed companies" defined in § 1 of the Resolution No. 1013/2007 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. of December 11th, 2007. Consequently, in compliance with § 2 of the Resolution No. 718/2009 of the Management Board of Giełda Papierów Wartościowych S.A. of December 16th, 2009, presenting this statement to GPW is recognised as equivalent to providing GPW with the report discussed in § 29 section 5 of the Stock Exchange Regulations.

16.1 Corporate governance principles observed by the Issuer and location where their contents is available for the public

Corporate governance principles observed by CIECH S.A. has been contained in the document: "Good Practices of GPW listed companies" adopted with the Resolution No. 17/1249/2010 of the Supervisory Board of Giełda Papierów

0 Statement on the application of Corporate Governance (continued)

0 Corporate governance principles observed by the Issuer and location where their contents is available for the public (continued)

Wartościowych w Warszawie S.A. of May 19th, 2010. The text of "Good Practices of GPW S.A. Listed Companies" is available on the Warsaw Stock Exchange website (http://corp-gov.gpw.pl/) and on the website of CIECH S.A. (http://www.ciech.com).

16.2 Application of Corporate Governance principles

In 2010, the CIECH S.A. company applied the corporate governance principles for companies listed on the Warsaw Stock Exchange included in the "Good Practices of GPW Listed Companies" which constitutes an annex to the Supervisory Board resolution No. 17/1249/2010 of May 19th, 2010, regarding the amendment to Good Practices of GPW Listed Companies" which came in force on July 1st, 2010. No infringement on principles to which the "comply or explain" rule detailed in chapters II, III and IV of "Good Practices of GPW Listed Companies" applies were recorded.

As for chapter I of "Good Practices of GPW Listed Companies" which includes "Recommendation", two points require a commentary:

The amendment adopted by the Resolution of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. of May 19th, 2010, introduced new provisions to item 5 which refer to the remuneration policy. In compliance with the recommendation, CIECH S.A. has a remuneration policy which defines the form, structure and level of remuneration, including remuneration for members of management and supervisory bodies in the Company. The remuneration system is transparent and ensures that the remuneration paid to top executives is linked to the financial results achieved by the Company and effects of work performed by remunerated persons.

The principles of the remuneration system account for certain principles following from the European Commission recommendation of December 14th, 2004 regarding supporting an appropriate remuneration system for directors of stock exchange listed companies (2004/913/EC) supplemented by the European Commission recommendations of April 30th, 2009 (2009/385/EC). These principles include: defining fixed and variable elements of Management Board remuneration, establishing a link between variable remuneration elements with result criteria and detailing the total remuneration and particular elements paid to Members of Management Board and Supervisory Board in notes and explanations to the Annual Financial Statements. The adopted remuneration system does not include incentive programmes based on shares, stock options or other stock purchase rights, nor does it provide for receiving remuneration pursuant to fluctuations of share price.

Patterns recommended by the European Commission did not form a benchmark for establishing the remuneration system in the Company and not all aforementioned recommendations have been applied. The remuneration system does not constitute a separate item in the Annual General Meeting agenda and is not put to the vote. The Company has not published "the remuneration declaration" on its website. Nevertheless, various Company documents include information which should be contained in the declaration.

The remuneration principles and the level of remuneration for Members of the Management Board in CIECH S.A. are established by the Company's Supervisory Board. Functions of the Remuneration Committee, as defined by the European Commission, is performed by the Remuneration Committee of CIECH S.A.'s Supervisory Board. Remuneration for the Members of the Company's Supervisory Board is established by the Company's General Meeting.

Another issue which require explanation if the recommendation regarding the broadcast of general meeting sessions by means of Internet, registering the sessions and publishing them on the website. In the discussed reporting period, the Company has not decided for recommended direct broadcasting of General Meeting sessions or registering sessions and publishing them on the website. However, in order to ensure a transparent and efficient information policy, which would ensure a fast and safe access to information for shareholders, analysts and investors, the Company has applied a number of communication tools.

16.3 Internal audit and risk management systems in the process of compiling financial statements and consolidated financial statements

The Management Board of CIECH S.A. is responsible for the internal audit system in the Company and its effectiveness in the process of compiling financial statements and interim reports, prepared and published in accordance with the principles included in the Ordinance of the Minister of Finance of February 19th, 2009 on Current and Interim Information Submitted by the Issuers of Securities and Conditions of Recognizing as Equivalent the Information Required by the Law Provisions of a Country which is not a Member State.

0 Statement on the application of Corporate Governance (continued)

0 Internal audit and risk management systems in the process of compiling financial statements and consolidated financial statements (continued)

The Company's effective system of internal audit and risk management in the financial reporting process functions through:

- preparing procedures defining the principles and responsibility for compiling financial statements, including the responsibility for quality assurance;
- determining the scope of reporting based on the binding International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS);
- developing, implementing and supervising the application of consistent accounting principles in the Ciech Capital Group's companies;
- semi-annual and annual audits of published financial statements of CIECH S.A. and the Capital Group by an independent auditor;
- financial statements authorisation prior to publication.

A Member of the Management Board responsible for financial matters supervises the process of preparing the Company's financial statements and interim reports. The Financial Department, directly responsible to a Member of the Management Board of CIECH S.A., is responsible for organizing tasks connected with the preparation of financial statements. The uniformity of the standards applied by the Group ensures the application of uniform accounting principles of the Ciech Group and uniform consolidation principles according to IAS/IFRS by all companies.

The scope of disclosed data published in interim reports results from the Company's accounting books and additional information submitted by particular organizational units of CIECH S.A. The Capital Group's companies deliver the required data in the form of reporting packages in order to prepare the Group's consolidated financial statements. The scope of data disclosed within the Capital Group is defined and results from the information obligations imposed by IAS/IFRS. Current IAS/IFRS monitoring is conducted to determine the need to update the scope of reporting.

Pursuant to the binding regulations, the Company's financial statements are reviewed and audited by an independent certified auditor.
A certified auditor is appointed by the Supervisory Board from a circle of reputable auditing companies, ensuring high standards of service and the required independence. Agreements for auditing financial statements by a certified auditor are concluded every year with an auditor appointed by the Supervisory Board. The Audit Committee, appointed within the competences of the Supervisory Board, supervises the financial reporting process, cooperates with an independent auditor and recommends an auditor to the Supervisory Board.

The Company operates financial statements authorisation procedures. Reports for Q1, 2, 3 and Q4 are not subject to auditing, these are approved by the Management Board before publication. Semi-annual and annual interim reports analysed or audited, as required, by an auditor are submitted to the Supervisory Board and Company's Shareholders. Annual statements approved by the Management Board, after obtaining the opinion of the Audit Committee and their evaluation by the Supervisory Board, are approved by the General Meeting.

After the publication of annual or half-yearly financial statements, the conclusions from the financial statements' audit are presented to the Audit Committee. Representatives of the Audit Committee analyse the audit's and the review's results during closed sessions held with the Company's auditor. Additionally, the certified auditor presents a Letter to the Management Board, containing recommendations for the Management Boards of the Group's Companies, based on the results of the audit or the review of financial statements for a given year. The auditor's recommendations are discussed by the Audit Committee and the managerial staff of the Finance Division with the purpose of implementation.

Financial data forming the basis for financial statements and interim reports come from an accounting and financial system, where all transactions are registered in accordance with the Company's accounting policy (approved by the Management Board) based on the International Accounting Standards. Accounting books are kept in an integrated ERP IT system. The modular structure of the system ensures clear division of competences, consistency of accounting entries and compliance between the general ledger and sub-ledgers. The properties of the system allow for its ongoing adjustment to the changing accounting principles and other legal regulations. The system contains complete technical and functional documentation, which pursuant to Art. 10 of the Accounting Act dated September 29th, 1994 is periodically updated.

The access to information contained in the IT system is limited by relevant authorisations for entitled employees. Employees can only access those system areas on which they work. Access control is implemented at every stage, starting from entering source data, through data processing, to generating output information.

0 Statement on the application of Corporate Governance (continued)

0 Internal audit and risk management systems in the process of compiling financial statements and consolidated financial statements (continued)

A reflection of the effectiveness of the applied procedures for audit and risk management in the process of compiling financial statements in CIECH S.A. and in the Ciech Group are the results in the form of high-quality financial statements, as confirmed by the opinions of certified auditors on the audited statements, positive assessment by recipients of financial statements and top rankings of CIECH S.A. in the competition “The Best Annual Report”, organised by the Institute of Accounting and Taxes under the auspices of the Warsaw Stock Exchange.

The selection of the entity authorised to audit the financial statements of CIECH S.A. and financial statements of the CIECH Group is performed by the Company's Supervisory Board (after a preliminary recommendation of the Supervisory Board Auditing Committee), which has established the following selection principles to ensure that the opinion is unbiased:

- the entity authorised to audit financial statements may not perform audits for the Company/Group for more than 5 years in a row;
- the entity authorised to audit financial statements may return to performing auditing activity for the Company/ Group after 2 years at the earliest;
- the key certified auditor may not perform the financial auditing activity for the Company/ Group for more than 5 years in a row;
- the key certified auditor may return to performing financial auditing activity for the Company/ Group after 2 years at the earliest.

16.4 Shareholders of CIECH S.A. with large share blocks

Company shares are listed on Giełda Papierów Wartościowych w Warszawie S.A. As at the day of publication of this report, the share capital is PLN 255,001,420 and it is divided into 51,000,000 shares of face value PLN 5 each, including:

- 20,816 ordinary bearer shares Series "A”,
- 19,775,200 ordinary bearer shares Series "B”,
- 8,203,984 ordinary bearer shares Series "C”,
- 23,000,000 ordinary bearer shares Series "D”.

As determined in the notifications received under art. 69 of the Act of July 29th, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies – Journal of Laws. No. 184, item. 1539), the following Shareholders hold at least 5% of the total number of votes at the general meetings of the company:

List of shareholders holding 5% of shares before the share capital raise by way of issuance of Series "D" shares:

1. State Treasury represented by the State Treasury Ministry – 36.68 % share in share capital,
2. Customers of Pioneer Pekao Investment Management S.A., including Pioneer FIO and SFIO of Telekomunikacja Polska – 12.85% share in share capital,
3. Otwarty Fundusz Emerytalny (Open Pension Fund) PZU “Złota Jesień” – 6.12% share in share capital,
4. ING Otwarty Fundusz Emerytalny (Open Pension Fund) – 5.33% share in share capital,

Estimates: Shareholding structure after share capital raise by way of issuance of shares Series "D"

1. State Treasury represented by the State Treasury Ministry – between approx. 35.68% and 37.68% share in the share capital,
2. Customers of Pioneer Pekao Investment Management S.A., including Pioneer FIO and SFIO of Telekomunikacja Polska – between approx. 10.85% and approx. 14.85% share in share capital,
3. Otwarty Fundusz Emerytalny (Open Pension Fund) PZU “Złota Jesień” – between approx. 5% and approx. 10% share in share capital,
4. ING Otwarty Fundusz Emerytalny (Open Pension Fund) – between approx. 5% and approx. 10% share in share capital,

0 Statement on the application of Corporate Governance (continued)

16.5 Shareholders with special control authorisations together with description

Shares issued by CIECH S.A. do not grant any special control authorisations with regards to the Issuer. No shares are privileged, each grants the same right to one vote on the General Meeting.

16.6 Restriction regarding the right to vote

The CIECH S.A.'s Articles of Association do not provide for any restrictions regarding the right to vote neither have there been any decisions to separate capital rights following from securities from the fact of holding securities.

16.7 Restriction regarding the transfer of Issuer's securities ownership

The CIECH S.A. Articles of Association do not provide for any restrictions regarding the transfer of ownership of securities issued by the Company.

16.8 Description of authorisation to make decisions on the issuance or redemption of shares

The Code of Commercial Companies and the Company's Articles of Association define the qualifications of the managerial staff. The Members of the Management Board have no special rights to decide about share issue or redemption.

16.9 Principles for introducing amendments to the Issuer's Articles of Association

The Articles of Association can be amended in accordance with the Code of Commercial Companies. The Articles of Association do not introduce any detailed regulations regarding the aforementioned documents. In 2010, there were no amendments to the CIECH S.A. Statute.

16.10 Function of the General Meeting and its principle competence as well as description of shareholders competence and the manner of performing them

The General Meeting of CIECH S.A. takes place either as an ordinary or extraordinary meeting, in compliance with the Code of Commercial Companies regulations and the Articles of Association according to principles defined in the General Meeting Regulations.

Pursuant to the CIECH S.A.'s Articles of Association, the competences of the General Meeting include:

1) examining and approving the Company's management report, financial statements for the previous financial year, consolidated financial statements and the Capital Group's management report, where the Company is the parent, if the Company prepares such report, as well as examining and approving a written annual report by the Supervisory Board, acknowledgement of the fulfilment of duties by the members of the Company's authorities;
2) passing resolutions on profit distribution or loss coverage;
3) adopting the regulations for the General Meeting;
4) amending the Company's Articles of Association;
5) changing the subject of the Company's business activity;
6) selling and leasing the enterprise or its organised part and establishing a limited property right thereon;
7) appointing and dismissing Members of the Supervisory Board and determining their remuneration;
8) appointing and dismissing Members of the Management Board, including the President of the Management Board;
9) increasing or decreasing the share capital;
10) passing resolutions on the issue of bonds, including convertible bonds;
11) merging the Company with other companies, dividing and transforming the Company;
12) dissolving the Company;
13) approving the purchase of shares by the Company for redemption and passing resolutions on the terms of shares redemption;
14) passing other resolutions stipulated by legal regulations or the Articles of Association.

Pursuant to § 21 section 2 item 3) of the CIECH S.A. Articles of Association, any issues brought at the General Meeting of CIECH S.A. are examined and approved by the Supervisory Board of CIECH S.A.

0 Statement on the application of Corporate Governance (continued)

0 Function of the General Meeting and its principle competence as well as description of shareholders competence and the manner of performing them (continued)

Attendance, procedure and execution of the right to vote are regulated by the Regulations of the General Meeting of CIECH S.A., adopted by the Annual General Meeting of CIECH S.A. on June 21st, 2010 and effective from the next Meeting after the Meeting which adopted it, i.e. October 28th, 2010.

Shareholders may attend the General Meeting and perform their right to vote personally or by proxies. A power of attorney should be made in writing or in electronic form. The Shareholder who acknowledges or repeals a power of attorney to attend a General Meeting in electronic form must inform the Company by means of electronic mail at: wza@ciech.com.

Pursuant to the Regulations of the General Meeting of CIECH S.A., the participants of the General Meeting include Members of the Management Board and of the Supervisory Board, in a composition which allows for providing substantial responses to questions asked during the Meeting. Other persons authorised to attend the Meeting:

1) experts, advisors and employees of the Company whose attendance is deemed necessary by the Management Board, Supervisory Board or the Chairman;
2) persons in charge of servicing the Meeting;
3) representatives of mass media unless the Meeting votes against their presence;
4) persons mentioned in art. 370 § 3 and art. 395 § 3 item 2 of the Code of Commercial Companies.

The Meeting elects the Chairman of the Meeting from among attendees. The Chairman presides over the Meeting in accordance with the adopted agenda, legal regulations, the Articles of Association and the General Meeting Regulations, ensuring smooth course of the session and respect for the rights and interests of all Shareholders.

The competences of the Chairman of the General Meeting include in particular:

1) watching that all Attendees respect legal regulations, including the Regulations of the General Meeting and taking appropriate organisational decisions in this respect;
2) commencing discussion on particular points of the agenda, giving the floor;
3) taking the floor away if the speech:
    a) exceeds the limit of time for speeches or replies, or
    b) covers topics not included in the agenda, or
    c) is offensive,
4) closing discussion on particular points of the agenda,
5) closing lists mentioned in § 42 section 4 (List of Candidates for Members of the Management Board, including the President, or the Supervisory Board);
6) determining – based on the adopted motions – the content of draft resolutions of the Meeting,
7) ordering and supervising votes, signing all documents containing the results of a vote and announcing the results,
8) giving instructions to maintain order during the Meeting,
9) resolving procedural doubts and clarifying legal and regulatory issues, based on the obtained legal opinions, if required;
10) announcing exhaustion of the agenda,
11) closing the Meeting after exhausting the agenda.
12) taking other organisational decisions.

The Chairman may, at their own discretion, order the adjournment of the Meeting, other than the adjournment ordered by the General Meeting pursuant to Art. 408 § 2 of the Code of Commercial Companies. The adjournment should be ordered by the Chairman in such a way that the Meeting can be closed on the day of its opening.

The Chairman may include in the agenda examination of motions and adopting a resolution to call an extraordinary general meeting and other organisational issues such as:

1) allowing persons mentioned in § 8 section 2 items 1-3 to attend the meeting;
2) proposing motions for changing the order of discussing particular issues on the agenda,
3) selecting committees as required by the Regulations, the participants of the Meeting may propose subject-related motions relating to the matters included in the agenda, organisational motions and a motion calling for convening an Extraordinary General Meeting.

Resolution proposals presented to the General Meeting for approval are published on the Company's website.
The resolutions of the General Meeting of CIECH S.A. are passed by an absolute majority of votes, unless the regulations of the Code of Commercial Companies provide otherwise.

0 Statement on the application of Corporate Governance (continued)

0 Function of the General Meeting and its principle competence as well as description of shareholders competence and the manner of performing them (continued)

The General Meeting Regulations do not allow for voting by correspondence, as defined in Art. 411^1 of the Code of Commercial Companies.

The Articles of Association do not allow for attending and taking the floor during a General Meeting by means of electronic communication.
The voting is open. Secret voting is ordered:

1) in the case of election,
2) on motions calling for the appointment/dismissal of members of the Company's authorities,
3) on motions calling for the dismissal of the Company's liquidators,
4) on motions calling for bringing the individuals described in points 2) and 3) to justice,
5) in personal matters,
6) at the request of at least one of the Meeting's participants.

The right to demand secret voting is ineffective when passing resolutions on organisational matters. The General Meeting may repeal the secret ballot for election of committees appointed thereby.

16.11 Composition of Issuer's managing, supervising and administering bodies and their committees, changes they underwent during the last financial year and description of their activities

CIECH S.A.'s Management Board

Pursuant to § 23 section 1 of the Company's Articles of Association, the Management Board composed of three to five persons. The joint term of office of the Members of the Management Board lasts three years. The mandate of a Member of the Management Board expires at the day of the General Meeting which approves the financial statements for the last full financial year of this Member's office at the latest. Expiry of the Member's mandate shall also take place following their death, resignation or dismissal from the composition of the Management Board.

The competence of the Management Board covers all matters and economic decisions and other matters not reserved by the Code of Commercial Companies or the company's Articles of Association to the sole competence of the General Meeting or the Supervisory Board. The President of the Management Board acting independently, two Members of the Management Board or one Member of the Management Board acting jointly with a proxy are authorised to make declarations of will and sign documents on behalf of the company.

The current joint term of office of the Company's Management Board began on June 21st, 2010 and shall expire on June 21st, 2013, corresponding mandates shall expire on the day of the Ordinary General Meeting in 2013. Detailed distribution of competence of particular Members of the Management Board is defined in a Management Board resolution.

The Management Board of CIECH S.A. acts based on the regulations adopted by the Management Board and approved by the Supervisory Board. Resolutions are adopted by an absolute majority of votes. In case of an equal number of votes, the President of the Board has a decisive vote. In compliance with the principle of good practice, the Management Board Regulations state that, in case of a conflict between Company's interest and personal interests of a Member of the Management Board, their spouse, relatives up to second degree or persons with whom they remain in personal relations, this Member should refrain from deciding upon such issues and demand that this fact is indicated in the Management Board session minutes.

In 2010, the Supervisory Board approved new Management Board Regulations.

In compliance with new Regulations, all matters beyond Company's ordinary activities shall be decided upon by a resolution of the Management Board, in particular:

1) approval and amendment of Management Board Regulations;
2) approval and amendment of Company's Organisational Regulations;
3) approval of motions addressed to the Supervisory Board or to the General Meeting;
4) calling the General Meeting and approval of proposed agenda;
5) approval of annual and long-term financial plans and development strategies of the Company;
6) granting power of attorney or general proxies;
7) taking out loans and borrowings;
8) granting loans and borrowings;
9) disposal of right or taking out liabilities exceeding PLN 500,000.00 (say: five hundred thousand);
10) application for bank guarantees, taking out liabilities on promissory notes, awarding all categories of securities and establishment of other hedges.

0 Statement on the application of Corporate Governance (continued)

0 Błąd! Nieprawidłowy odsyłacz do zakładki: wskazuje na nią samą. **(continued)**

A Resolution of the Management Board is also required in matters which do not exceed the scope of Company's ordinary activities, if this is demanded by any Member of the Management Board.

On January 1st, 2010 the Company's Management Board was composed of:

1. Ryszard Kunicki – President of the Management Board,
2. Robert Bednarski – Member of the Management Board,
3. Marcin Dobrzański – Member of the Management Board,
4. Artur Osuchowski – Member of the Management Board.

On June 21st, 2010, the General Meeting of CIECH S.A. appointed the Management Board of CIECH S.A. to another joint term of office composed of:

1. Ryszard Kunicki – President of the Management Board,
2. Marcin Dobrzański – Member of the Management Board,
3. Artur Osuchowski – Member of the Management Board,
4. Andrzej Bąbaś – Member of the Management Board,
5. Rafał Rybkowski – Member of the Management Board.

On September 27th, 2010 Mr Marcin Dobrzański, a Member of the Management Board filed a resignation from his position.

Considering the above, the composition of the Management Board as at that day was as follows:

1. Ryszard Kunicki – President of the Management Board,
2. Artur Osuchowski – Member of the Management Board,
3. Andrzej Bąbaś – Member of the Management Board,
4. Rafał Rybkowski – Member of the Management Board.

The aforementioned composition of the Management Board did not change by December 31st, 2010. The composition of CIECH S.A.'s Management Board remained unchanged as at the day of compiling the financial statements.

The body responsible for the establishment of principles and level of remuneration of Members of the Management Board is the Supervisory Board of CIECH S.A.

In accordance with their employment contracts, Members of the Management Board receive base remuneration and an annual bonus based on profits. Furthermore, employment contracts of Members of the Management Board stipulate a possibility of awarding a task-based bonus calculated as multiple number of the monthly remuneration and paid according to principles and in the level indicated by the Supervisory Board.

The total amount of remuneration paid to Members of the Board (who performed their functions in 2010) by the Company in 2010 is PLN 5,320 thousand.

Information on amounts of remuneration paid to particular Members of the Management Board, divided into the base and the bonus, have been presented in section 28.4 of notes and explanations to the financial statements of CIECH S.A. for 2010.

CIECH S.A.'s Supervisory Board

Pursuant to § 20 section 1 the Supervisory Board is composed of five to nine members appointed by the General Meeting. The joint term of office of the Members of the Supervisory Board lasts three years.

The Supervisory Board of CIECH S.A. acts based on the regulations adopted by the Supervisory Board and approved by the General Meeting. Appointing and dismissing Members of the Supervisory Board is within the competence of the General Meeting. The Supervisory Board appoints the Chairman of the Supervisory Board and, if necessary, the Vice Chairman and the Secretary of the Supervisory Board. The Supervisory Board supervises the Company's operations.

The current joint term of office of the Company's Supervisory Board began on June 26th, 2008 and shall expire on June 26th, 2011, corresponding mandates shall expire on the day of the Annual General Meeting in 2011.

0 Statement on the application of Corporate Governance (continued)

0 Błąd! Nieprawidłowy odsyłacz do zakładki: wskazuje na nią samą. **(continued)**

The competence of the Supervisory Board includes in particular:

1) assessment of the Company's management report and financial statements for the previous financial year, consolidated financial statements and management report of the capital group, where the Company is the parent, if the Company compiles such reports, for their consistency with accounting books and documents and the actual status, as well as assessment of the Management Board's motions as to profit distribution or loss coverage and submitting to the General Meeting an annual written report on the results of this assessment;
2) giving opinions on the Company's action plans prepared by the Management Board;
3) examining and giving opinions on matters subject to resolutions of the General Meeting;
4) adopting the regulations of the Supervisory Board;
5) approving the regulations of the Management Board;
6) determining remuneration rules and remuneration amount for the Members of the Management Board, including the President of the Management Board;
7) appointing a certified auditor to audit the Company's financial statements and the capital group's consolidated financial statements;
8) approving the exercise of rights or incurring liabilities whose value, under a single or under several related legal transactions, exceeds the equivalent of PLN 10,000,000 (in words: ten million), excluding:
   a) agreements for the sale of raw materials, semi-finished products and finished products linked to the Company's business;
   b) actions which require the consent of the General Meeting.

The Supervisory Board adopts resolutions by an absolute majority of votes with at least half of Members present, in case of an equal number of votes ,the decisive vote belongs to the Chairman. Pursuant to CIECH S.A.'s Articles of Association, the Supervisory Board may pass resolutions without convening a meeting in a written ballot or with the use of means of remote communication, whereby for such a resolution to be effective it is necessary to inform all Members of the Board about the draft content thereof. The Members of the Supervisory Board may participate in passing the Board's resolutions through voting in writing via another Member of the Supervisory Board. Submitting a vote in writing is not allowed for matters included in the agenda during the session of the Supervisory Board.

As at January 1st, 2010, the Supervisory Board of CIECH S.A. was composed of:

1. Ewa Sibrecht-Ośka – Chairman of the Supervisory Board,
2. Jacek Goszczyński – Vice Chairman of the Supervisory Board,
3. Krzysztof Salwach – Secretary of the Supervisory Board,
4. Grzegorz Kłoczko – Member of the Supervisory Board,
5. Marzena Okła-Anuszewska – Member of the Supervisory Board,
6. Sławomir Stelmasiak – Member of the Supervisory Board.

On June 21st, 2010, the Annual General Meeting of CIECH S.A. dismissed Mr Grzegorz Kłoczko and Ms. Marzena Okła-Anuszewska from the composition of the Supervisory Board and appointed Mr Przemysław Cieszyński, Mr Arkadiusz Grabalski and Mr Waldemar Maj.
Considering the above, the composition of the Supervisory Board as at June 21st, 2010 was as follows:

1. Ewa Sibrecht-Ośka,
2. Jacek Goszczyński,
3. Krzysztof Salwach,
4. Sławomir Stelmasiak,
5. Przemysław Cieszyński,
6. Arkadiusz Grabalski,
7. Waldemar Maj.

On July 2nd, 2010, the Supervisory Board of CIECH S.A. appointed Mr Przemysław Cieszyński as the Vice Chairman of the Supervisory Board of CIECH S.A.

The aforementioned composition of the Board did not change by December 31st, 2010. Consequently, the composition of CIECH S.A.'s Supervisory Board remained unchanged as at the day of compiling the financial statements.

Members of the Supervisory Board receive remuneration pursuant to principles and in the amount defined by a General Meeting Resolution.

0 Statement on the application of Corporate Governance (continued)

0 Błąd! Nieprawidłowy odsyłacz do zakładki: wskazuje na nią samą. **(continued)**

The total amount of remuneration paid by the Company to all Members of the Supervisory Board who performed their functions in 2010 is PLN 598 thousand.

Detailed information on amounts of remuneration paid to particular Members of the Supervisory Board have been presented in section 28.4 of the notes and explanations to the financial statements of CIECH S.A. for 2010.

Committees of CIECH S.A.'s Supervisory Board

The following Committees operate within the Supervisory Board of CIECH S.A.: Audit Committee of the Supervisory Board of CIECH S.A. and Remuneration Committee of the Supervisory Board of CIECH S.A.

Audit Committee

The Audit Committee of the Supervisory Board of CIECH S.A. was appointed by way of Resolution no. 57/IV/2005 of February 16th, 2005. Pursuant to the Audit Committee Regulations, its particular tasks include:

The competence and duties of the Committee include:

1) monitoring financial reporting processes,
2) monitoring the efficiency of internal control system,
3) monitoring the efficiency of internal auditing system,
4) monitoring the efficiency of risk management system,
5) monitoring financial auditing activity,
6) monitoring the autonomy of the certified auditor and the entity entitled to audit Company's financial statements.

The Audit Committee of the Supervisory Board of CIECH S.A. submits annual reports on its activity, which constitute a part of the Report on the Operations of the Supervisory Board of CIECH S.A., presented to the Shareholders during the Ordinary General Meeting of CIECH S.A.

As at January 1st, 2010, the Audit Committee was composed of:

1. Marzena Okła-Anuszewska,
2. Krzysztof Salwach.

On February 9th, 2010, the Supervisory Board of CIECH S.A. appointed Sławomir Stelmasiak as a Member of the Audit Committee.
On June 21st, 2010, Ms Marzena Okła-Anuszewska was dismissed from the Supervisory Board of CIECH S.A.

Consequently, as of June 21st, 2010, the Audit Committee performed its activity in the following composition:

1. Krzysztof Salwach,
2. Sławomir Stelmasiak.

On July 2nd, 2010, CIECH S.A.'s Supervisory Board appointed new composition of the Audit Committee of the Supervisory Board of CIECH S.A.:

1. Przemysław Cieszyński,
2. Waldemar Maj,
3. Krzysztof Salwach,
4. Sławomir Stelmasiak.

On an Audit Committee session on August, 4th, 2010, the Audit Committee appointed Mr Waldemar Maj to be the Chairman.

As at December 31st, 2010 and the day of compiling the financial statements, the Audit Committee of CIECH S.A.'s Supervisory Board was composed of:

1. Waldemar Maj – the Chairman,
2. Przemysław Cieszyński,
3. Krzysztof Salwach,
4. Sławomir Stelmasiak.

0 Statement on the application of Corporate Governance (continued)

0 Błąd! Nieprawidłowy odsyłacz do zakładki: wskazuje na nią samą. **(continued)**

Remuneration Committee of CIECH S.A.'s Supervisory Board
The Remuneration Committee was appointed by way of Resolution no. 66/IV/2005 of CIECH S.A.'s Supervisory Board.

Acorrdig to the Statute of the Remuneration Committee, the main task of the Committee is to advise the Supervisory Board on issues connected with determining remuneration rules and remuneration of the Members of the Management Board of CIECH S.A.

The Committee's tasks include in particular:

1. presenting the Supervisory Board a proposal concerning the rules of remunerating the Members of the Management Board of CIECH S.A., which should take into account all forms of remuneration, in particular, with regard to: base remuneration, performance-based reward system, pension and severance pay system;
2. presenting the Supervisory Board a proposal concerning the amount of remuneration for every Member of the Management Board of CIECH S.A.;
3. presenting the Management Board draft agreements regulating the duties of the Members of the Management Board;
4. discussing (with or without the participation of the Company's Management Board) any problems or reservations which may arise in relation to remunerating the Members of the Management Board of CIECH S.A.;
5. considering any other issues of interest to the Committee or the Supervisory Board;
6. informing the Supervisory Board about all material issues within the scope of its competence.

The Remuneration Committee of the Supervisory Board of CIECH S.A. submits annual reports on its activity, which constitute a part of the Report on the Operations of the Supervisory Board of CIECH S.A., presented to the Shareholders during the Annual General Meeting of CIECH S.A.

As at January 1st, 2010, the Remuneration Committee was composed of:
1. Jacek Goszczyński,
2. Grzegorz Kłoczko.

Following the dismissal on June 21st, 2010 of Mr Grzegorz Kłoczko from the Supervisory Board, the Remuneration
Committee operated as a one-person body.

On July 2nd, 2010, CIECH S.A.'s Supervisory Board appointed new composition of the Remuneration Committee of the Supervisory Board of CIECH S.A.:
1. Jacek Goszczyński,
2. Arkadiusz Grabalski.

As at December 31st, 2010 and the date of the financial statements, the Remuneration Committee of the Supervisory Board of CIECH S.A. operated in an unchanged composition.

16.12 Information about agreements concluded between the Issuer and the managerial staff, providing for compensation in the event of their resignation or dismissal from the occupied post without a valid reason or when their resignation or dismissal are caused by a merger of the Issuer through acquisition

Members of the Management Board dismissed from their posts are entitled to a one-off dismissal payment, not exceeding their twelve months' remuneration.

The non-competition agreement with the Members of the Management Board after the termination of employment provides for a compensation amounting to 100% of monthly remuneration for a period not exceeding 12 months.

FINANCIAL STATEMENTS OF CIECH S.A.

FOR THE FINANCIAL YEAR

JANUARY 1ST, 2010 – DECEMBER 31ST, 2010

INCOME STATEMENT		01.01-31.12.2010			01.01-31.12.2009		
PLN '000	Note	Continued operations	Discontinued operations	TOTAL	Continued operations	Discontinued operations	TOTAL
Net sales of products, goods and materials	4	2,222,233	-	2,222,233	1,901,077	-	1,901,077
Cost of sales	4	(1,911,813)	-	(1,911,813)	(1,911,813)	-	(1,911,813)
Gross profit/loss on sales		**310,420**	**-**	**310,420**	**335,115**	**-**	**335,115**
Other operating revenues	4	26,845	-	26,845	5,979	-	5,979
Selling costs	4	(140,861)	-	(140,861)	(123,246)	-	(123,246)
General and administrative expenses	4	(45,437)	-	(45,437)	(49,298)	-	(49,298)
Other operating expenses	4	(17,372)	-	(17,372)	(21,411)	-	(21,411)
Operating profit/loss		**133,595**	-	**133,595**	**147,139**	**-**	**147,139**
Financial revenues	4	94,970	-	94,970	96,412	-	96,412
Financial expenses	4	(219,857)	-	(219,857)	(357,106)	-	(357,106)
Net financial revenues/expenses		**(124,887)**	-	**(124,887)**	**(260,694)**	**-**	**(260,694)**
Profit/loss before tax		**8,708**	-	**8,708**	**(113,555)**	**-**	**(113,555)**
Income tax	5	(13,746)	-	(13,746)	(12,212)	-	(12,212)
Net profit/loss		**(5,038)**	-	**(5,038)**	**(125,767)**	**-**	**(125,767)**
Net profit for the financial year		**(5,038)**	-	**(5,038)**	**(125,767)**	**-**	**(125,767)**
including:			-				
Net profit/loss of shareholders of the parent company		(5,038)	-	(5,038)	(125,767)	-	(125,767)
Earnings per share (in PLN):							
Basic	7	(0.18)	-	(0.18)	(4.49)	-	(4.49)
Diluted	7	(0.18)	-	(0.18)	(4.49)	-	(4.49)

STATEMENT OF COMPREHENSIVE INCOME OF CIECH S.A.	01.01.-31.12.2010	01.01.-31.12.2009
PLN '000	Continued operations	Continued operations
Net profit for the financial year	**(5,038)**	**(125,767)**
Other gross comprehensive income	**(26,123)**	**66,066**
Revaluation of available-for-sale financial assets	11,802	20,494
Cash flow hedging	(37,925)	45,572
Income tax attributable to other components of comprehensive income	4,963	(12,553)
Other net comprehensive income	**(21,160)**	**53,513**
COMPREHENSIVE INCOME	**(26,198)**	**(72,254)**

The income statement should be analysed only together with notes and explanations, which constitute an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

PLN '000	Note	31.12.2010	31.12.2009
ASSETS			
Fixed assets			
Tangible fixed assets	9	8,778	10,957
Intangible assets	11	8,070	8,750
Investment property	10	3,630	3,844
Long-term receivables	12	32,363	39,741
Long-term borrowings granted	13	525,702	401,805
Other long-term investments	14	936,224	974,218
Deferred income tax assets	5	8,244	16,525
Total fixed assets		**1,523,011**	**1,455,840**
Current assets			
Inventory	15	28,704	26,313
Current investments – borrowings granted	17	334,308	87,883
Income tax receivables		8,244	5,228
Trade and other receivables	16	359,898	355,300
Cash and cash equivalents	18	35,131	46,445
Assets classified as held for sale	6	141,499	-
Total current assets		**901,567**	**521,169**
Total assets		**2,424,578**	**1,977,009**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	164,115	164,115
Share premium	19	151,328	151,328
Cash flow hedge	19	6,194	36,913
Financial asset revaluation reserve	19	-	(9,559)
Other reserve capitals	19	76,199	76,199
Retained earnings	19	93,062	98,100
Total equity		**490,898**	**517,096**
Liabilities			
Liabilities on credits, loans and other debt instruments	20	299,936	426,196
Other non-current liabilities	20	33,170	57,406
Employee benefits	22	1,712	1,776
Total non-current liabilities		**334,818**	**485,378**
Liabilities on credits, loans and other debt instruments	23	1,167,117	477,957
Trade and other liabilities	23	423,568	492,572
Provisions (short-term provisions for employee benefits and other provisions)	21.22	8,177	4,006
Total current liabilities		**1,598,862**	**974,535**
Total liabilities		**1,933,680**	**1,459,913**
Total equity and liabilities		**2,424,578**	**1,977,009**

The statement of financial position should be analysed only together with notes, which constitute an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

PLN '000	Share capital	Share premium	Revaluation reserve	Cash flow hedge	Other reserve capitals	Retained earnings	**Total equity**
Equity as at (beginning of period) 01/01/2010:							
Previously reported	**164,115**	**151,328**	**(9,559)**	**36,913**	**76,199**	**98,100**	**517,096**
Changes in accounting principles							**–**
Adjustments of errors from previous periods							**–**
Equity (restated) as at: 01/01/2010	**164,115**	**151,328**	**(9,559)**	**36,913**	**76,199**	**98,100**	**517,096**
Comprehensive income in 2010			9,559	(30,719)		(5,038)	**(26,198)**
Equity as at (end of period) 31/12/2010	**164,115**	**151,328**	**–**	**6,194**	**76,199**	**93,062**	**490,898**

STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

PLN '000	Share capital	Share premium	Revaluation reserve	Cash flow hedge	Other reserve capitals	Retained earnings	**Total equity**
Equity as at (beginning of period) 01/01/2009							
Previously reported	**164,115**	**151,328**	**(26,159)**	**(70,934)**	**76,199**	**294,801**	**589,350**
Changes in accounting principles							–
Adjustments of errors from previous periods				70,934		(70,934)	–
Equity (restated) as at: 01/01/2009	**164,115**	**151,328**	**(26,159)**	**–**	**76,199**	**223,867**	**589,350**
Comprehensive income in 2009			16,600	36,913		(125,767)	(72,254)
Equity as at (end of period) 31/12/2009	**164,115**	**151,328**	**(9,559)**	**36,913**	**76,199**	**98,100**	**517,096**

The statement of changes in equity should be analysed only together with notes and explanations, which constitute an integral part of the financial statements.

CASH FLOW STATEMENT OF CIECH S.A.

PLN '000	01.01-31.12.2010	01.01-31.12.2009
Operating cash flows		
Net profit (loss) for the period	**(5,038)**	**(125,767)**
Amortisation/depreciation	4,763	6,226
Recognition / reversal of write-downs	5,733	153,568
Foreign exchange profit / loss	26,467	20,521
Profit / loss on investment activities	5,697	255
Profit / loss on disposal of fixed assets and investment property	(9,127)	(148)
Dividends and interest	53,703	(10,631)
Input income tax	13,746	12,212
Operating profit / loss before changes in working capital and provisions	**95,944**	**56,236**
Change in receivables	3,786	16,711
Change in inventory	(2,391)	(8,948)
Change in current liabilities	58,008	75,076
Change in provisions and employee benefits	4,107	(3,631)
Net cash generated from operating activities	**159,454**	**135,444**
Interest paid	(85,406)	(32,537)
Income tax paid	2,699	6,901
Cash flows from options	-	(98,730)
Evaluation of derivatives	(53,859)	(43,775)
Other adjustments (reporting adjustment due to the realisation of options)	-	98,730
Other adjustments	9,120	-
Net cash on operating activity	**32,008**	**66,033**
Cash flows from investment activities		
Inflows (in "+")	**129,623**	**90,466**
Disposal of intangible and tangible fixed assets	95	266
Disposal of investment property	23,794	-
Disposal of a subsidiary	3,380	-
Disposal of financial assets	41,600	246
Dividends received	6,454	9,210
Interest received	9,442	36,691
Inflows from borrowings granted	44,858	44,053
Outflows (in "-")	**(115,372)**	**(197,242)**
Acquisition of intangible and tangible fixed assets	(2,108)	(4,192)
Acquisition of a subsidiary	(7,309)	(71,252)
Equity increase and contributions	(16,063)	(67,617)
Borrowings granted	(89,892)	(54,181)
Net cash on investment activities	**14,251**	**(106,776)**
Cash flows from financial activities		
Inflows (in "+")	**556,226**	**233,768**
Loans and borrowings raised	556,226	233,768
Outflows (in "-")	**(615,290)**	**(176,528)**
Repayment of loans and borrowings increased by bank commissions	(615,290)	(176,528)
Net cash on financing activity	**(59,064)**	**57,240**
Total net cash flows	**(12,805)**	**16,497**
Cash as at the beginning of period	46,445	32,085
Effect of foreign exchange differences	1,491	(2,137)
Cash at the end of the period	**35,131**	**46,445**

The cash flow statement should be analysed only together with notes and explanations, which constitute an integral part of the financial statements.

**These items only include proceeds and expenditure on repayment of loans and borrowings done by means of CIECH S.A.'s bank accounts. Within the raised consortium loan, the amount of PLN 857,396 thousand was accounted for by deduction together with CIECH S.A. liabilities due to repaid loans and CIECH S.A. obligations to grant borrowings to Ciech Group companies (PLN 504,952 thousand). The performed settlements excluded cash flows on bank accounts of CIECH S.A. and, consequently, were not recognised in the cash flow statement.*

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS

1 General information

The presented financial statements of CIECH S.A. for the period between January 1st, 2010 and December 31st, 2010, including comparative data, was approved for publication by the Management Board of CIECH S.A. on April 20th, 2011. The financial statements have been prepared in accordance with all International Financial Reporting Standards (IFRS) adopted in the European Union.

The accounting principles are published under section 2 of notes and explanations to the financial statements.

These separate financial statements should be examined together with the consolidated financial statements of the CIECH Capital Group.

CIECH S.A. has its registered office in Warsaw at ul. Puławska 182. Since 1995, CIECH S.A. has been registered in Commercial Register "B" under the number RHB 44665, maintained by the District Court for the Capital City of Warsaw, 16th Commercial Registry Division. On May 24th, 2001, the District Court for the Capital City of Warsaw, 19th Commercial Division of the National Court Register issued a decision about entering CIECH S.A. to the Register of Companies of the National Court Register under the KRS number 0000011687. Currently, after organizational changes in the Court, CIECH S.A. is registered under the number 0000011687 in the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register.

As at December 31st, 2010, the State Treasury held a significant share and was able to control CIECH S.A.

According to the Articles of Association, the objectives of CIECH S.A. include: commercial activity including trade activity, investment activity, manufacturing activity, service activity and financial operations with particular focus on foreign and domestic trade in chemicals and activity connected therewith. The Company is also licensed to act as an agent for Polish and foreign companies.

2 Basis for preparation of the financial statements

The Management Board of CIECH S.A. declares to the best of its knowledge that the financial statements as at December 31st, 2010 and comparative data have been prepared in accordance with the applicable accounting principles and that they are a true, accurate and fair reflection of CIECH S.A.'s material and financial condition and its financial result. Moreover, the Management Board of CIECH S.A. declares that the statement for 2010 contains a true image of developments and achievements, and the Company's condition, including the description of major risks and hazards.

The Management Board of CIECH S.A. declared that the entity authorised to audit financial statements, auditing the financial statements for the period between January 1st, 2010 and December 31st, 2010, was chosen in accordance with the binding legal regulations and it is: Deloitte Audyt Sp. z o.o., having its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under register no. 73, kept by the National Chamber of Statutory Auditors. The aforesaid entity and the certified auditors performing the review satisfy all conditions necessary to issue an unbiased and independent opinion and audit report, pursuant to the applicable legal regulations.

The financial statements were compiled based on accounting books maintained according to the International Financial Reporting Standards.

The accounting year in CIECH S.A. is the calendar year.

The income statement is compiled in a function format and the cash flow statement uses the indirect method.

The Polish zloty (PLN) is the functional and reporting currency of the presented financial statements. Unless provided otherwise, the data in the financial statements has been presented in thousands of Polish zlotys (PLN '000).

2 Basis for preparation of the Financial Statements (continued)

The preparation of financial statements in compliance with the IFRS requires the Management Board to exercise professional judgement, estimates and assumptions that impact the adopted accounting principles and the value of assets, liabilities, revenues and expenses presented. All estimates and related assumptions are based on historical experience and various other factors considered reasonable under the given circumstances, and the results of such estimates are the basis for professional judgement of the carrying value of assets and liabilities, which cannot be calculated using other sources. The actual value may differ from the estimated value. The estimates and related assumptions are subject to regular verification. Changes in accounting estimates are recognised in the period in which they are made, if such changes apply solely to that period, or in the current period and future periods, if such changes apply both to the current and future periods.

The presented financial statements have been prepared on a going concern basis.

The Management Board has no information on any circumstances indicating major threats to the Company's going concern status. The duration of the business activity is indefinite.

Information on the Company's financial condition is presented in note 20.1.

Statement by Management Board concerning compliance with the International Financial Reporting Standards

The Management Board of CIECH S.A. declares that the financial statements for the presented period and the comparable period have been presented in accordance with all the International Financial Reporting Standards (IFRS) adopted in the European Union and the applicable Interpretations announced as EC regulations.

New and amended IFRS which have no significant impact on the financial statements
The following new and amended IFRS were also applied to these financial statements. Application of the following new and amended IFRS had no significant impact on the amounts recognised both in the current period and in the past, however, it may influence the settlement of future transactions or contracts.

Amendments to IFRS 1 – "First-time adoption of IFRS" – additional exemptions for entities which apply
IFRS for the first time were published by the IASB on July 23rd, 2009. Amendments define: (1) exemption of entities which apply the full cost method from the retrospective application of IFRS with reference to assets in the form of natural gas and crude oil, (2) exemption of entities which hold leasing contracts from reclassification of these contracts under IFRIC 4 "Determining if a contract includes leasing" in cases where applying national accounting principles leads to the same end.

Amendments to IFRS 2 – "Share-based payment" – Group share-based payment transactions accounted in cash, published by IASB on June 18th, 2009. Amendments define: (1) the scope of IFRS 2. The entity which receives goods or services within a share-based payment transaction must recognise these goods or services regardless of which entity in the group accounts for this transaction or the fact if the transaction is settled in shares or in cash, (2) influence of IFRS 2 and other standards. The Board stated that, in compliance with IFRS 2, a "group" has the same importance as in IAS 27 "Consolidated and separate financial statements", i.e. a "group" includes the parent entity and its subsidiaries. Amendments to IFRS 2 also introduced requirements previously included in IFRIC 8 "The scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transaction". Consequently, IASB has removed IFRIC 8 and IFRIC 11.

IFRS 3 (as amended in 2008) "Business Combinations"
In January 2008, IASB issued an amended standard referring to entity combinations effective for annual periods beginning on July 1st, 2009 or later. The standard introduced changes to principles concerning the settlement of entity mergers which influence the recognised equity, financial results presented for the period when the merger took place and results for future periods.

IAS 27 (as amended in 2008) "Consolidated and Separate Financial Statements"
In January 2008, IASB issued an amended IAS 27 referring to consolidated and separate financial statements. Under IAS 27, changes of ownership structure (without loss of control) must be recognised as capital transactions. Consequently, such transaction will not result in recognising equity or recognising profit or loss. Furthermore, the amended standard changes the manner of recognising loss borne by a subsidiary and the manner of recognising control loss transactions.

IAS 28 (as amended in 2008) "Investments in affiliates"
The principle adopted in IAS 27 (2008) (see above), which stated that a loss of control is to be recognised as disposal and

2 Basis for preparation of the Financial Statements (continued)

repurchase of any remaining shares at fair value, has been extended thanks to amendments to IAS 28. Consequently, an investor who has lost substantial influence on an affiliate must evaluate retained investments in the former affiliate at fair value and recognise respectively profit or loss in the financial result. Among Amendments to IFRS issued in 2010, IAS 28 (2008) was appropriately amended in order to clarify that amendments to IAS 28 referring to transactions resulting in loss of investor's substantial control on an affiliate should be applied prospectively.

Amendments to IAS 39 "Financial Instruments: Recognition and Evaluation" – Eligible Hedged Items by IASB on July 31st, 2008. These clarify two issues relating to hedge accounting: recognising inflation as risk or part of risk subject to hedging and hedge in form of option. The amendments specify that inflation may be hedged only in the case where its fluctuations are a contractually defined element of cash flows of a recognised financial instrument. The amendments also specify that the part of fair value of a fixed interest financial instrument which is risk-free or which constitutes a model interest rate may, under typical circumstances, be separated and evaluated in a reliable manner, which means that it is subject to hedging. The amended IAS 39 allows entities to indicate purchased options (or purchased net options) as hedging instruments for hedging a financial or non-financial item. An entity may indicate an option as a hedge to changes in cash flows or the fair value of the hedged item or below a defined price or according to a different variable (one-sided risk).

Amendments to various standards and interpretations "Amendments to IFRS (2009)" issued by IASB on April 16th, 2009. Amendments to various standards and interpretations made within the framework of the procedure of introducing yearly amendments to the Standards (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16), aimed mainly at explaining discrepancies and terminology specification. Introduced amendments additionally defined the accounting recognition in cases where free interpretation was previously acceptable. The most important among them are new or amended requirements referring to: (i) the scope of IFRS 2 and the amended IFRS 3, (ii) disclosure of fixed assets (or blocks of assets held for sale) classified as held for sale or discontinued operations, (iii) disclosure of information on segment assets, (iv) classification of variable instruments as current or non-current, (v) classification of land and buildings under leasing, (vi) statement if a company is a main party to a transaction or an agent in loyalty programmes, (vii) defining separate asset components for testing equity in terms of impairment, (viii) additional changes following from the amendment to IFRS 3 and measurement of the fair intangible value recognised in connection with a merger, (ix) treatment of penalties on account of advanced loans as closely related in-built derivatives; the scope of exceptions to merger contracts; and hedge accounting for cash flows, (x) the scope of IFRIC 9 and the amended IFRS 3, (xi) changes to restrictions imposed on companies which may hold hedging instruments.

Interpretation IFRIC 12 "Service Concession Arrangements" – issued by IASB on November 30th, 2006. This interpretation provides regulations for concession holders concerning the recognition of services concessions within public-private partnership. IFRIC 12 refers to contracts in which the concession giver controls or regulates the type of services to be provided by the concession holder by means of defined infrastructure as well as controls the remaining substantial share of infrastructure at the end of contract realisation period.

Interpretation IFRIC 15 "Property Construction Contracts" – issued by IASB on July 3rd, 2008. IFRIC 15 refers to two (related) issues: it states if a given property construction contract falls under IAS 11 "Construction services contracts" or under IAS 18 "Revenue" and states when property construction revenue should be recognised. This interpretation also includes additional guidelines regarding the difference between "construction contracts" (regulated under IAS 11) and other property construction contracts (regulated under IAS 18). Every property construction contract requires diligent analysis which allows for deciding whether it should be settled under IAS 11 or IAS 18. This interpretation mainly refers to entities which build residential property for sale. In case of agreements regulated under IAS 18 and referring to supply of goods, the Interpretation introduces a new concept, namely, it allows for applying criteria for recognising revenue indicated in IAS 18 "in a continuous manner as works are completed". In such cases, the revenue is recognised with reference to the stage of works by applying the stage of development method to construction services agreements.

Interpretation IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" – issued by IASB on July 3rd, 2008. The interpretation defines: (i) the currency risk which qualifies for hedging and the amount to be hedged, (ii) the place in the group where a hedging instrument may be held, (iii) the amount to be recognised in the income statement in case a foreign entity is sold.

2 Basis for preparation of the Financial Statements (continued)

Interpretation IFRIC 18 "Transfers of Assets from Customers" issued by IASB on January 29th, 2009. This Interpretation is in particular applicable to the public utility sector and applies to all agreements,
under which an entity receives from the client a component of fixed assets (or funds intended for constructing such a component) which must then be used to link the client to the network or to ensure them continuous access to the supply of goods or services.

Apart from the amended IFRS 3 and amended IAS 27, the adoption of aforedescribed standards and interpretation has not caused any significant changes neither in the accounting policy of the Company nor in the presentation of financial statements.

The status of EU Standards approval
IFRS, as approved by the EU, do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following interpretations that were not effective as at the end of April 2010.

IFRS 9 "Financial Instruments" (effective for annual periods beginning on January 1st, 2013 or later) issued by IASB on November 12th, 2009. On September 28th, 2010, the IASB issued an amended IFRS 9 which introduced new requirements regarding the settlement of financial liabilities and moved requirements regarding derecognition of financial assets and liabilities from IAS 39. This standard assumes a single approach aimed at stating if financial assets are evaluated at depreciated cost or at fair value, it replaces numerous principles described in IAS 39. The IFRS 9 approach is based on assessment of the manner in which an entity manages its financial instruments (i.e. based on assessment of the business model) and assessment of the characteristics of the contractual cash flow related to financial assets. The new standard also requires an application of the single method of impairment evaluation, which replaces numerous impairment evaluation methods described in IAS 39. New requirements regarding settlement of financial liabilities refer to the issue of fluctuations in the financial result resulting from the issuer's decision to evaluate their own debt at fair value. IASB decided to maintain the current evaluation at depreciated costs with relation to most liabilities, amendments covered only the regulations regarding own credit risk. Within the new requirements, an entity which decides to evaluate liabilities at fair value presents the change in fair value resulting from changes in own credit risk under other comprehensive income and not in the income statement.

Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe hyperinflation and removal of strict deadlines for First-time Adopters (effective for annual periods beginning on July 1st, 2011 or later) issued by IASB on December 20th, 2010.
The first amendment refers to replacement of strict deadlines indicated in the Standard – "January 1st, 2004" by "the day of adoption of IFRS". In effect, first-time adopters will not have to amend derecognition operations conducted before adopting IFRS. The other amendment introduces guidelines referring to returning to drawing up financial statements in compliance with IFRS after a period of inability to comply with IFRS due to a severe hyperinflation of the functional currency.

Amendments to IFRS 7 "Financial Instruments: disclosing information" – Financial asset transfers (effective for annual periods starting on July 1st, 2011 or later) issued by IASB on October 7th, 2010. The aim of these amendments is to improve the quality of information on transferred financial assets which the entity continues to, at least partially, recognise since they were not derecognised; and on financial assets which are not represented by the entity since they met derecognition requirements but which are still used by the entity.

Amendments to IAS 12 "Income tax" – Deferred tax: realisation of assets (effective for annual periods starting on January 1st, 2012 or later) issued by IASB on December 20th, 2010. IAS 12 requires entities to evaluate their assets on deferred income tax depending on the manner in which the entity plans to realise the assets: by usage or by sale. For assets evaluated in compliance with IAS 40 "Investment property", the evaluation of whether assets will be realised by usage or by sale may be difficult and biased. Amendments solve this issue by introducing an assumption that the value of an asset component is usually not realised until it is sold.

Amendments to various standards and interpretations "Amendments to IFRS (2010) – changes made within the framework of the procedure of introducing yearly amendments to the IFRS, issued on May 6th, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13), aimed mainly at explaining discrepancies and terminology specification (effective for annual periods starting on January 1st, 2011 or later). Amendments to various standards and interpretations

2 Basis for preparation of the Financial Statements (continued)

made within the framework of the procedure of introducing yearly amendments to the Standards (IFRS 3, IFRS 7, IFRS 1, IAS 27, IAS 34, IAS 34 and IFRIC 13), aimed mainly at explaining discrepancies and terminology specification. Introduced amendments additionally defined the accounting recognition in cases where free interpretation was previously acceptable. The most important ones are new or amended requirements regarding: (i) changes to accounting principles in the year of adopting IFRS, (ii) revaluation base as assumed cost, (iii) using the assumed cost in activity covered by rate regulations, (iv) interim requirements regarding contingent revenue on account of business mergers performed before the amended IFRS 3 effective date , (v) evaluation of non-controlling interest, (vi) not renewed or voluntarily renewed prizes – share-based payments, (vii) additional details regarding disclosures required by IFRS 7, (viii) additional details regarding the presentation of changes in equity, (ix) interim requirements with regards to amendments resulting from amended IAS 27, (x) significant events and transactions discussed in IAS 34, (xi) stating the fair value of loyalty points.

According to the company's estimates, the above-mentioned standards, interpretations and amendments would have had no material effect on the financial statements, had they been applied as at the balance sheet date.

However, the EU still has not regulated hedge accounting for the portfolio of financial assets and liabilities, whose principles have not yet been approved by the EU. According to the company's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities under IAS 39 "Financial Instruments: Recognition and Evaluation" would have had no material effect on the financial statements, had it been applied by EU as at the balance sheet date.

Standards which are not yet effective

Amendments to IAS 24 "Disclosing information on related entities" – Simplification of requirements regarding disclosures made by entities related to the State Treasury and complement to the related entity definition were issued by IASB on November 4th, 2009. The amendments introduce partial exemptions for entities related to the State Treasury. Until now, if an entity was controlled or highly influenced by the State, this entity was required to disclose all transactions with other controlled entities or entities which remained under a significant influence of that State. The modified standard still requires disclosure of information which is significant for users of financial statements but it eliminates the requirement of disclosing information in case the costs of gaining such information exceeds the benefits to be gained by users of financial statements. IASB also supplemented the definition and removed any discrepancies. The Company benefited from the possibility of earlier adoption of the amended standard.

Amendments to IAS 32 "Financial instruments: presentation" – Classification of subscription right emission, issued by IASB on October 8th, 2009. Amendments refer to the manner of classification of subscription right emission (rights, options, warrants) which are not expressed in the Issuer's functional currency. The previous standard required that such subscription rights be recognised as liabilities on derivatives. The amendments require that such subscription rights, once certain conditions have been met, be classified as equity regardless of the currency in which those rights are settled.

Amendments to IFRS 1 "First-time Adoption of IFRS" – Limited Exemption for First-time Adopters from disclosure of comparative information in compliance with IFRS 7 were issued by IASB on January 28th, 2010. These amendments free First-Time Adopters from the obligation to disclose additional comparative information described by amendments to IFRS 7 "Increasing the quality of information on financial instruments" issued in March 2009.

Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments under Minimum Funding Requirements issued by IASB on November 26th, 2009 The previous version of this interpretation in some cases did not allow entities for recognition of minimum funding requirements as an asset component. New amendments remove this problem.

Interpretation IFRIC 19 "Regulating financial liabilities by means of capital instruments"
issued by IASB on January 29th, 2009. This interpretation complements requirements defined by International Financial Reporting Standards with reference to a case when an entity renegotiates financial liabilities conditions with a lender and the lender agrees to accept capital instruments in order to settle financial liabilities in part or in full.

The entity decided not to adopt the above standards and interpretations, amendments to standards and interpretation earlier, except for IAS 24 (discussed in section 28 of these statements).
The entity is unable to perform a reliable estimation of the influence of aforementioned standards, interpretations and amendments to standards on the financial statements if they had been adopted as at the balance sheet day.

2 Basis for preparation of the Financial Statements (continued)

Changes in accounting principles and comparative data
In 2010, CIECH S.A. updated the principles of drawing up financial statements to amended financial reporting standards – IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". Amendments introduced to aforementioned standards did not influence the financial statements.

An amendment introduced in 2010 separated the "Corporate Functions" reconciliation item from activity segments. This item includes all activity of CIECH S.A. related to realising common functions which were so far separated by charges into particular Divisions. The Management Board of CIECH S.A. decided to this manner of presenting particular revenue and cost positions mirrors management solutions adopted in the Group and ensures a clearer presentation, verification and assessment of activity and realisation of sale and production goals for each Division (segment) and for individual purposes, e.g. cost reduction for central structures which perform common functions both in CIECH S.A. and in the Group as a whole. Furthermore, in connection with a signed loan agreement, the "Corporate Functions" item includes the costs of financing.

The presentation of information on activity segments has changed since the third quarter of 2010. The aforesaid changes to presentation of segments have been also applied by CIECH S.A. in the presentation of comparable data.

Operating segments in CIECH S.A. were determined in compliance with IFRS 8 requirements which define the principles of determining operating segments on the basis of internal reports regarding entity's constituents which are regularly examined by the Management Board responsible for taking organisational decisions so as to allocate resources to particular segments and assess achieved results.
In previously presented periodical reports of CIECH S.A., the division into segments was based on industry segmentation. Since the third quarter of 2010, the organisational structure has been changed, resulting in the need to introduce changes to operating segments. The changes follow from obligations imposed on the Management Board of CIECH S.A. by the agreement with Banks and the adopted Development and Restructuring Programme for the Ciech Group. Current segmentation is based on the organisational structure of particular Divisions of CIECH S.A. and corresponds to the new controlling reporting structure of CIECH S.A. Changes include:

- qualification of the entire Z.Ch. "Organika-Sarzyna" S.A. to the organic segment and transfer of plant protection chemicals sold by CIECH S.A. from the agro-chemical segment to the organic segment;
- organisational merger of the agro-chemical and silicates and glass segments to form the Agro-Silicon Division.

Particular operating segments may also include the sales of products and goods which constitute the key range of other Divisions. Nevertheless, those items are not significant from the perspective of controlling reporting in particular Divisions.
Pursuant to the current organisational structure, CIECH S.A. has been divided into the following operating segments:

Soda Segment – Soda Division – groups together the products (in particular soda ash) manufactured by the Soda Mątwy Group, S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. and the Soda Deutschland Ciech Group. Soda Mątwy Group products are sold by the CIECH S.A. Soda Division. This Division also includes JANIKOSODA S.A. CIECH S.A. companies in this segment are the sole manufacturer of soda ash in Poland.

Organic Segment – Organic Division – includes mainly products manufactured by ZACHEM Group – TDI, foams, PUR, EPI, hydrochloric acid, soda lye and plastics – and by Z.Ch. “Organika-Sarzyna” S.A. – epoxy resins, polyester resins and plant protection chemicals. Organic segment includes commercial goods purchased and sold by the Organic Division of CIECH S.A. The majority of sales of organic segment products, including: TDI, hydrochloric acid, soda lye and epoxy resins, is conducted by CIECH S.A. on its own account while the sale of EPI outside the Ciech Group and purchase of strategic raw materials is performed under agency agreements. There has been a consolidation of purchase of raw materials for epoxides (bisphenol A, EPI, chloride, propylene), plant protection chemicals (o-cresol, MCAA acid). Such organisation of the Organic Division business complies with the strategy of CIECH S.A., it ensures optimal management of activity in the Organic Division resulting from a market-product consolidation, dynamic product development and reduction of sales costs.

Agro-Silicon Division – is divided into two segments of two different types of activity:

Agrochemical Segment provides a wide variety of fertilizers for agriculture. This segment covers mainly fertilizers manufactured by GZNF “FOSFORY” Sp. z o.o. and “Alwernia” S.A.

2 Basis for preparation of the Financial Statements (continued)

GZNF FOSFORY Sp. z o.o. and other domestic fertilizer producers are sold for export by CIECH S.A. Materials for fertilizer production supplied to GZNF FOSFORY Sp. z o.o. and Alwernia S.A. are also present in this segment.

Silicates and Glass Segment contains mainly the products of VITROSILICON S.A. and other producers exported by CIECH S.A., such as glass and soda glaze.

Other Operations Segment includes goods and services provided by CIECH S.A. outside the field of basic chemistry.

The statements for 2010 standardised the approach to presentation of general costs, costs of sales and costs of production in the Ciech Capital Group. The unified approach was also applied for comparable data.

Other accounting principles presented below have been applied for all periods presented in the financial statements.

Accounting principles

The financial statements have been prepared in accordance with the concept of historical cost, except for the recognition of the fair value of some financial instruments.

a) Financial instruments

Financial instruments are recognised and evaluated in compliance with IAS 32 (Financial Instruments: presentation), IAS 39 (Financial Instruments: recognition and evaluation) and IFRS 7 (Financial Instruments: Disclosure to the financial statements). The principles of measuring and recognising of financial assets described below do not refer to the measurement of shares of subsidiaries, lease agreements, financial instruments under employee programmes, and financial instruments issued by the entity and constituting its equity instruments.

The most important asset which are subject to the principles of measurement for financial instruments include:
1. shares in other entities,
2. holdings in other entities,
3. bonds issued by other entities,
4. other securities issued by other entities,
5. borrowing receivables,
6. derivatives (options, forwards, futures, swaps, embedded derivatives),
7. other financial assets, subject to the reservation below.

Current trade receivables are measured at the amortised cost with the use of the effective interest rate method and decreased by potential impairment losses.

The most important liabilities which are subject to the principles of measurement for financial instruments include:
1. borrowing liabilities,
2. loan liabilities,
3. liabilities due to bonds issued,
4. other financial liabilities, subject to the reservation below.

Trade liabilities are measured at the amortised cost with the application of the effective interest rate method.

Classification of financial instruments

Financial assets are classified into:
1. financial assets measured at fair value through the financial result,
2. granted borrowings and equity receivables,
3. held-to-maturity financial assets,
4. financial assets available for sale.

2 Basis for preparation of the Financial Statements (continued)

Financial liabilities are classified into:

1. financial liabilities evaluated at fair value through the financial result,
2. other financial liabilities.

(i) Financial assets valuated at fair value through financial result

Financial assets measured at fair value through the financial result are classified as short-term assets and disclosed at the fair value, while profits and losses arising from their measurement are recognised directly in the income statement. Financial assets measured at fair value through the financial result consist of the following financial assets:

- acquired to be sold in a short period of time,
- accounting for a part of jointly managed portfolio, for which there is a confirmation of earning short-term profits in the future,
- assigned to this category at the initial recognition.

Financial assets measured at fair value through the financial result also include derivatives, provided that the conditions of applying hedge accounting have not been satisfied.

(ii) Held-to-maturity assets

Held-to-maturity assets are financial assets other than derivatives, with established or possible to establish payment dates and established maturity date, in relation to which the Company has a strong intention and is capable of keeping them until the lapse of the maturity date and which are not borrowings or receivables, and which upon initial recognition were not defined as financial assets evaluated at the fair value through the financial result or financial assets available for sale.

CIECH does not classify any financial assets as held-to-maturity if in the current financial year or in the last two financial years it sold or reclassified more than a non-significant amount of investments maintained until the maturity date, save for sale or reclassification performed:

- so close to the date of maturity or redemption of a financial asset that the changes of market interest rates would have no major effect on the fair value of this financial asset;
- upon the recovery of the fundamental part of nominal amount through repayment or prepayment according to the schedule; or
- as a result of a separate event, which is not subject to control, is not a repetitive event and which could not have been predicted on the basis of reasonable prerequisites.

Financial assets held-to-maturity are measured at the amortised cost with the application of the effective interest rate method.

(iii) Borrowings and receivables

Borrowings and receivables are financial assets other than derivatives, with established or possible to establish payment dates, not quoted on the active market, other than financial assets, which:

- The Company intends to sell immediately or in near future, classified as marketable and those which upon initial recognition were defined as financial assets evaluated at the fair value through the financial result;
- Upon initial recognition were defined by the Company as available for sale; or
- The Company may not generally recover the full initial investment amount for a reason other than a deterioration of loan service, classified as available for sale.

Borrowings and receivables are measured at the amortised cost with the application of the effective interest rate method.

(iv) Financial assets available for sale

Financial assets available for sale are financial assets other than derivatives, which have been recognised as available for sale or which are not borrowings and receivables, investments held-to-maturity and financial assets measured at fair value through the financial result.

Financial assets available for sale are measured at fair value, while profits and losses from the measurement are recognised in the revaluation reserve. For interest-bearing debt instruments belonging to this category, the interest established with the application of the effective interest rate method is presented directly in the income statement.

2 Basis for preparation of the Financial Statements (continued)

(v) Financial liabilities

Marketable financial liabilities, including, in particular, derivatives with negative fair value, which have not been designated as hedging instruments, are recognised at fair value, while profits and losses from their measurement are recognised directly in the income statement.

Other financial liabilities are measured at the amortised cost with the application of the effective interest rate method.

All financial liabilities are entered into accounting books at the date of the conclusion of a relevant contract.

Principles of measurement and presentation of financial instruments in the financial statements:

Group of assets or liabilities	Evaluation principle	Recognition principle
Assets measured at fair value through the financial result	At fair value (except for those for which fair value cannot be established)	Difference from measurement recognised in the financial result of the current reporting period under financial revenues or financial costs
Liabilities measured at fair value through the financial result	At fair value (except for those for which fair value cannot be established)	Difference from measurement recognised in the financial result of the current reporting period under financial revenues or financial costs
Other financial liabilities	At the amortised cost with the application of the effective interest rate (IRR)	Difference from measurement adjusts the value of a measured liability and is recognised in the financial result of the current reporting period.
Granted borrowings and equity receivables	At the amortised cost with the application of the effective interest rate (IRR) and when the payment term is not known at the acquisition price (e.g. for borrowings having no repayment deadline)	Difference from measurement adjusts the value of a measured asset and is recognised in the financial result of the current reporting period.
Held-to-maturity assets	At the amortised cost with the application of the effective interest rate (IRR)	Difference from measurement adjusts the value of a measured asset and is recognised in the financial result of the current reporting period.
Financial assets available for sale	At fair value (except for those for which fair value cannot be established)	Difference from measurement at fair value is recognised under revaluation reserve. For debt instruments, the interest is recognised directly in the income statement.
Marketable or available-for-sale financial assets and liabilities whose fair value cannot be established	At the acquisition price adjusted by impairment losses	Asset or liability is recognised at the acquisition price until its realisation (e.g. sale). Impairment losses are entered as financial costs.

Hedge accounting and embedded derivatives

Hedge accounting

The aim of derivatives and, in certain circumstances, of other financial assets or liabilities designated as hedging instruments is to hedge the fair value of assets or liabilities, or future cash flows so that the change in their fair value change balances in full or in part the change in the fair value of a hedged item or future cash flows related to the hedge item.

The aforesaid derivatives may be considered a hedge and entered into the books in accordance with the principles of hedge accounting after satisfying at least the following conditions stipulated in IAS 39:

- Prior to hedging, the entity is in the possession of documentation, including at least: determination of risk management objectives and strategy, identification of a hedging instrument and assets, liabilities or planned transactions hedged by this instrument, characteristics of risk connected with the hedged item or planned transaction, hedging period, description of a selected method of measuring the effectiveness of a fair value hedge or cash flow hedge of a hedged item connected with a specific type of risk.

- Hedging is highly effective in terms of balancing changes in fair value or cash flows. The effectiveness of a hedge is determined through comparison

2 Basis for preparation of the Financial Statements (continued)

of the change in the value of a hedging instrument or cash flows arising therefrom and the change in the value of the hedged item or cash flows arising therefrom. A hedge is considered highly effective, if for the entire hedging period almost the whole amount of changes in fair value of a hedged item or cash flows connected therewith is made good by the changes in fair value or cash flows of a hedging instrument, and the actual effectiveness level is between 80% and 125%.

- The effectiveness of a hedge may be credibly assessed through measuring the fair value of a hedged item or cash flows connected therewith and the fair value of a hedging instrument. The effectiveness of a hedge is assessed retrospectively (so-called ex-post tests), determining whether a given hedge relationship was highly effective in the audited accounting periods.

- When hedging cash flows from a future transaction, such a transaction must be highly probable.

The adoption of cash flow hedge accounting makes it possible to adjust the influence on the financial result of hedging instrument measurement and the realisation of a hedged item by entering an effective part of the hedge under cash flow hedge. This makes it possible to reduce the fluctuations of the financial result pertaining to derivatives measurement and to achieve a compensation effect in the income statement in one reporting period. Consequently, the economic and accounting effect of a hedge is reflected in the same period.

Gains and losses arising from the change in fair value of a cash flow hedge are recognised under a separate equity item (cash flow hedge) in such a portion in which a given instrument constitutes an effective hedge of a relevant hedged item. The ineffective portion is presented in the income statement (financial costs/revenues).

A derivative designated as a fair value hedge is an instrument used to limit the risk of changes of the fair value of an asset, liability or probable future liability presented in the balance sheet and its influence on the financial result (or its portion) and may be attributed to a specific risk factor connected therewith.

Gains and losses arising from the change in fair value due to the measurement of a fair value hedge as at the balance sheet date are recognised under a separate item of the income statement under financial revenues or costs. A hedged asset/liability will be measured at fair value in the amount hedged only due to a risk factor subject to hedging. The changes in the fair value of hedged items are recognised as financial costs or revenues, depending on the change.

In the event of hedging a probable future transaction, if its realisation turns out to be impossible, the accumulated effective result on hedging transactions recognised under cash flow hedge is entered as financial revenues or costs.

The Company ceases to record instruments as hedging instruments if a derivative expires, is sold, terminated or realised, or if the Company ceases to designate a given instrument as a hedging instrument. In such a case, the accumulated gains/losses connected with the hedging instrument, previously recognised under a separate equity item, remain under equity until the transaction is realised.

Embedded derivatives

Agreements with an embedded derivative are agreements containing conditions causing that a part of cash flows due to the agreement changes similarly to cash flows arising from independent derivatives.

Embedded derivatives are subject to exclusion from a compound instrument and to separate measurement at fair value if all the following conditions are satisfied:

1. the economic nature and risk of the embedded instrument are not strictly related to the economic nature and risk of the agreement in which the instrument is embedded,
2. independent instrument with the same realisation conditions as the embedded instrument would fit the definition of a derivative,
3. it is possible to reliably establish the fair value of an embedded derivative,
4. a compound derivative is not measured and recognised at fair value in the financial statements.

2 Basis for preparation of the Financial Statements (continued)

The FIFO (first in – first out) method is applied to establish the costs due to the outflow of financial instruments.

b) Tangible fixed assets (including the right of perpetual usufruct)

(i) Own tangible fixed assets

Tangible fixed assets are recorded in the books according to their acquisition price or manufacturing cost, decreased by depreciation charges and impairment losses. The acquisition price includes the purchase price of an asset (i.e. the amount due to a seller, decreased by deductible taxes: tax on goods and services, excise tax), regulatory liabilities (regards import) and costs directly connected with the purchase and adjustment of an asset for use, including the costs of transport, loading, unloading and storage. Discounts and other similar reductions and recoveries decrease the acquisition price of an asset. The production cost of a tangible asset or tangible asset under construction covers the total of costs borne by the entity in the period of its construction, assembly, adjustment and improvement until its acceptance for use (or until the balance sheet date if the asset has not been transferred for use), including non-deductible goods and services tax and excise tax as well as the costs of external financing which could have been avoided provided that the entity had not borne expenses on purchase, construction or adaptation of the asset, taking into account FX differences up to the amount of adjustment of interest pertaining to such liabilities.

(ii) Tangible fixed assets used under lease agreements

Lease agreements under which the Company bears practically the entire risk and derives practically all benefits arising from the holding of tangible fixed assets are classified as financial lease agreements. Tangible fixed assets acquired through financial lease are initially recognised at fair value or current value of minimum lease charges, whichever is lower, and later decreased by depreciation charges and impairment losses. Payments due to operating lease agreements concluded by the Company are recognised in the income statement in the lease period.

(iii) Future expenditure

The costs borne in future periods and aimed at replacing separately recognised parts of a tangible fixed asset are subject to activation. Other costs are capitalised only if they may be credibly measured and increase future economic benefits connected with a given tangible asset. Other expenditures are recognised in the income statement as costs on a regular basis.

According to IAS 16 (paragraph 13), a separate part of a tangible asset, requiring replacement at regular intervals, is depreciated in accordance with its useful life. Renovation costs are activated when the amount of outlays is related to parts recognised as a separate component of a tangible asset. If those components are not separated at the time of recognising fixed assets, it may be done upon bearing subsequent costs.

Pursuant to IAS 16 (paragraph 14), the Company increases the value of fixed assets by the value of outlays for regular overhauls, necessary for the functioning of a given tangible asset. These expenditures are treated as a separate tangible asset and depreciated through the anticipated period to the next planned overhaul. Upon capitalisation of new costs of overhauls, the non-depreciated value of previous renovations is allocated to operating expenses.

Upon the acquisition or creation of a tangible asset, the Company separates from the acquisition price or the manufacturing cost a value equal to the expenditures that need to be made during the next overhaul of a given tangible asset and depreciates it through the anticipated period left until the next planned overhaul.

(iv) Depreciation

Tangible fixed assets, alternatively their material and separate components, are depreciated under the straight-line method through the useful economic life. Lands are not depreciated. The Company assumes the following useful economic lives for the following categories of fixed assets:

Buildings	20 – 40	years
Machinery and equipment	2 – 20	years
Means of transport	3-5	years

2 Basis for preparation of the Financial Statements (continued)

Depreciation period and final value are subject to verification as at every balance sheet date. Any changes resulting from verification are recognised as a change of estimated value pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

For fixed assets used under lease agreements, if there is no certainty as to the acquisition of a tangible asset prior to the expiry of the lease agreement, the value of fixed assets is fully depreciated in one of the two periods, whichever is shorter:

- term of lease agreement,
- useful life.

When classifying an agreement as a financial lease agreement, the subject of the agreement is recorded in the Company’s (lessee’s) fixed assets and depreciation charges are made in accordance with general principles.

c) Intangible assets

(i) Other intangible assets

Other intangible assets acquired by the Company are disclosed based on their acquisition price, decreased by amortisation charges and impairment losses. The expenses on internally created goodwill and commercial brands are recognised in the income statement when they are borne.

Costs of registering a substance in the REACH system, such as participation in research, consulting services linked to a specific registration, costs of preparing the registration documents and Chemical Safety Reports and registration fees, are capitalised as expenditures for intangible assets.

(ii) Future expenditure

Future expenditures on existing intangible assets are subject to capitalisation only when they increase future economic benefits connected with a given asset. Other expenditures are recognised directly in the income statement as costs.

(iii) Amortisation

Intangible assets are amortised under the straight-line method through their useful economic life. The Company assumes the following useful economic lives for the following categories of intangible assets:

Patents and licences	2 – 10	years
Other	2 – 12	years

Amortisation period and final value are subject to verification as at every balance sheet date. Any changes resulting from verification are recognised as a change of estimated value pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

Amortisation of intangible assets, connected with expenditure borne on the registration in the REACH system, should start in the month following the month of proper registration of a given substance. Amortisation period equals 12 months. Amortisation charges are recorded under cost of sales.

d) Costs of external financing

External financing costs (e.g. interest on loans and borrowings, discounts and bonuses, costs relating to entering into agreements on loans or borrowings and FX differences) do not increase the value of tangible components of current assets, except for the case described below:

In case of adjusted asset components, external financing costs which could be avoided if the entity did not bear expenses on purchase, construction or adjustment of the given asset component, should be capitalised as part of purchase price or production costs for this asset component. The amount of external financing to be capitalised should be calculated in compliance with IAS 23.

2 Basis for preparation of the Financial Statements (continued)

e) Investment property

Investment property is maintained to obtain revenue from rent, increase in their value or for both reasons.

Property investments are measured in accordance with the principles of fixed assets measurement, i.e. at the acquisition prices or manufacturing cost decreased by depreciation charges and impairment losses. All investment property is depreciated under the straight-line method according to rates ranging from 1.22% to 50%.

Revenues from property lease to third parties are disclosed in accordance with the principles set forth in point o).

f) Trade and other receivables

Current trade and other receivables are measured at the amortised cost with the application of the effective interest rate method and decreased by possible impairment losses.

Receivables in foreign currencies are recognised as at the average NBP exchange rate effective for a given currency on the last working day preceding the day of operation, unless another exchange rate was determined in the customs declaration or other document binding for the entity.

At the balance sheet date, receivables in foreign currencies are measured on the basis of the average exchange rate established for a given currency by the National Bank of Poland on that day.

The value of receivables is updated taking into account the level of probability of their payment through creating a write-down. The establishment of a write-down is obligatory for the following receivables:

- from debtors put into liquidation or bankruptcy, up to the amount of receivables not covered by a guarantee or other collateral, reported to the liquidator or magistrate in bankruptcy proceedings,
- from debtors, when the declaration of bankruptcy is dismissed and the debtor's assets are insufficient to satisfy the costs of bankruptcy proceedings – in the full amount of receivables,
- questioned by debtors (disputed receivables) and those the payment of which the debtor is in arrears with, and, based on the assessment of their material and financial condition, are unlikely to be repaid in the contractual amount – up to the amount of the claim not covered by a guarantee or other collateral,
- receivables claimed in court.

Furthermore, write-downs on receivables whose maturity date as at the balance sheet date exceeds

180 days are made in the amount of 100%.

The amount established as a result of the abovementioned write-downs may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.
The write-downs on receivables are allocated to other operating costs.
Write-downs of 100% of accrued interest are created for interest receivables due to outstanding receivables. These write-downs are created upon calculation and allocated to financial costs.

g) Inventories

Goods and materials are measured at the acquisition price constituting the purchase prices increased by the costs directly connected with purchasing and adjusting an asset for use or trading.

Finished goods inventories and work in progress are measured at the manufacturing cost including direct costs and reasonable portion of costs indirectly connected with the manufacturing process.

2 Basis for preparation of the Financial Statements (continued)

The Company creates appropriate write-downs recognised under selling costs if the acquisition price and the cost of manufacturing an inventory asset are higher than the price that can be possibly achieved, established in the transaction of sale, performed in the course of regular economic activity and decreased by estimated finishing costs and costs necessary to accomplish sale.

Inventory is presented in the balance sheet in the net value, i.e. decreased by write-downs.
Outlays of inventory are determined under the first in – first out method (FIFO).

(i) Standard production capacities

Usually, standard production capacities should be at the level of 80% of the maximum production capacity. However, in justified cases the application of another ratio is possible. Standard production capacity may be estimated on the basis of historical data, e.g. for the last two or more years, if the volume of the conducted activity did not change significantly.

If the use of expected (standard) production capacity in the reporting period amounts to at least 85% of standard production capacity, then indirect fixed costs are allocated to manufacturing costs. If this index is lower than 85%, then indirect manufacturing costs are divided into eligible and ineligible ones.

h) Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits on demand. Short-term investments that are not subject to significant changes of value and may be easily exchanged for a defined amount of cash and constitute a part of the Company's liquidity management policy are recognised as cash and cash equivalents for the purposes of the cash flow statement.
As at the balance sheet date, the currencies collected on bank accounts and in foreign currency funds are measured according to the average exchange rate for a given currency, established by the President of the National Bank of Poland.

i) Impairment losses on non-financial assets

The carrying value of the Company's non-financial assets other than inventory and deferred tax assets is subject to an analysis as at every balance sheet date in order to determine whether there exist prerequisites indicating the loss of their value. If such prerequisites exist, the Company estimates the recoverable value of the respective cash flow generating centres.

The recoverable value of assets with indefinite useful life and intangible assets which are not useful yet is estimated as at every balance sheet date, irrespectively of the existence of the aforesaid prerequisites.

Impairment losses are recognised when the carrying value of an asset or a centre generating cash is higher than the recoverable value. Impairment losses are presented in the income statement.

(i) Calculation of recoverable value

Recoverable value in relation to held-to-maturity investments and receivables measured at the adjusted acquisition price is determined as the current value of future cash flows discounted with the application of the effective interest rate (internal rate of return of a given asset). Receivables with a short maturity date are not discounted.

In the case of capital instruments measured at the acquisition price, which are not listed on an active market and whose fair value cannot be otherwise credibly estimated, the current value of future cash flows is determined based on the current interest rate for similar financial assets.

(ii) Reversal of impairment losses

In the case of an increase in the value of financial investments, which may be objectively attributed to events occurring after creating an impairment loss, the Company appropriately decreases the impairment loss in correspondence with the income statement, except for capital investments classified as available for sale.

Impairment losses are reversible, if the estimates applied to establish the recoverable value have changed. Impairment losses are reversible only to the amount of the carrying value of an asset, decreased by depreciation or amortisation charges, which would be disclosed if impairment losses were not recognised.

2 Basis for preparation of the Financial Statements (continued)

j) Equity

Ciech S.A.'s share capital is disclosed according to the face value adjusted by the effects of hyperinflation in the years 1989-1996.

In the case of purchasing equity shares, the payment amount together with direct transaction costs is disclosed as a change in equity. Purchased shares are recognised as a decrease in equity.

Dividends are recognised as liabilities in the period in which they have been approved.

Net profit (loss) is presented in equity under retained profits.

k) Employee benefits

Retirement and annuity gratuities:

The amount of the Company's liabilities due to retirement and annuity gratuities is calculated by an authorised actuary with the application of the method of projected unit credits discounted to the current value after deducting the fair value of any related assets.
The creation of such provisions for the first time in the case when the entity was previously obliged to do so is treated as an adjustment of previous period errors. The creation of such provisions for the first time in the case when the entity was not previously obliged to do so is neither a change in the accounting policy nor an adjustment of errors.

The use of this type of provisions leads to a decrease in provisions (current encumbrance of operating expenses with amounts of paid out benefits with simultaneous adjustment of provisions at the end of the period is prohibited), while the release of the said provision increases other operating revenues.
Actuarial profit/ loss is the change resulting from differences between earlier assumptions and their realisation as well as the change of assumed calculations of parameters and assumptions – in the income statement it is presented under financial activity.

l) Provisions

A provision is recognised if the Company is under obligation arising from previous events and it is probable that the fulfilment of this obligation will result in an outflow of economic benefits from the Company. When the effect of money value over time is significant, provisions are established through discounting expected future cash flows based on the pre-tax rate, which reflects the current market estimates of money value fluctuations in time and the risk connected with a given liability.

(i) Restructuring

A restructuring provision is recognised if a detailed and official restructuring plan has been approved, and the process has started or was officially announced, and it is possible to estimate the value of future liabilities in a reliable manner.

m) Trade and other liabilities

Trade and other liabilities are divided into current and non-current liabilities, applying the following criteria:

- those requiring payment within 12 months from the balance sheet date are considered current liabilities,
- all liabilities which are not trade liabilities or do not fulfil the criteria for current liabilities are considered non-current liabilities.

Trade liabilities are measured as at the balance sheet date at the amortised cost (i.e. discounted with the application of the effective interest rate) and increased by possible interest for delay due as at the date of measurement.

Liabilities in foreign currencies are disclosed according to NBP's average exchange rate for a given currency effective on the last working day preceding the day of transaction. As at the balance sheet date, liabilities in foreign currencies are evaluated according to the average exchange rate of the National Bank of Poland established for a given currency and effective on this day. Currency translation differences resulting from the payment of a liability or its evaluation (unrealized) are presented under financial revenues or expenses.

2 Basis for preparation of the Financial Statements (continued)

Penalty interest due to late payments of liabilities is not accrued if the authorised entity submits a written declaration obliging not to accrue such interest. Otherwise, interest is calculated and recorded in accordance with the following principles;

- on an ongoing basis, pursuant to the received interest notes,
- according to the estimated value, whereby the estimate is based on historical data reflecting the amounts of interest calculated by particular contractors in comparison with the debt owed to them.

In every case, when calculating interest, other major risks causing such interest to be calculated should be taken into account.

n) Contingent liabilities – off-balance sheet

The Company recognises possible future obligations to perform specific work, which depend on the occurrence of certain events, as contingent liabilities.

o) Revenue and costs

Revenues from the sale of products and goods are recognised in the income statement if the major risk and benefits arising from their ownership have been transferred to the buyer.
Revenues from the provision of services are recognised in the income statement proportionally to the level of their realisation as at the balance sheet date. The level of service realisation is evaluated on the basis of the results of a review of works. Revenues are not recognised, when there are serious doubts linked to obtaining due remuneration, reimbursement of costs or potential return of goods and products.

Costs constitute the probable decrease of economic benefits resulting from decreasing value of assets or increasing value of liabilities and provisions. Costs are recognised in the income statement under the matching principle as gained revenue.

Cost of sales includes the cost of production of sold products and services and the value of sold goods and materials.

The **cost of sales** include, among others: the costs of sales agency, costs of advertising, promotion and distribution.

General and administrative expenses constitute the cost of maintaining the management of an entity or of general servicing units.

The reporting period results are also influenced by **other operating revenue and costs** directly related to Company's basic activity. The key positions are:

- Profit/ loss on disposal and liquidation of non-financial fixed assets
- Creation/ release of revaluation write-downs and provisions
- Reimbursement of charges
- Lease revenue – the revenue from lease of investment property is recognised in the income statement with the application of the straight-line method. Granted discounts are an integral part of the sum of lease revenues. Lease revenues are recognised in other operating revenues.

Financial revenue/costs relating to financial activity in the company, including sales/ purchase of securities, shares, raising loans and borrowings, issuance of debt securities. Consequently, the key financial activity items are:

- interest paid due to debt, established on the basis of effective interest rate,
- interest due to funds invested by the Company (on bank deposits and accounts, granted loans, receivables) – disclosed in the income statement according to the accrual principle with the application of the effective interest rate method,
- revenue on dividends – recognised in the income statement when the Company obtains the right to a dividend,
- surplus of positive or negative f/x differences,
- profit/ loss on sales of financial assets,
- profit/ loss related to derivatives.

2 Basis for preparation of the Financial Statements (continued)

p) Tax

Income tax disclosed in the income statement includes the current and deferred portion. Income tax is recognised in the income statement, except for the amounts related to items settled directly with equity. In such case, it is recorded in equity.

Current tax constitutes a tax liability due to taxed income for a given year, established with the application of tax rates in effect as at the balance sheet date and adjustment of previous years' tax.

Deferred tax is calculated with the application of the balance sheet method, based on temporary differences between the value of assets and liabilities established for accounting purposes and the value thereof established for tax purposes. No provision is created for the following temporary differences: initial recognition of assets or liabilities that do not influence accounting and tax profit, differences related to investments in subsidiaries in the scope in which it is not probable that they will be realised in the foreseeable future. The recognised amount of deferred tax is based on the expectations as to the method of realising the carrying value of assets and liabilities, using tax rates effective or adopted as at the balance sheet date.

Deferred tax assets are recognised only when it is probable that future taxable income in relation to which a given asset may be realised will be available. Deferred tax assets are subject to reduction, if it may be stated that it is improbable that the tax benefits represented thereby will be realised. The write-down on deferred income tax assets is recognised in the income statement under the tax item.

Deferred tax assets and provisions are compensated and disclosed in total in the financial statements.

q) Estimates adopted in the preparation of the financial statements

The preparation of financial statements in compliance with IFRS requires the Management Board to exercise professional judgements, assumptions and estimates that impact the value of assets, liabilities, revenues and expenses presented in the financial statements and notes thereto. The assumptions and estimates are based on the Management Board's historical experience and best knowledge of current and future events and actions; however, the actual results may differ from those forecasted. In vital matters the Management board bases its estimates on the opinions of independent experts.

The estimates and adopted assumptions are subject to regular verification. Changes in accounting estimates are recognised in the period in which they are made or in the current period and future periods (if such changes apply to the current and future periods).

The areas for which the Management Board made estimates include provisions, tangible fixed assets, intangible assets and financial assets. The adopted material assumptions related to making estimates have been presented in relevant notes and explanations to the financial statements.

r) Operations to be discontinued and fixed assets held for sale

Tangible assets are classified as assets allocated for sale, if their carrying value will be realised through a transaction of sale and when they are available for sale in the current condition with a high probability of conducting a transaction of sale.
Discontinued operations are understood as a part of the Company disposed of or classified as meant for disposal and representing:

- a separate main line of business,
- a part of the plan of disposal of a separate main line of business or geographical segment,
- a subsidiary acquired only for resale.

A part of the Company is defined as operations and cash flows that may be distinguished in terms of operations and for the purposes of financial reporting (e.g. centres generating cash or groups thereof).
These assets are measured at the lower of the two values: net sales price and net book value.
The Company applies the principles of recognising assets allocated for sale in compliance with IFRS 5.

Transfer prices
Transfer prices are established on the basis of market prices or prices based on exchange quotations of goods listed on global commodity exchanges.

3 Information about operating segments

The accounting principles applied in the reporting segments are the same as the accounting policy of CIECH S.A. The transfers between particular segments are determined based on actual data.
Information on Group's geographical areas are established on the basis of the location of CIECH S.A.'s assets.

The tables below present data concerning profits and losses as well as assets and liabilities of particular business segments of CIECH S.A. in the period covered by the financial statements:

3 Information about operating segments (continued)

Business segments 01.01. – 31.12.2010

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Revenues from third parties	826,577	832,750	77,239	183,094	443	-	1,920,103
Revenues from inter-segment transactions	56,190	50,484	191,361	3,958	137	-	302,130
Total revenues	**882,767**	**883,234**	**268,600**	**187,052**	**580**	**-**	**2,222,233**
Cost of sales	(721,873)	(787,890)	(252,216)	(149,662)	(172)	-	(1,911,813)
Gross profit/loss on sales	**160,894**	**95,344**	**16,384**	**37,390**	**408**	**-**	**310,420**
Selling costs	(72,887)	(36,595)	(2,861)	(28,508)	-	(10)	(140,861)
General and administrative expenses	(1,619)	(1,587)	(463)	(952)	-	(40,816)	(45,437)
Receivables management result	(6,762)	187	1	-	-	(1,045)	(7,619)
Result on other operating activities	1	(9)		(23)	1,370	15,753	17,092
Operating profit/loss	**79,627**	**57,340**	**13,061**	**7,907**	**1,778**	**(26,118)**	**133,595**
The balance of f/x differences and interest on trade settlements	(27,172)	(64,351)	(10,318)	(9,849)	57	(6,400)	(118,033)
Group financing costs						(70,732)	(70,732)
Result on financial activity (non-attributable to segments)						63,878	63,878
Profit/loss before tax	**52,455**	**(7,011)**	**2,743**	**(1,942)**	**1,835**	**(39,372)**	**8,708**
Tax							(13,746)
Net profit/loss							**(5,038)**
Profit on discontinued operations							-
Net profit/loss for the financial year							**(5,038)**
Amortisation/depreciation	310	292	93	137	-	3,931	4,763
EBITDA	**79,937**	**57,632**	**13,154**	**8,044**	**1,778**	**(22,187)**	**138,358**

3 Information about operating segments (continued)

Business segments 01.01. – 31.12.2009

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Revenues from third parties	874,011	650,830	49,878	114,773	675	-	1,690,167
Revenues from inter-segment transactions	68,466	26,936	111,263	3,089	1,156	-	210,910
Total revenues	**942,477**	**677,766**	**161,141**	**117,862**	**1,831**	**-**	**1,901,077**
Cost of sales	(707,968)	(613,658)	(150,182)	(93,314)	(840)	-	(1,565,962)
Gross profit/loss on sales	**234,509**	**64,108**	**10,959**	**24,548**	**991**	**-**	**335,115**
Selling costs	(71,357)	(32,577)	(2,847)	(16,355)	-	(110)	(123,246)
General and administrative expenses	(1,406)	(1,676)	(627)	(1,013)	-	(44,576)	(49,298)
Receivables management result	(540)	(434)	1	-	-	(662)	(1,635)
Result on other operating activities	(1,110)	(205)	-	-	(10,778)	(1,704)	(13,797)
Operating profit/loss	**160,096**	**29,216**	**7,486**	**7,180**	**(9,787)**	**(47,052)**	**147,139**
The balance of f/x differences and interest on trade settlements	(84,533)	(73,681)	(5,327)	(5,893)	(180)	(14,181)	(183,795)
Group financing costs						(40,102)	(40,102)
Result on financial activity (non-attributable to segments)						(36,797)	(36,797)
Profit/loss before tax	**75,563**	**(44,465)**	**2,159**	**1,287**	**(9,967)**	**(138,132)**	**(113,555)**
Tax							(12,212)
Net profit/loss							**(125,767)**
Profit on discontinued operations							-
Net profit/loss for the financial year							**(125,767)**
Amortisation/depreciation	1,057	858	263	239	-	3,809	6,226
EBITDA	**161,153**	**30,074**	**7,749**	**7,419**	**(9,787)**	**(43,243)**	**153,365**

3 Information about operating segments (continued)

Business segments 31.12.2010

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Tangible fixed assets	564	531	169	249	-	7,265	8,778
Intangible assets	525	495	157	232	-	6,661	8,070
Inventories	10,063	18,134	507	-	-	-	28,704
Trade receivables	152,561	89,196	20,917	6,383	117	-	269,174
Other assets	-	-	-	-	-	2,109,852	2,109,852
Total assets	**163,713**	**108,356**	21,750	6,864	117	2,123,778	**2,424,578**

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Trade liabilities	209,884	151,767	31,370	12,287	249	-	405,557
Other liabilities	-	-	-	-	-	1,528,123	1,528,123
Total liabilities	209,884	151,767	31,370	12,287	249	1,528,123	**1,933,680**

3 Information about operating segments (continued)

Business segments 31.12.2009

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Tangible fixed assets	1,861	1,510	462	421	-	6,703	10,957
Intangible assets	1,486	1,206	369	336	-	5,353	8,750
Inventories	10,163	13,725	2,425	-	-	-	26,313
Trade receivables	141,580	122,688	2,097	10,276	9	-	276,650
Other assets	-	-	-	-	-	1,654,339	1,654,339
Total assets	**155,090**	**139,129**	5,353	11,033	9	1,666,395	**1,977,009**

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Trade liabilities	201,000	129,569	10,474	8,509	1,594	-	351,146
Other liabilities	-	-	-	-	-	1,108,767	1,108,767
Total liabilities	201,000	129,569	10,474	8,509	1,594	1,108,767	**1,459,913**

3 Information about operating segments (continued)

Business segments 01.01.31.12.2010

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Recognised impairment losses	6,789	212	1,110	–	1,049	-	9,160
Recognised impairment losses (non-attributable to segments)	-	-	-	-	-	24,190	24,190
Reversed impairment losses	27	15	187	–	14,355		14,584
Reversed impairment losses (non-attributable to segments)	-	-	-	-	-	233	233
Interest attributable to segments	755	620	2	2	20	-	1,399
Interest recognised under Corporate Functions	-	-	-	-	-	25,861	25,861
Cost of interest attributable to segments	1,061	164	-	54	6,419	-	7,698
Cost of interest recognised under Corporate Functions	-	-	-	-	-	84,688	84,688

Business segments 01.01.-31.12.2009

PLN '000	Soda Segment – Soda Division	Organic Segment – Organic Division	Agrochemical Segment	Silicates and Glass Segment	Other operations segment	Corporate functions – reconciliatory item	TOTAL
			Agro-Silicon Division				
Recognised impairment losses	543	435	127	–	12,213	-	13,318
Recognised impairment losses (non-attributable to segments)	-	-	-	-	-	142,309	142,309
Reversed impairment losses	3	4	98	–	58		163
Reversed impairment losses (non-attributable to segments)	-	-	-	-	-	348	348
Interest attributable to segments	132	137	-	1	161	-	431
Interest recognised under Corporate Functions	-	-	-	-	-	23,331	23,331
Interest attributable to segments	121	211	-	-	2,453	-	2,785
Cost of interest recognised under Corporate Functions	-	-	-	-	-	61,565	61,565

3 Information about operating segments (continued)

Geographical areas

The tables below present data concerning revenues and certain assets of particular geographical areas for the periods covered by the financial statements:

01.01.-31.12.2010

PLN '000	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Total assets	1,666,030	695,843	33,403	2,051	20,956	6,295	**2,424,578**
Net sales of products, goods and materials	890,332	791,333	65,589	147,099	224,356	103,524	**2,222,233**

01.01.-31.12.2009

PLN '000	**Poland**	**European Union**	**Other European countries**	**Africa**	**Asia**	**Other regions**	**TOTAL**
Total assets	1,186,588	728,606	22,284	7,304	31,662	565	**1,977,009**
Net sales of products, goods and materials	869,967	679,188	49,218	60,121	184,439	58,144	**1,901,077**

4 Revenue and costs

Sales revenues
PLN '000

	31.12.2010	31.12.2009
Revenues from sales of products and services	**16,806**	**27,597**
- services	16,806	27,597
Revenues from sales of goods and materials	**2,205,427**	**1,873,480**
- goods	2,205,427	1,873,480
Net sales of products, goods and materials	**2,222,233**	**1,901,077**

Information on sales revenue divided according to categories of services can be found in section 4 of the Report on CIECH S.A.'s Activities in 2010.

Cost of sales
PLN '000

	31.12.2010	31.12.2009
Cost of production of sold services	87	248
Value of sold goods	1,911,384	1,565,687
Release of write-downs on inventories	(15)	(101)
Creation of write-downs on inventories	357	128
Cost of sales	**1,911,813**	**1,565,962**

Other operating revenues
PLN '000

	31.12.2010	31.12.2009
Revenue from lease/ rents	1,450	1,651
Revenues from disposal of non-financial fixed assets	9,164	138
Release of write-downs on short-term receivables	219	62
Release of write-down on investment property	14,351	–
Release of provisions on employee benefits – change of basis	42	25
Release of provision for compensation	192	3,891
Other tax return	600	–
Other	827	212
Total	**26,845**	**5,979**

Within EU funds subsidies, CIECH S.A. has been carrying out a project: *Corporate Mentoring Academy.* Project duration is 21 months (November 2009 – July 2011). The amount of subsidies recognised in the income statement in the reporting period is PLN 570 thousand (PLN 12 thousand in the comparable period).

Other operating expenses
PLN '000

	31.12.2010	31.12.2009
Costs pertaining to investment property	2,542	3,429
Creation of write-down on short-term receivables	7,838	1,699
Creation of write-down on investment property	–	11,492
Creation of provision for compensation	3,444	3,352
Expenditure on other severance pays	2,555	–
Depreciation of investment property	–	520
Membership fees	222	259
Other	771	660
Total	**17,372**	**21,411**

4 Revenue and costs (continued)

Net financial revenues / (costs)

PLN '000

	31.12.2010	31.12.2009
Total interest	27,260	23,762
Dividends and share in profit	7,960	24,844
Release of write-downs	233	348
Liabilities redeemed	1,694	–
Balance sheet measurement of derivatives	53,859	43,775
Revenues due to guarantees and sureties	1,343	839
Revenues from discounting receivables	2,393	2,726
Other	228	118
Financial revenues	**94,970**	**96,412**
Total interest	92,386	64,350
Costs of disposal of financial assets	6,144	256
Creation of write-downs	20,851	142,308
Commission on loans	10,296	961
Costs due to sureties and guarantees	7,141	1,806
Costs due to discounting liabilities	2,048	2,341
Provisions for retirement severance pays – change in discount	163	206
Costs of amortised interest	–	4,628
Negative FX differences	79,128	139,214
Other	1,700	1,036
Financial expenses	**219,857**	**357,106**
Net financial revenues/expenses	**(124,887)**	**(260,694)**

Costs by type

PLN '000

	01.01.-31.12.2010	01.01.-31.12.2009
Amortisation/depreciation	4,770	5,706
Consumption of materials and energy	1,384	1,476
Employee benefits	33,548	37,633
External services	137,516	127,485

Depreciation/Amortisation of tangible fixed assets and intangible assets

Amortisation charges on intangible assets

PLN '000

	31.12.2010	31.12.2009
General and administrative expenses	1,830	2,137
Total	**1,830**	**2,137**

Depreciation charges on tangible fixed assets

PLN '000

	31.12.2010	31.12.2009
General and administrative expenses	2,940	3,569
Total	**2,940**	**3,569**

Employee costs

PLN '000

	31.12.2010	31.12.2009
Remuneration	28,163	31,833
Social insurance and other benefits	5,385	5,800
Total employee benefits	**33,548**	**37,633**

4 Revenue and costs (continued)

Research and development costs

The Company did not bear any R&D expenditures in the reporting period and in the presented comparative period.

5 Income tax

The main components of tax burden include:

Tax recognised in the income statement
PLN '000

	31.12.2010	31.12.2009
Current tax		
Current income tax	–	814
Income tax for previous years	501	-
Total	**501**	**814**
Deferred tax		
Creation/reversal of temporary difference	30,970	11,398
Recognition of tax loss to be used in next periods	(17,725)	-
Total	**13,245**	**11,398**
Income tax recognised in income statement	**13,746**	**12,212**

No current tax recognised directly under equity occurred in CIECH S.A. Deferred tax recognised under equity amounts to PLN 4,963 thousand. In the comparative period, deferred tax recognised under equity amounted to PLN 12,553 thousand.

Reconciliation of income tax calculated against gross financial result before tax according to the statutory tax rate and income tax calculated against the Company's effective tax rate for the periods presented in the financial statements is as follows:

EFFECTIVE TAX RATE	31.12.2010		31.12.2009	
	%	PLN '000.	%	PLN '000.
Profit before tax		8,708		(113,555)
Tax based on effective tax rate	19%	1,655	19%	(21,575)
Non-tax deductible costs	561%	48,878	-77%	87,179
Tax deductible costs not recognised under profit before tax	-234%	(20,341)	2%	(1,863)
Deferred tax provisions	-47%	(4,062)	9%	(10,221)
Taxable revenues not recognised in profit before tax	5%	407	0%	404
Non-taxable revenues	-555%	(48,323)	56%	(63,332)
Adjustments of income tax for previous years	6%	501	0%	–
Tax loss in current year	204%	17,725	0%	–
Deferred tax assets	149%	13,003	-19%	21,620
Revaluation write-offs on deferred tax assets	49%	4,303	0%	–
Total	**158%**	**13,746**	**-11%**	**12,212**

5 Income tax (continued)

Deferred income tax

Deferred income tax results from the following items:

PLN '000

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX PROVISION	31.12.2010			31.12.2009		
	Total asset	Total provision	net value	Total asset	Total provision	net value
Tangible fixed assets	–	1,088	(1,088)	–	949	(949)
Investment property	64	–	64	2,790	–	2,790
Financial assets	–	2,041	(2,041)	2,242	2,041	201
Inventories	97	–	97	32	–	32
Trade and other receivables	–	1,250	(1,250)	–	410	(410)
Provisions for retirement benefits	372	–	372	361	–	361
Tax losses deductible in subsequent periods	17,725	–	17,725	–	–	–
FX differences	1,453	5,750	(4,297)	30,645	17,997	12,648
Liabilities	2,966	–	2,966	1,852	–	1,852
Deferred tax assets/provision	**22,677**	**10,129**	**12,548**	**37,922**	**21,397**	**16,525**
Write-down on asset	4,304		4,304	–		–
Deferred tax assets/provision recognised in balance sheet	**18,373**	**10,129**	**8,244**	**37,922**	**21,397**	**16,525**

5 Income tax (continued)

CHANGE IN THE REVALUATION WRITE-OFF ON A DEFERRED TAX ASSET	31.12.2010	31.12.2009
Opening balance	**-**	**-**
Created	4,304	-
Closing balance	**4,304**	**-**

Temporary differences

PLN '000

CHANGE OF TEMPORARY DIFFERENCES IN THE PERIOD	As at 01.01.2010	Change of temporary differences recognised in income statement	Change of temporary differences recognised in equity	As at 31.12.2010
Tangible fixed assets	(4,994)	(731)	–	(5,725)
Investment property	14,687	(14,351)	–	336
Financial assets	1,056	–	(11,801)	(10,745)
Inventories	168	343	–	511
Trade and other receivables	(2,156)	(4,423)	–	(6,579)
Provisions for retirement benefits	1,902	57	–	1,959
Tax losses deductible in subsequent periods	–	93,288	–	93,288
FX differences	66,571	(127,111)	37,926	(22,614)
Liabilities	9,746	5,862	–	15,608
Other	–	(22,652)	–	(22,652)
Total	**86,980**	**(69,718)**	**26,125**	**43,387**

PLN '000

CHANGE OF TEMPORARY DIFFERENCES IN THE PERIOD	As at 01.01.2009	Change of temporary differences recognised in income statement	Change of temporary differences recognised in equity	As at 31.12.2009
Tangible fixed assets	(6,918)	1,924	–	(4,994)
Investment property	3,195	11,492	–	14,687
Financial assets	161,344	(94,220)	(66,068)	1,056
Inventories	141	27	–	168
Trade and other receivables	(22,817)	20,661	–	(2,156)
Provisions for retirement benefits	1,996	(94)	–	1,902
FX differences	61,821	4,750	–	66,571
Liabilities	14,280	(4,534)	–	9,746
Total	**213,042**	**(59,994)**	**(66,068)**	**86,980**

The Company expects that within 5 years of the balance sheet day it will earn a tax profit which will guarantee the realisation of the total of the deferred tax asset. The projected tax income will be generated from operating activities and activities in progress (the sale of GZNF Fosfory) as well as further planned divestments.

The Company did not establish deferred tax assets from write-downs on its subsidiaries' shares.
- Uzinele Sodice Govora (negative temporary difference of PLN 72,431 thousand), no deferred tax asset was created because the subsidiary is a strategic business for the Ciech Capital Group and in the foreseeable future CIECH S.A.'s Management Board does not intend to sell it,
- Ciech Finance (negative temporary difference of PLN 2,000 thousand),
- Ciech America Latina (negative temporary difference of PLN 869 thousand),
- Zakłady Chemiczne Alwernia S.A. (negative temporary difference of PLN 965 thousand).

6 Discontinued activities and fixed assets classified as held for sale

No discontinuation of activities occurred in the company during the presented reporting period and the comparative period.
As at December 31st, 2010 – in connection with the agreement signed on December 16th, 2010 regarding the sale of owned shares in GZNF “FOSFORY” Sp. z o.o. to Zakłady Azotowe “Puławy” – the value of those shares and the value of borrowings granted by CIECH S.A. to FOSFORY Group have been recognised under “Fixed assets held for sale”. The Company GZNF “FOSFORY” has been included in the activity segments report under the Agrochemical segment of the Agro-Silicon Division.

ASSETS CLASSIFIED AS HELD FOR SALE	31.12.2010	31.12.2009
Other long-term investments	20,888	-
Current investments – borrowings granted	120,611	-
TOTAL	**141,499**	**-**

On December 16th, 2010 was signed an agreement regarding the sale of shares in a subsidiary GZNF Fosfory Sp. z o.o. The parties to this agreement are Zakłady Azotowe "Puławy" (the Buyer) and CIECH S.A. The subject of the agreement was the sales to the Buyer of 51,855 shares, which constitutes 89.46% of the share capital of Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o., effective on the Closing Day, i.e. the second business day after the day when the last party to the agreement is informed about the fulfilment of the last condition precedent of the agreement, or a different day as agreed by the parties, which shall be null and void unless made in writing. The book value of GZNF "FOSFORY" Sp. z o.o. shares as at September 30th, 2010 amounts to PLN 20,888 thousand. The Parties agreed the share purchase price as PLN 107.2 million on the basis of the estimated Value of the Fosfory Company less the Forecasted Value of the Net Financial Debt. The forecasted price shall be adjusted accordingly, depending on the value of the Net Financial Debt as at the sales transaction Closing Day. An important element of the transaction is the fact that the Buyer repaid loans granted by CIECH S.A. to Fosfory Group companies. The current and forecasted for the transaction closing day loan is PLN 120.6 million.

7 Loss per share

Basic loss per share is calculated by dividing net loss for the financial year attributed to ordinary shareholders of the parent company by weighted average number of issued ordinary shares existing during the financial year.

Diluted loss per share is calculated by dividing net loss for the financial year attributed to ordinary shareholders of the parent company by weighted average number of issued ordinary shares existing during the financial year and weighted average number of ordinary shares issued upon the exchange of dilutive potential ordinary shares for ordinary shares.

The table below presents data concerning losses and shares, constituting the basis for calculating basic and diluted losses per share:

PLN ‘000.	31.12.2010	31.12.2009
Net profit (loss) on continued operations attributed to the controlling shareholders	(5,038)	(125,767)
Net profit (loss) attributed to the controlling shareholders, applied to calculate basic earnings per share	(5,038)	(125,767)
Net profit (loss) attributed to the controlling shareholders, applied to calculate diluted earnings per share	(5,038)	(125,767)

pcs.	31.12.2010	31.12.2009
Weighted average number of issued ordinary shares, applied to calculate basic earnings per share	28,000,000	28,000,000
Weighted average number of issued ordinary shares, applied to calculate diluted earnings per share	28,000,000	28,000,000

In the period between the balance sheet date and the date of compiling the presented financial statements one transaction regarding ordinary shares or potential ordinary shares occurred.
CIECH S.A. issued 23,000,000 ordinary bearer shares with face value of PLN 5. The share capital raise was registered by the District Court for the capital city of Warsaw in Warsaw, 13th Economic Division of the National Court Register on March 14th, 2011. As the day of publishing this report, the total number of votes resulting from all issued shares of the Company, after the share capital raise registration, is 51,000,000 and the share capital is divided into 51,000,000 Company shares

7 Loss per share (continued)

of face value PLN 5 (five Polish zloty) each, including 20,816 ordinary bearer shares Series "A", 19,775,200 ordinary bearer shares Series "B", 8,203,984 ordinary bearer shares Series "C" and 23,000,000 ordinary bearer shares Series "D".

8 Dividend payout and proposed dividend payout

2010
Considering the net loss incurred in 2010, CIECH S.A. will not pay any dividend for this financial year.

2009
Considering the net loss incurred in 2009, CIECH S.A. did not pay any dividend in 2010. By the resolution of June 21st, 2010 the Annual General Meeting of CIECH S.A. decided to cover the loss from the Company's supplementary capital.

9 Tangible fixed assets

31.12.2010
PLN '000

MOVEMENT OF FIXED ASSETS 31.12.2010	Buildings, offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other fixed assets	Tangible assets under construction	Total fixed assets
Gross value of fixed assets at the beginning of period	**3,527**	**14,782**	**1,272**	**2,189**	**1,286**	**23,056**
Increases (due to)	**–**	**197**	**–**	**35**	**765**	**997**
Purchase of	–	129	–	26	155	**310**
Acquisition from investment	–	68	–	–	–	**68**
Reclassification from another type group	–	–	–	9	–	**9**
Investment expenditure on fixed assets under construction	–	–	–	–	490	**490**
Capitalisation of external financing expenses	–	–	–	–	120	**120**
Decreases (due to):	**–**	**469**	**102**	**9**	**460**	**1,040**
Sales	–	259	102	–	–	**361**
Disposal	–	197	–	9	–	**206**
Reclassification to another type group	–	9	–	–	–	**9**
Transfer to tangible fixed assets	–	–	–	–	223	**223**
Other	–	4	–	–	237	**241**
Gross value of fixed assets at the end of period	**3,527**	**14,510**	**1,170**	**2,215**	**1,591**	**23,013**
Accumulated depreciation at the beginning of period	**822**	**9,185**	**986**	**868**	**–**	**11,861**
Depreciation for the period (due to)	**705**	**1,268**	**(1)**	**402**	**–**	**2,374**
Annual depreciation charge	705	1,734	101	400	–	**2,940**
Reclassification from another type group	–	–	–	10	–	**10**
Sales	–	255	102	–	–	**357**
Disposal	–	197	–	8	–	**205**
Reclassification to another type group	–	10	–	–	–	**10**
Other	–	4	–	–	–	**4**
Accumulated depreciation at the end of period	**1,527**	**10,453**	**985**	**1,270**	**–**	**14,235**
Impairment losses at the beginning of the period	**–**	**–**	**–**	**–**	**238**	**238**
Decrease (due to)	**–**	**–**	**–**	**–**	**238**	**238**
Use of impairment loss	–	–	–	–	238	**238**
Impairment losses at the end of the period	**–**	**–**	**–**	**–**	**–**	**–**
Net value of fixed assets at the beginning of period	**2,705**	**5,597**	**286**	**1,321**	**1,048**	**10,957**
Net value of fixed assets at the end of period	**2,000**	**4,057**	**185**	**945**	**1,591**	**8,778**

9 Tangible fixed assets (continued)

31.12.2009
PLN '000

MOVEMENT OF FIXED ASSETS 31.12.2009	Buildings, offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other fixed assets	Tangible assets under construction	Total fixed assets
Gross value of fixed assets at the beginning of period	**3,516**	**14,934**	**2,429**	**2,226**	**1,105**	**24,210**
Increases (due to)	**11**	**1,193**	**5**	**30**	**181**	**1,420**
Purchase of	11	1,193	5	30	181	**1,420**
Decreases (due to):	**–**	**1,345**	**1,162**	**67**	**–**	**2,574**
Sales	–	202	1,162	21	–	**1,385**
Disposal	–	1,143	–	37	–	**1,180**
Donations made	–	–	–	9	–	**9**
Gross value of fixed assets at the end of period	**3,527**	**14,782**	**1,272**	**2,189**	**1,286**	**23,056**
Accumulated depreciation at the beginning of period	**117**	**8,665**	**1,413**	**518**	**–**	**10,713**
Depreciation for the period (due to)	**705**	**520**	**(427)**	**350**	**–**	**1,148**
Annual amortisation charge	705	1,848	614	402	–	**3,569**
Sales	–	185	1,041	12	–	**1,238**
Disposal	–	1,143	–	34	–	**1,177**
Donation	–	–	–	6	–	**6**
Accumulated depreciation at the end of period	**822**	**9,185**	**986**	**868**	**–**	**11,861**
Impairment losses at the beginning of the period	**–**	**–**	**–**	**–**	**238**	**238**
Impairment losses at the end of the period	**–**	**–**	**–**	**–**	**238**	**238**
Net value of fixed assets at the beginning of period	**3,399**	**6,269**	**1,016**	**1,708**	**867**	**13,259**
Net value of fixed assets at the end of period	**2,705**	**5,597**	**286**	**1,321**	**1,048**	**10,957**

The capitalisation rate applied to determine the amount of external financing costs to be capitalised was 8.76%.

9 Tangible fixed assets (continued)

Ownership structure of tangible fixed assets:

PLN '000
BALANCE SHEET FIXED ASSETS (OWNERSHIP STRUCTURE)

	31.12.2010	31.12.2009
own	8,778	10,957
Total balance sheet fixed assets	**8,778**	**10,957**

In the presented period, the Company did not receive compensations due to impairment of tangible fixed assets.

PLN '000

CHANGE OF WRITE-DOWNS ON TANGIBLE FIXED ASSETS	31.12.2010	31.12.2009
Opening balance	**238**	**238**
Utilization	238	-
Closing balance	**-**	**238**

In connection with signing the consortium loan agreement and establishing a hedge on property, the Company has a limited right to dispose of all owned fixed assets, including a prohibition to sell it.

In the current period, changes in book estimates had no material influence and it is expected that they will not exert significant influence in future periods.

Expenditures on tangible fixed assets under construction borne by CIECH S.A. in 2010 were mainly related to the implementation of the following investment projects:

PLN '000

Purchase or modernisation of buildings and structures and leasehold improvements	610
Purchase of plant and equipment	129
Purchase of other assets	26
TOTAL	**765**

The table below presents off-balance sheet fixed assets.

PLN '000

OFF-BALANCE SHEET FIXED ASSETS	31.12.2010	31.12.2009
Used based on rental, tenancy, lease and other agreements, including:	**2,617**	**3,658**
Land in perpetual usufruct	–	861
Operating lease agreement	2,617	2,797

10 Investment property

PLN '000

	31.12.2010	31.12.2009
Gross value at the beginning of period	**26,815**	**26,821**
Decreases	**19,296**	**6**
Sales	19,296	–
Disposal	–	6
Gross value at the end of period	**7,519**	**26,815**
Accumulated depreciation at the beginning of the period	**8,281**	**7,771**
Depreciation for the increase period due to	**(7)**	**520**
Annual depreciation charge	(7)	520
Depreciation for the decrease period due to	**4,721**	**7**
Sales	4,721	–
Disposal	–	7
Accumulated depreciation at the end of the period	**3,553**	**8,284**
Impairment losses at the beginning of the period	**14,687**	**3,195**
Increase	**–**	**11,492**
Creation of write-offs allocated to the financial result	–	11,492
Decreases	**14,351**	**–**
Reversal of impairment losses allocated to the financial result	14,351	–
Impairment losses at the end of the period	**336**	**14,687**
Net value as at the beginning of period	**3,847**	**15,855**
Net value as at the end of period	**3,630**	**3,844**

As at December 31st, 2010, the investment property item for CIECH S.A. included land with investment, related to the construction of a residential and office complex, located in Warsaw in Krasińskiego Street, corner with Powązkowska.

The fair value of the owned investment property according to the appraisal report is PLN 24,000 thousand.

In connection with signing the consortium loan agreement and establishing a hedge on property, the Company has a limited right to dispose of its investment property, including a prohibition to sell it. The amount of direct operating costs referring to investment property which did not bring any rent income in 2010 amounted to PLN 2,525 thousand.

PLN '000

CHANGE IN WRITE-DOWNS ON INVESTMENT PROPERTY	**31.12.2010**	**31.12.2009**
Opening balance	**14,684**	**3,195**
Created	-	11,489
Reversed	14,351	-
Closing balance	**333**	**14,684**

In 2010 CIECH S.A. sold part of the property located in Warsaw in Powązkowska Street. This part was covered by a write-down amounting to PLN 14,351 thousand. At the moment of sale, this write-down was reversed to other operating revenue.

11 Intangible assets

31.12.2010
PLN '000

CHANGE IN INTANGIBLE ASSETS (BY TYPE GROUPS) 31.12.2010	Licences, patents, permits etc. obtained	Computer software	Intangible assets in realisation	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of period	**31,037**	**31,037**	**826**	**419**	**32,282**
Increases (due to)	**748**	**748**	**1,333**	**–**	**2,081**
Purchase	532	532	532	–	**1,064**
Acquisition from investment	216	216	–	–	**216**
Expenditure on intangible assets in realisation	–	–	801	–	**801**
Decreases (due to):	**562**	**562**	**748**	**–**	**1,310**
Disposal	562	562	–	–	**562**
Transfer for intangible assets	–	–	748	–	**748**
Gross value of intangible assets at the end of period	**31,223**	**31,223**	**1,411**	**419**	**33,053**
Accumulated amortisation at the beginning of the period	**23,125**	**23,125**	**–**	**407**	**23,532**
Amortisation for the period (due to)	**1,443**	**1,443**	**–**	**8**	**1,451**
Annual amortisation charge	1,830	1,830	–	–	**1,830**
Other	–	–	–	8	**8**
Disposal	379	379	–	–	**379**
Reclassification to another type group	8	8	–	–	**8**
g) accumulated amortisation at the end of the period	**24,568**	**24,568**	**–**	**415**	**24,983**
j) net value of intangible assets at the beginning of period	**7,912**	**7,912**	**826**	**12**	**8,750**
k) net value of intangible assets at the end of period	**6,655**	**6,655**	**1,411**	**4**	**8,070**

31.12.2009
PLN '000

CHANGE IN INTANGIBLE ASSETS (BY TYPE GROUPS) 31.12.2009	Licences, patents, permits etc. obtained, including:	Computer software	Intangible assets in realisation	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of period	**28,344**	**28,344**	**1,282**	**419**	**30,045**
Increases (due to)	**2,706**	**2,706**	**(456)**	**–**	**2,250**
Purchase	2,706	2,706	(456)	–	**2,250**
Decreases (due to):	**13**	**13**	**–**	**–**	**13**
Sales	13	13	–	–	**13**
Gross value of intangible assets at the end of period	**31,037**	**31,037**	**826**	**419**	**32,282**
Accumulated amortisation at the beginning of the period	**20,990**	**20,990**	**–**	**407**	**21,397**
Amortisation for the period (due to)	**2,135**	**2,135**	**–**	**–**	**2,135**
Annual amortisation charge	2,137	2,137	–	–	**2,137**
Sales	2	2	–	–	**2**
g) accumulated amortisation (depreciation) at the end of period	**23,125**	**23,125**	**–**	**407**	**23,532**
j) net value of intangible assets at the beginning of period	**7,354**	**7,354**	**1,282**	**12**	**8,648**
k) net value of intangible assets at the end of period	**7,912**	**7,912**	**826**	**12**	**8,750**

All intangible assets have been covered by a pledge and constitute a hedge on the consortium loan raised in 2010.

11 Intangible assets (continued)

All items of intangible assets belong to CIECH S.A. The most important intangible assets in the Company are:

- Oracle system with a carrying value of PLN 1,419 thousand (including ERP Oracle System with a net book value of PLN 1,127 thousand and an upgrade of the Oracle system with a net book value of PLN 292 thousand) – these items will be amortised over 2 and 5 years respectively.

In the current period, changes in book estimates had no material influence and it is expected that they will not exert significant influence in future periods.

CIECH S.A. does not hold any intangible assets with an indefinite period of use.

Research and development

The Company did not bear any R&D expenditure in the reporting period and in the presented comparative period.

Internally generated intangible assets

The Company does not hold any internally generated intangible assets.

12 Long-term receivables

PLN '000

	31.12.2010	31.12.2009
from subsidiaries	**32,363**	**39,741**
– assignment of debt	32,363	39,741
Net non-current receivables	**32,363**	**39,741**
Gross non-current receivables	**32,363**	**39,741**

13 Long-term borrowings granted

PLN '000	31.12.2010	31.12.2009
in subsidiaries, jointly-controlled entities and affiliates	**525,702**	**401,805**
– borrowings granted	525,702	401,805
Long-term borrowings granted	**525,702**	**401,805**

CHANGE IN LONG-TERM BORROWINGS GRANTED

PLN '000	*31.12.2010*	*31.12.2009*
as at the beginning of period	411,255	556,193
– borrowings granted	411,255	556,193
increases (due to)	586,586	1,340
- borrowings	586,586	1,340
decreases (due to)	472,139	146,278
– borrowings	472,139	146,278
as at the end of period	525,702	411,255
- borrowings granted	525,702	411,255
write-downs	-	(9,450)
as at the end of period net	525,702	401,805

PLN '000

CHANGE OF WRITE-DOWNS ON LONG-TERM BORROWINGS GRANTED	**31.12.2010**	**31.12.2009**
Opening balance	**9,450**	**7,475**
Reclassification	(9,450)	1,975
Closing balance	**-**	**9,450**

13 Long-term borrowings granted (continued)

The item “borrowings granted” includes, among others, a borrowing granted by CIECH S.A. to its subsidiary, Soda Deutschland Ciech GmbH. The repayment terms were laid down in the Subordination Agreement concluded on January 23rd, 2008 between CIECH S.A., its subsidiaries Soda Deutschland Ciech GmbH and Sodawerk Stassfurt GmbH&Co KG, and the bank COMMERZBANK Aktiengesellschaft. The borrowing can be repaid only after Soda Deutschland has repaid its obligations due to Commerzbank.

14 Other long-term investments

PLN ‘000	**31.12.2010**	**31.12.2009**
in subsidiaries, jointly-controlled entities and affiliates	**920,383**	**919,667**
– shares	920,383	919,667
in other entities	15,841	54,551
– shares	-	38,118
– bank deposits	15,841	16,433
Other long-term investments	**936,224**	**974,218**

In compliance with the Sponsor’s Letter of Undertaking of December 10th, 2009 signed by CIECH S.A., Commerzbank AG and Soda Deutschland Ciech GmbH, CIECH S.A. must carry out a SDC share capital raise by EUR 70 million. The assumed source of Soda Deutschland Ciech GmbH recapitalisation will be a partial repayment of a loan granted to SDC by CIECH S.A. (as at December 31st, 2010, the borrowing amounted to approx. EUR 84 million). The final decision regarding the form of Soda Deutschland Ciech GmbH recapitalisation will depend on the analysis of the transaction's tax consequences.
In addition, pursuant to the Sponsor’s Letter of Undertaking, CIECH S.A. is responsible for providing SDC with additional funding amounting to EUR 3.9 million increased by interest, in the form of a capital raise or granting a subordinate borrowing, in order to allow SDC to fulfil their obligations under the agreement regarding the borrowing granted to SDC by Tibor von Wiedenbach. The borrowing together with interest, repaid by SDC in October 2010, equalled EUR 4.116 million.

14 Other long-term investments (continued)

CHANGES IN OTHER LONG-TERM INVESTMENTS

PLN '000	**31.12.2010**	**31.12.2009**
as at the beginning of period	1,051,063	892,707
– shares	1,034,630	876,017
- other	16,433	16,690
increases	23,030	158,765
- shares	23,622	159,022
purchase	7,309	71,252
capital increase	16,313	67,367
positive measurement to fair value	-	20,403
- other	(592)	(257)
decreases (due to)	59,763	409
– shares	59,763	409
sale	38,875	409
transfer of held-for-sale assets	20,888	-
as at the end of period	1,014,330	1,051,063
- shares	998,489	1,034,630
- other	15,841	16,433
write-downs	(78,106)	(76,845)
as at the end of period net	936,224	974,218

PLN '000

CHANGE OF WRITE-DOWNS ON OTHER LONG-TERM INVESTMENTS	**31.12.2010**	**31.12.2009**
Opening balance	**76,845**	**74,400**
Creation	1,261	2,616
Reversed	-	171
Closing balance	**78,106**	**76,845**

Owing to circumstances described in IAS 36, CIECH S.A. conducted tests to evaluate involvement in subsidiaries. Value in use calculated based on the models in effect in the Ciech Capital Group was applied as recoverable value. Value in use was calculated based on five-year plans compiled by subsidiaries. Financial projections included investments connected with the company's going concern status. Average weighted capital cost after tax, between 10.9% and 11.3% (for the residual period, capital cost amounts to 10.9%), was applied for a domestic company. The applied growth rate for the residual period was 3%.
Based on the result of the test conducted for the Polish company, CIECH S.A.'s Management Board decided to create the write-down on Zakłady Chemiczne Alwernia S.A. of PLN 965 thousand.

As at the day of preparing the financial statements, the Company did not own any shares in companies listed on the stock exchange. During the financial year 2010, the Company transferred shares in Zakłady Azotowe Tarnów Mościce, Ciech Service Sp. z o.o. and shares in Polskie Konsorcjum Chemiczne Sp. z o.o. In the comparable period, shares held in listed companies were classified as financial instruments available for sale. The fair value evaluation was recognised under revaluation reserve.
The 'Other' item includes a security of EUR 4,000 thousand which constitutes a hedge on the guarantee granted by Bank Pekao S.A. to the benefit of S.C. CET Govora S.A. The guarantee was established on the demand of CIECH S.A. on January 23rd, 2007, pursuant to an agreement on awarding a guarantee, to hedge the performance of an obligation made by US Govora S.A. and CIECH S.A.

Increase in other long-term investments is mainly due to the increase of value of shares of Soda Deutschland Ciech GmbH and the buyout of employee shares in Zachem S.A. and Organika Sarzyna S.A.
All intangible assets recognised as other long-term investments constitute a hedge on the consortium loan raised in 2010.

15 Inventories

PLN '000

	31.12.2010	31.12.2009
Goods (carrying value)	28,704	26,313
Total inventories	**28,704**	**26,313**
Inventory at the fair value decreased by sales costs	28,704	26,313
Value of restricted availability inventory (pledge)	28,704	-

The value of inventories recognised as costs in 2010 was PLN 1,911,471 thousand (PLN 1,565,935 thousand in the comparative period).

PLN '000

CHANGE OF INVENTORY WRITE-DOWNS	31.12.2010	31.12.2009
Opening balance	**169**	**142**
Created	357	128
Reversed	15	101
Closing balance	**511**	**169**

Write-downs on inventory were created in conjunction with impairment due to the damage and for slow moving inventory. Their reversal occurred as a result of the use or sales of inventory in the course of business activity.

16 Trade and other receivables

PLN '000

CURRENT RECEIVABLES

	31.12.2010	31.12.2009
a) from related entities	**55,214**	**45,293**
a1) trade receivables, with repayment period	43,974	35,008
– up to 12 months (net value)	43,974	35,008
a2) other receivables	11,240	10,285
assignment of receivables	8,379	8,692
other	2,861	1,593
b) receivables from other entities	**304,684**	**310,007**
b1) trade receivables, with repayment period	225,198	241,644
– up to 12 months (net value)	225,198	241,644
b2.1) other receivables (net)	15,102	2,262
b2.2) prepayments, including:	2,311	3,943
– taxes and fees	575	-
– outsourced services	1,448	3,614
– other	288	329
b3) due to subsidies, customs duties, social security and health insurance and other benefits (net value)	62,073	62,158
Total net current receivables	**359,898**	**355,300**
write-down on receivables	31,738	25,100
Total gross short-term receivables	**391,636**	**380,400**

PLN '000

CHANGE OF WRITE-DOWNS ON CURRENT RECEIVABLES	31.12.2010	31.12.2009
Opening balance	**25,100**	**44,151**
Creation	8,405	1,760
Reversed	251	239
Utilization	1,497	20,671
FX differences	(19)	99
Closing balance	**31,738**	**25,100**

16 Trade and other receivables (continued)

Allowances for doubtful accounts from related entities amounted to:

- PLN 7,905 thousand as at December 31st, 2010,
- PLN 788 thousand as at December 31st, 2009,

Write-downs on current receivables were created for negotiated, disputed, interest, past due and doubtful receivables and for receivables from companies in bankruptcy. Their reversal occurred as a result of receivables payment and their use was the result of writing-off the receivables due to ineffective enforcement and bankruptcy of companies on whose receivables the write-downs were created.

PLN '000

PAST DUE TRADE RECEIVABLES, INCLUDING OUTSTANDING RECEIVABLES	31.12.2010	31.12.2009
Up to 1 month	14,754	28,690
Between 1 and 3 months	3,289	257
3 to 6 months	284	326
6 months to 1 year	1,189	991
Above 1 year	12,281	11,988
Total (gross) past due trade receivables	**31,797**	**42,252**
Write-downs on past due trade receivables	13,479	12,748
Total (net) past due trade receivables	**18,318**	**29,504**

Terms of transactions with related entities have been presented in section 0 of notes and explanations to the financial statements.

Commercial contracts concluded by CIECH S.A. provide for various terms of payment of trade receivables, depending on the type of transaction, market characteristics and commercial conditions. The most common payment terms are: 14, 30, 60 and 90 days.

17 Current investments – borrowings granted

PLN '000

CURRENT INVESTMENTS – BORROWINGS GRANTED	31.12.2010	31.12.2009
in subsidiaries	**334,308**	**87,883**
– borrowings granted	334,308	87,883
Total net current financial assets	**334,308**	**87,883**
– write-downs on borrowings granted	221,791	196,673
Total gross current financial assets	**556,099**	**284,556**

PLN '000

CHANGE OF WRITE-DOWNS ON CURRENT INVESTMENTS	31.12.2010	31.12.2009
Opening balance	**196,673**	**59,017**
Creation	19,023	139,631
Reversed	200	-
Utilization	3,155	-
Reclassification	9,450	(1,975)
Closing balance	**221,791**	**196,673**

Owing to circumstances described in IAS 36, in 2010, CIECH S.A. conducted tests to evaluate involvement in subsidiaries. Value in use calculated based on the models in effect in the Ciech Capital Group was applied as recoverable value. Value in use was calculated based on five-year plans compiled by subsidiaries. Financial projections included investments connected with the company's going concern status. Average weighted capital cost after tax amounting to 14.69% was applied for the company operating in the Romanian market.
Based on the result of the test conducted for the Romanian company, CIECH S.A.'s Management Board decided to create the write-down of PLN 15,600 thousand. The applied growth rate for the residual period was 3%.

17 Current investments – borrowings granted (continued)

The item "borrowings granted" includes an advance on the delivery of goods granted to a subsidiary, S.C. Uzinele Sodice Govora – CIECH CHEMICAL GROUP S.A., which constitutes a type of borrowing since it has not been realised. The advance will be subject to a write-down.

18 Cash and cash equivalents

PLN '000

CASH AND CASH EQUIVALENTS	31.12.2010	31.12.2009
Bank accounts	10,080	768
Short-term deposits	24,945	45,623
Cash in hand	106	54
Cash and cash equivalents, value in the balance sheet	**35,131**	**46,445**
Cash and cash equivalents, value in the cash flow statement	**35,131**	**46,445**

In accordance with the consortium loan agreement provisions, CIECH S.A. had to open Debt Servicing Provision Accounts in two banks beings parties to the agreement. Funds collected in those accounts hedge payments resulting from the concluded agreement and other financing documents connected with this agreement. As at the day of drawing up the financial statements, the balance of the two accounts was PLN 8,053 thousand.

19 Capitals

Initial capital

SHARE CAPITAL

	31.12.2010	31.12.2009
Number of shares	28,000,000	28,000,000
Carrying value	164,115	164,115

Initial capital	31.12.2010	31.12.2009
	pcs.	*pcs.*
Ordinary bearer A series shares of the face value of PLN 5 each	20,816	20,816
Ordinary bearer B series shares of the face value of PLN 5 each	19,775,200	19,775,200
Ordinary bearer C series shares of the face value of PLN 5 each	8,203,984	8,203,984
Total	**28,000,000**	**28,000,000**

The shares of all series are ordinary shares and are not accompanied by any additional rights, privileges or restrictions as to dividend distribution or capital return.
Share capital has been paid in full.

Share premium
Share premium resulted from the surplus achieved upon the issue of C series shares above their face value.

Own shares
The Company did not hold any equity shares in the presented periods.

Other reserve capitals
The table below presents the balances of other reserve capitals, consisting of the following items:

PLN '000

OTHER RESERVE CAPITALS (BY PURPOSE)

	31.12.2010	31.12.2009
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development fund	57,669	57,669
Other reserve capitals	**76,199**	**76,199**

19 Capitals (continued)

PLN '000

REVALUATION RESERVE

	31.12.2010	31.12.2009
Opening balance	(9,559)	(26,159)
a – increases	9,559	16,600
measurement of long-term investments	9,559	16,600
Carrying value – closing balance	**-**	**(9,559)**

PLN '000

CAPITAL DUE TO HEDGE ACCOUNTING

	31.12.2010	31.12.2009
Opening balance	36,913	-
a – increases	-	36,913
measurement of financial instruments	-	39,913
b – decreases	30,719	-
measurement of financial instruments	30,719	-
Carrying value – closing balance	**6,194**	**36,913**

Capital structure management

CIECH S.A. manages its capital in order to ensure that its businesses are able to continue their activity and at the same time maximise profitability for stakeholders by optimising the debt to equity ratio. In the fourth quarter of 2010, negotiation with the bank consortium and EBRD aimed at improvement of debt term structure (prolongation of loan maturity) were in progress. The new loan agreement effective until March 2016 was signed on February 10th, 2011.

CIECH S.A.'s capital structure includes debt composed of loans and bonds, disclosed under sections 20 and 23, cash and cash equivalents as well as issued shares, reserve capital and profit received, as disclosed in this section.

19 Capitals (continued)

Tax effect of every component of CIECH S.A.'s Comprehensive Income

	01.01.-31.12.2010			01.01.-31.12.2009		
PLN '000	**Before tax**	**Tax**	**Net after tax**	**Before tax**	**Tax**	**Net after tax**
Revaluation of available-for-sale financial assets	11,802	(2,243)	9,559	20,494	(3,894)	16,600
Cash flow hedging	(37,925)	7,206	(30,719)	45,572	(8,659)	36,913
Other net comprehensive income	**(26,123)**	**4,963**	**(21,160)**	**66,066**	**(12,553)**	**53,513**

Other gross comprehensive income	change in the period	**01.01-31.12.2010**	change in the period	**01.01-31.12.2009**
Revaluation of available-for-sale financial assets	-	11,802	-	20,494
- measurement at fair value in the period	11,802	-	20,494	-
- reclassification adjustment of profit presented in the income statement	-	-	-	-
Cash flow hedging	-	(37,925)	-	45,572
- measurement at fair value in the period	15,622		83,311	
- reclassification adjustment of profit/loss presented in the income statement	(53,547)		(37,739)	
Income tax attributable to other components of comprehensive income	-	4,963	-	(12,553)
- for the current period	(5,211)		(19,723)	
- reclassification adjustment to the income statement	10,174	-	7,170	-
Other net comprehensive income		(21,160)		53,513

20 Non-current liabilities due to loans, borrowings and other debt instruments

PLN '000

NON-CURRENT LIABILITIES	31.12.2010	31.12.2009
Liabilities due to loans, borrowings and other debt instruments	**299,936**	**426,196**
Liabilities due to loans and borrowings	–	126,327
Issue of debt securities	299,936	299,869
Other non-current liabilities	**33,170**	**57,406**
Liabilities due to assignment of claims	33,170	40,914
Liabilities due to financial instruments	–	16,492
Total	**333,106**	**483,602**

PLN '000

Non-current liabilities with the remaining repayment period calculated from the balance sheet date	31.12.2010	31.12.2009
Between 1 and 3 years	13,592	376,936
Between 3 and 5 years	319,514	106,666
Total	**333,106**	**483,602**

Non-current liabilities due to loans and borrowings

PLN '000

Currency – type and amount of interest	Total 31.12.2009	between 1 and 2 years	between 2 and 5 years	over 5 years
Bank Pekao S.A., 3M WIBOR+bank's margin				
Bank Handlowy S.A., 3M WIBOR+bank's margin	126,327	16,723	109,604	–
Bank Millennium S.A., 3M WIBOR+bank's margin				
Total	**126,327**	**16,723**	**109,604**	**–**

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

20.1 Information on CIECH S.A.'s financial position

1. Profitability in 2010

Operating profitability ratios for 2010 deteriorated in comparison with the same period of the previous year. Return on sales decreased in comparison to the previous year, which most importantly resulted from dropping margins in the soda segment. This was due to very low, in the last 4 years' perspective, prices of soda ash on European markets (approx. 30% lower compared to record prices in the first quarter of 2009); with a simultaneous increase in production costs. By contrast, there was a positive impact of the agro-chemical segment results – throughout 2009 the market of fertilizers was facing very low demand from agricultural producers and low prices on the global markets in comparison with the record-breaking ones in 2008. 2010 saw an upturn on world and European markets concerning prices of artificial fertilizers based on phosphorus (compared to 2009). Dropping return ratios also resulted from an uptrend in oil prices on the level of the whole of 2010, which resulted in an increase or a suppliers' pressure to increase prices of raw materials for the organic industry.

At the same time, net return ratios improved, mainly owing to the result of sale of the investment property in Powązkowska Street and the shares in a subsidiary – Ciech Service Sp. z o.o. The net result for 2010 was negatively influenced by debt servicing costs and negative balance of FX differences. The fact of selling shares in Zakłady Azotowe Tarnów S.A. also had a negative impact on the result.

The table presents the return ratios:

Return ratios of CIECH S.A.

Item	Jan – Dec, 2010	Jan – Dec, 2009
Gross return on sales	14.0%	17.6%
Return on sales	5.6%	8.6%
Operating profit margin	6.0%	7.7%
EBITDA profitability	6.2%	8.1%
Net return on sales (ROS)	(0.2)%	(6.6)%
Return on assets (ROA)	(0.2)%	(6.4)%
Return on equity (ROE)	(1.0)%	(24.3)%

CIECH S.A.'s return ratios

Calculation principles:
gross return on sales *– gross sales profit for a given period / net sales of products, services, goods and materials,*
return on sales *– sales profit for a given period / net sales of products, services, goods and materials,*
operating profit margin *– operating profit for a given period / net sales of products, services, goods and materials,*
return on sales (ROS) *– net profit for a given period / net sales of products, services, goods and materials,*
return on assets (ROA) *– net profit / total assets at the end of a given period,*
return on equity (ROE) *– net profit / total equity at the end of a given period.*

2. Liquidity of CIECH S.A. and working capital

Liquidity ratios of CIECH S.A.

Item	31.12.2010	31.12.2009
Current ratio	0.56	0.53
Quick ratio	0.55	0.51

Calculation principles:
current ratio *– current assets / current liabilities at the end of a given period; measure of company's capability to cover its current liabilities with current assets.*
quick ratio *– current assets less inventory / current liabilities at the end of a given period; measure of a company's capability to collect in a short period of time cash for the coverage of materially due liabilities.*

Liquidity ratios as at the end of 2010 improved up to the level as at the end of 2009, however, current liquidity ratios remain below 1. This is caused by the financing structure (large share

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

0 20.1 Information on CIECH S.A.'s financial position (continued)

of short-term loans), nevertheless, this does not threaten liquidity. having entered into a new long-term loan agreement, on February 10th, 2011, the company considerably improved its financial stability and liquidity.

In 2010, CIECH S.A. generated positive free cash flows, i.e. it was able to finance its investment expenditure with cash flows created within its operating and divestment activities. The change in working capital in 2010 brought an increase in cash by PLN 59,403 thousand, compared to PLN 82,839 thousand in 2009 – the increase in liabilities for 2010 was lower than in 2009. Expenditure relating to investment activity was significantly lower in 2010 than in 2009 and referred to purchase of shares in subsidiaries "Organika Sarzyna" S.A. (PLN 4,805 thousand), Zachem S.A. (PLN 2,504 thousand) and capital raise in Soda Deutschland Ciech GmbH (PLN 16,063 thousand). In 2010, the Company generated positive operating cash flows both from operating and investment activities.

Ability to generate cash flows

Item	31.12.2010	31.12.2009
Financial surplus (net profit + amortisation)	(275)	(119,541)
Other net profit adjustments	(27,120)	102,735
Adjusted financial surplus	**(27,395)**	**(16,806)**
Change in working capital	**59,403**	**82,839**
Cash flows from operating activities	32,008	66,033
Cash flows from investment activities	14,251	(106,776)
Free cash flows	**45,259**	**(40,743)**

The working capital, defined as the difference between current assets and current liabilities adjusted by appropriate balance sheet items (cash and short-term loans), as at the end of December 2010 remained negative and amounted to PLN (697,295) thousand, which is a decrease by PLN 243,929 thousand compared to the end of 2009. Undertaken restructuring activities and conclusion of a new loan agreement will considerably improve the net balance of cash.

CIECH's working capital

Item	31.12.2010	31.12.2009
1. Current assets, including:	901,567	521,169
Inventories	*28,704*	*26,313*
Trade receivables	*269,174*	*276,652*
2. Cash and other short-term investments	369,439	134,328
3. Adjusted current assets (1-2)	532,128	386,841
4. Current liabilities, including:	1,598,862	974,535
Trade liabilities	*405,557*	*351,146*
5. Short-term loans and other financial liabilities	1,167,117	601,223*
6. Adjusted current liabilities (4-5)	431,745	373,312
7. Working capital (1-4)	(697,295)	(453,366)
8. Demand for current assets (3-6)	100,383	13,529
9. Net cash (7-8)	(797,678)	(466,895)

*the item includes liabilities on option revaluation

3. Indebtedness

Acquisitions in 2006 and 2007 which led to an increase in CIECH S.A.'s assets were financed through an investment loan and bonds issue. Additionally, the investments made in 2008 were financed with a short-term loan. These actions contributed to an increase in the debt ratio in the following years.
The debt rate increased from 73.8% to 79.8%. The term structure of financing (non-current liabilities as at the end of December 2010 constituted 13.8% of total assets) deteriorated in comparison with the situation as at December 2009, however, the relative net debt level (net financial liabilities recognised under EBITDA) deteriorated.

Following the conclusion of a new loan agreement in February 2011, the CIECH S.A.' debt structure will improve to the benefit of long-term loans.

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

0 20.1 Information on CIECH S.A.'s financial position (continued)

Debt ratios of CIECH S.A.

Item	31.12.2010	31.12.2009
Debt ratio	79.8%	73.8%
Long-term debt ratio	13.8%	24.6%
Debt to equity ratio	393.9%	282.3%
Equity to assets ratio	20.2%	26.2%
Net debt/EBITDA (annual)	10.35	5.59

Calculation principles:
debt ratio *– current and non-current liabilities / total assets; measure of the share of external funds in financing a company's activity.*
long-term debt to equity ratio *– non-current liabilities / total assets; measure of the share of non-current liabilities in financing a company's activity.*
debt to equity ratio *– total liabilities / equity.*
equity to assets ratio *– equity / total assets; measure of the share of equity in financing a company's activity.*
Net debt *– liabilities from loans and borrowings raised and other debt securities less cash and cash equivalents.*

Information about the ratios included in loan agreements

No loan agreement was called to maturity and there were no deadlines of repaying capital or interest due to financial liabilities recognised in the balance sheet were violated in the period covered by this statement.

As at September 30th, 2010, there was one case of violation of the Loan Agreement of April 26th, 2010, resulting from exceeding the level of financial leverage ratio (consolidated comprehensive net debt/ consolidated EBITDA). The ratio level was 6.11 against 6.0 stipulated in the Loan Agreement of April 26th, 2010. On November 23rd, 2010, the Company applied to lenders to waive the right to claim agreement violation. Exceeding of the ratio level was accepted by lenders on December 24th, 2010.

According to Company's calculations, the required interest coverage ratio was achieved (consolidated EBITDA/ consolidated net financial expenses) as at December 31st, 2010. The ratio level calculated by the Company was 2.43 compared to the level required in the Loan Agreement – 2.75.

On December 14th, 2010, the Company applied to banks to change the required ratio levels (including the interest coverage ratio) as at December 31st, 2010. The application was approved by lenders on January 27th, 2011. The ratio levels stipulated by lenders, on the basis of Company's calculations, have been met.

4. Debt refinancing

On April 26th, 2010, a loan agreement was signed between CIECH S.A., being the borrower, and its subsidiaries, being the guarantors (Agrochem sp. z o.o., with its registered office in Człuchów, Agrochem sp. z o.o., with its registered office in Dobre Miasto, JZS Janikosoda S.A., IZCh Soda Mątwy S.A., Soda Polska CIECH sp. z o.o., ZCh Alwernia S.A., Przedsiębiorstwo Chemiczne Cheman S.A., GZNF Fosfory sp. z o.o., ZCh Organika Sarzyna S.A., Polfa sp. z o.o., CIECH Service sp. z o.o., Vitrosilicon S.A., Transclean sp. z o.o. and ZCh Zachem S.A. – later referred to as the "Companies), and a bank consortium (Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Bank Millennium S.A. and DNB Nord Polska S.A. – later referred to as "Organising Banks"). On June 15th, 2010, S.C. US Govora – Ciech Chemical Group S.A. joined the agreement as a guarantor and borrower – later referred to as the "Company".
Signing of the aforementioned agreement was followed by further steps necessary to fulfil conditions precedent to the agreement and repayment of the loan, including:

- on May 17th, an agreement between creditors was signed stipulating the order of repayment to banks participating in the agreement between creditors. The bank also undertook to prolong the maturity of existing financing to August 24th, 2010 at the latest. Pursuant to this agreement, companies participating in the agreement granted sureties for liabilities of CIECH S.A. and S.C. US Govora – Ciech Chemical Group S.A. on account of future bilateral loan agreements; the document established the principles of establishing guarantees to the benefit of the following banks: BNP Paribas S.A., Credit Agricole CIB S.A. and Fortis Bank Polska S.A.

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

0 20.1 Information on CIECH S.A.'s financial position (continued)

- on June 14th bilateral loan agreements were signed with the following banks: BNP Paribas S.A., Credit Agricole CIB S.A. and Fortis Bank Polska S.A. for a total amount equivalent to approx. PLN 42 million.
- on June 15-17th guarantees, described below, required in accordance with the loan agreement and the agreement between creditors were established.
- Organising Banks approved of the Ciech Group's restructuring plan approved by the CIECH S.A. Management Board on August 4th, 2010.

On August 17th, the loan agent confirmed the fulfilment of conditions precedent to the agreement, the loan and refinancing of all loans previously granted to Ciech Group companies (excluding German companies) was released on August 24th and 25th, 2010.

The completed debt consolidation had a positive impact on Group's liquidity and ensures stable financing throughout the implementation of the target long-term financing which shall be available pursuant to a new loan agreement entered into on February 10th, 2011 and discussed on Current Report no. 12/2011

Loan amount and tranches:
The total released and used amount of loans is equal to the equivalent of approx. PLN 1,288 million (calculated at the currency exchange rate of August 25th, 2010).
The loan was released in the form of a fixed-term tranche of approx. PLN 1,210 million, renewable credit of PLN 30 million and guarantees of EUR 11.7 million.
The amount of fixed-term loan repaid until the publication of this statement is the equivalent of approx. PLN 155.2 million, decrease of the available renewable loan by approx. PLN 6.1 million and (in January 2011), the amount of guarantee was reduced to approx. EUR 9.6 million.

Loan interest rate conditions:
Variable interest rate based on WIBOR / EURIBOR plus margin; the margin is different for each tranche, it is variable and depends on the ratio of net debt.
Main terms of loan repayment:

- reduction of loans by a total of PLN 400,000 thousand (including quarterly amortisation and early loan repayment) by March 31st, 2011,
- obligatory early repayment of loans is required under the following circumstances:
  - change of control – occurring in the following circumstances: (i) State Treasury no longer holds at least 10,270,800 of CIECH S.A.'s shares, (ii) party other than State Treasury becomes CIECH S.A.'s largest shareholder and holds at least 50% of the issued share capital of CIECH S.A., or (iii) party other than State Treasury or a group of parties acting jointly gain control over CIECH S.A., subject that a change in control approved by a majority of Organising Banks laid down in the agreement or the fulfilment of additional conditions, such as the required level of debt, do not incur the obligation to repay the loans earlier;
  - share capital increase; earlier repayment of loans amounting to funds obtained from public offering or other share capital increase in CIECH S.A. or in other Material Members of the CIECH Group (i.e. guarantors, selected CIECH Group's companies and CIECH Group's companies consolidated with a net asset value exceeding PLN 25,000 thousand), subject that after the repayment of PLN 400,000 thousand this obligation depends on the net debt ratio and, depending on the individual circumstances, may pertain to 100%, 50% or 0% of the funds obtained in the manner described above; on January 20th, 2011, bank consortium participants approved a solution stipulating that proceeds from the performed issuance of shares with subscription right – in the scope in which these funds are not necessary to repay the amount of PLN 400,000 thousand less approx. PLN 155.2 million (i.e. an amount allocated earlier by CIECH S.A. for the repayment or early repayment of loans) due on March 31st, 2011 – will not be used for the obligatory early repayment of loans;
  - surplus of cash flows – if any quarterly financial statements of Ciech Group, beginning from statements for the period ending on March 31st, 2011, discloses a surplus of cash flows (i.e. surplus of consolidated cash flows over cash flow linked to debt service) – an earlier repayment of loans shall be due, amounting to at least 75% of such surplus; the first earlier repayment under such circumstances shall be made on June 30th, 2011;
  - disposal of assets, sale of shares by CIECH S.A. and Material Members of the Ciech Group – allocation of 100% of the total net inflows from sales in a given quarter to earlier repayment of loans (except for specific circumstances

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

0 20.1 Information on CIECH S.A.'s financial position (continued)

laid down in the agreement); on January 20th, 2011, bank consortium participants approved a solution stipulating that proceeds from the performed sale of shares in GZNF Fosfory Sp. z o.o. – in the scope in which these funds are not necessary to repay the amount of PLN 400,000 thousand less approx. PLN 155.2 million (i.e. an amount allocated earlier by CIECH S.A. for the repayment or early repayment of loans) due on March 31st, 2011 – will not be used for the obligatory early repayment of loans;

- o significant inflows under any insurance policy due to loss or damage of assets or business property;
- o disposal and sale and lease back of assets of CIECH S.A. and of Material Members of the Ciech Group, depending on the circumstances, may pertain to 100% or 75% of the funds obtained in such a manner;
- o illegality on part of the lenders;

– total one-off repayment of the due loan amounts shall be made 20 months from signing the agreement (i.e. on December 26th, 2011).

Loan collateral:

- mortgages established on the Companies' and CIECH S.A.'s property,
- pledge established on the Companies' and CIECH S.A.'s business,
- assignment of rights under insurance policies issued for assets which are the collateral,
- financial pledges on the bank accounts of Companies and CIECH S.A.
- financial pledges on certain blocked bank accounts of Material Members of the Group (except Soda Deutschland Ciech Group),
- financial pledge and registered pledge on the Companies' shares and on the shares of Soda Deutschland Ciech GmbH's,
- sureties granted by the Companies and CIECH S.A.,
- companies' and CIECH S.A.'s declaration on submission to enforcement,
- contingent assignments of rights under material commercial contracts of the Companies and CIECH S.A.,
- contingent transfer of ownership of all Companies' and CIECH S.A.'s movable assets,
- contingent assignments of rights under in-group borrowings which are used to distribute the funds obtained from the loans to the Companies,
- power of attorney to access the Companies' and CIECH S.A.'s bank accounts,

Significant contractual provisions

CIECH S.A. and the Companies made the following obligations:

- to maintain their financial ratios at levels laid down in the agreement; the ratios are measured for the Ciech Group, excluding Soda Deutschland Ciech Group, and tested quarterly:
  - o debt to operating results ratio (total consolidated net debt to consolidated EBITDA),
  - o balance sheet debt ratio (consolidated total net debt to consolidated net fixed assets),
  - o interest coverage ratio (consolidated EBITDA to consolidated net financial costs),
  - o guarantors' coverage ratio (guarantors' gross turnover and assets to Ciech Group's gross turnover and assets, except Soda Deutschland Ciech Group),
- not to establish new collateral, except for those specified in the agreement of authorised collateral,
- not to make use of the assets, except for allowed dispositions specified in the agreement (including the sale of a specific catalogue of assets held for sale and dispositions provided for in the Group's business plan and restructuring plan),
- not to announce or perform any dividend payout, except for the companies in which CIECH S.A. holds at least 75% direct or indirect control and ZCh Alwernia S.A.,
- not to incur financial debt, except for the allowed financial debt,
- limit capital expenditures to the level and extent provided in the agreement,
- establish registered pledges on individual items of CIECH S.A.'s and the Companies' property whose value exceeds PLN 5,000 thousand according to the dates and circumstances provided in the agreement,
- not to conclude derivative transactions, except for the transactions approved by the agreement of hedge transactions, and
- to appoint a restructuring adviser and present a restructuring plan for the Ciech Group within 10 weeks from signing the loan agreement.

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

0 20.1 Information on CIECH S.A.'s financial position (continued)

The possibility of fulfilment of the loan agreement terms
In accordance with the effective consortium loan agreement, CIECH S.A. was required to reduce debt by PLN 400 million by the end of March 2011. The required repayment of debt was financed from the following sources:

- sale of a 6.54% block of shares of ZAT S.A. (amount allocated for debt repayment: approx. PLN 21.5 million),
- sale of a 100% of shares of Ciech Service S.A. (amount allocated for debt repayment: approx. PLN 3.1 million),
- sale of a 45.42% block of shares of PTU S.A. (amount allocated for debt repayment: approx. PLN 106.8 million),
- sale of the right of the perpetual usufruct of a developed property located at Powązkowska 46/50 (amount allocated for debt repayment: approx. PLN 23.8 million),
- funds from public issuance – approx. PLN 244.8 million.

The Management Board of CIECH S.A. expects that the PLN 842 million of the outstanding debt on the consortium loan will be refinanced with funds from loans to be released pursuant to a new loan agreement signed on February 10th, 2011, as discussed in Current Report No. 12/2011.

The following loan will be released pursuant to the new loan agreement:

1. a dual currency refinance fixed-term loan in PLN and EUR in a total amount of PLN 739 million, in order to refinance debt following from the aforementioned loan agreement of April 26th, 2010,

2. a multi currency revolving (renewable) loan (also available in the form of guarantees and letters of credit) on a total amount of PLN 100 million granted by commercial banks in order to refinance debt following from the loan agreement of April 26th, 2010, to finance liquidity needs (including granting in-group borrowings) and to obtain guarantees and letters of credit by the Ciech Group;

3. an additional guarantee line amounting to EUR 9.6 million granted to the benefit of S.C. CET Govora S.A. by Bank Polska Kasa Opieki S.A.;

4. a fixed-term investment loan in EUR on an equivalent of PLN 300 million granted by the European Bank for Reconstruction and Development (EBRD) in order to finance and refinance capital expenditure of the Ciech Group within an investment programme, subject to a required own contribution of at least 40% of financed or refinanced capital expenditure borne since the day of signing the loan agreement. The investment loan will be available for release between September 1st, 2012 and November 30th, 2012.

The conditions precedent to the release of funds from loans include: (i) CIECH S.A. and Companies obtaining all required corporate approvals, (ii) Govora acceding to the loan agreement, (iii) EBRD acceding to the loan agreement, having obtained approval of the EBRD Board of Directors and accepted the provisions of the loan agreement (which occurred on February 15th, 2011); (iv) CIECH S.A. completing the issuance of shares with subscription right, in accordance with the resolution of the General Meeting of October 28th, 2010 (which occurred on March, 21st, 2011), (v) reduction of debt in accordance with the loan agreement of April 26th, 2010 (which occurred on March, 18th, 2011); and (vi) establishment of hedges.

At the earliest, the refinance and revolving loans and the additional guarantee line shall be made available after 2 months from signing documents which establish hedges and submission of applications for the registration of hedges with the respective records and land and mortgage registers as well as submission of a compliance certificate confirming that financial ratios after Q2 2011 were met.

5. Restructuring plan of CIECH S.A. and the Ciech Capital Group

On August 4th, 2010, CIECH S.A. decided to approve a restructuring plan for CIECH S.A. and key related companies of CIECH S.A. for years 2010-2015, having conducted analyses and discussed recommendations regarding undertaking restructuring activities which were presented in an appropriate document prepared by PwC Polska S.A. The approval of the Restructuring Plan results from the fulfilment of obligations resting with CIECH S.A. on account of entering into the Loan Agreement of April 26th, 2010 and the agreement with creditors of May 17th, 2010. The Restructuring Plan received a positive opinion of the Company's Supervisory Board, the resolution was passed on August 4th, 2010.

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

0 20.1 Information on CIECH S.A.'s financial position (continued)

The Restructuring Plan assumes an implementation in years 2010-2015 of restructuring initiatives (activities) aimed at improving the financial situation of CIECH S.A. and increasing its capacity to repay the debt and to develop its activities. The initiatives were divided into the quantified, whose effect was recognised in an appropriate financial model, and others, whose effect could not currently be quantified (and whose implementation may constitute an additional source of revenue and savings).

Within the initiatives described in the financial model, the Restructuring Plan covers:

1) sale of all shares of the Group's basic companies, i.e. VITROSILICON Spółka Akcyjna, „Alwernia" S.A., GZNF „FOSFORY" Sp. z o.o. – in order to solicit cash and withdraw from markets which are not strategic from the Group's point of view (within 32 months);

2) sale of shares in 8 non-basic companies, i.e. PTU S.A., Zakłady Azotowe Tarnów, S.A. Transoda Sp. z o. o., Transclean Sp. z o.o. (project completion), Polfa Sp. z o.o. (and Polfa Hungaria), ELZAB S.A., Ciech Service Sp. z o.o. and Polskie Konsorcjum Chemiczne Sp. z o.o., in order to solicit cash, decrease funds involved in ownership supervision and increase the Group's transparency for investors (within 12 months);

3) sale of selected organised parts of ZACHEM S.A., having analysed the future production profitability and the economic effects of the decision, in order to solicit cash and withdraw from markets which are not strategic from the Group's point of view (within 18 months);

4) termination of activity and liquidation of selected production lines in ZACHEM S.A., GZNF "Fosfory" Sp. z o.o. and Soda Polska Ciech Sp. z o.o., having analysed future profitability and economic consequences of the decision, in order to eliminate unprofitable production line and limit operating loss resulting from their activity (within 14 months);

5) sale of a part of main operating property, not used in the Group's basic activity, including the estate at Powązkowska 46/50 in Warsaw, in order to solicit cash, decrease property maintenance costs and cost of employees involved in property management as well as achieving property expenditure efficiency in connection with adjusting the structure of owned assets to the basic activity (within 8 to 30 months);

6) restructuring of employment in GZNF "Fosfory" Sp. z o.o., ZACHEM S.A., Soda Polska Ciech Sp. z o.o., VITROSILICON Spółka Akcyjna and Uzinele Sodice Govora as well as at the Group level, in order to limit and adjust the level of employment to the new structure and optimise operating costs (within 8 to 32 months);

7) sale of other redundant assets and property rights in Soda Polska Ciech Sp. z o.o., Uzinele Sodice Govora and VITROSILICON Spółka Akcyjna in order to solicit cash (within 12 to 24 months);

8) tax optimisation connected mainly with recovery of civil law transaction tax and VAT settlement in Soda Polska Ciech Sp. z o.o., VITROSILICON Spółka Akcyjna and Z.Ch. "Organika-Sarzyna" S.A.

9) optimisation of investment expenditure, including:
   a) verification of the investment schedule for the MCPA substance production facility in Z.Ch. "Organika-Sarzyna" S.A. in order to spread investment expenditure on the non-production part of the facility over time (within 36 months);
   b) postponement of the investment schedule regarding the project of electrolysis conversion from diaphragm to membrane by 2010 in ZACHEM S.A. in order to release cash while retaining investment obligations and production continuity (within 60 months).

Within the initiatives not described in the financial model, the Restructuring Plan covers:

1) preparation and realisation of sale of shares of small, not basic companies within ZACHEM S.A. (8 companies), Z.Ch. "Organika-Sarzyna" S.A. (9 companies) and Cheman S.A., owned by Ciech Finance Sp. z o.o., in order to solicit cash, decrease resources involvement in ownership supervision, decrease the risk of involving financial resources and increase the Group's transparency for investors (within 14 months);

20 Non-current liabilities due to loans, borrowings and other debt instruments (continued)

0 20.1 Information on CIECH S.A.'s financial position(continued)

2) liquidation of involvement in 48 companies, i.e. beginning six and continuing 30 liquidation processes and monitoring bankruptcy processes and disposal of marginal share blocks in 12 companies in order to decrease the risk of involving financial resources, increase the Group's transparency for investors and decrease resources involvement in ownership supervision (within 60 months);

3) preparation and realisation of sale of other operating property, deemed redundant after a detailed overview of the property portfolio of ZACHEM S.A., Alwernia S.A., Z.Ch. „Organika-Sarzyna" S.A., Soda Deutschland Ciech, Uzinele Sodice Govora and Ciech Finance Sp. z o.o., in order to solicit cash, decrease property maintenance costs and cost of employees involved in property management as well as achieving property expenditure efficiency in connection with adjusting the structure of owned assets to the basic activity (within 8 to 60 months);

4) preparation and implementation of short-term recovery plans for Uzinele Sodice Govora and ZACHEM S.A. (due to the financial position of the companies and prolonged restructuring process), in order to gain durable positive EBITDA, among other, through maximisation of cost reduction and property management efficiency (within 12 months);

5) optimisation and adjustment of employment in the Group, including employment optimisation in the area of support, having completed restructuring initiatives and determined the target organisational shape of the Group (within 36 months);

6) decrease of net working capital in selected companies in the Group, i.e. improvement of working capital management, in order to improve Group's liquidity and raise funds for supplementary financing of companies (within 6 to 9 months);

7) optimisation of purchase conditions, i.e. prices and contracts with Group's key suppliers and in key purchase categories, in order to obtain expenditure savings through consolidation of contracts with particular suppliers within the Group, consolidation of volumes within main purchase categories in the Group and optimisation of trade conditions of selected agreements (within 6 to 21 months).
The total amount of net revenue and savings which could be obtained on account of carrying out restructuring initiatives presented in the Restructuring Plan is estimated at approx. PLN 600 million.

SUMMARY
The following information regarding: low levels of profitability, liquidity ratios, negative working capital (expressed as a difference between total current assets and current liabilities, i.e. including short-term debt) reached in 2010 and in the comparable period as well as risk resulting from the provisions of the currently effective Loan Agreement (including significant encumbrance of assets on account of pledges and sureties stipulated in the concluded agreement) – pertained to a difficult financial condition of CIECH S.A.
Nevertheless, the Management Board of the Company is of the opinion that the approved and implemented Restructuring Plan, conclusion on a new long-term loan agreement on February 10th, 2011, as well as the successful issuance of shares Series "D" in Q1 2011 and additional activities described above significantly improved the financial position of the Capital Group. Described activities ensure stability of the Company's and Group's financing sources, while a consistently implemented Restructuring Plan, focussing on two key divisions and other pro-effective activities will improve results obtained by the Company and the Group, profitability ratios and the level of debt in particular.
Consequently, in the opinion of the Management Board of the Company, the risk connected with threatened continuation of business for CIECH S.A. and its subsidiaries has been reduced. The financial statements include no adjustments which would be necessary in case the assumption of continued activity proved unjustifiable.

21 Provisions

PLN '000 **CHANGE IN THE BALANCE OF OTHER SHORT-TERM PROVISIONS (BY TYPES)**	**31.12.2010**	**31.12.2009**
a) at the beginning of the period	**3,880**	**7,418**
Provision for compensation	3,815	7,418
Provision for liabilities	65	–
b) increases	**4,307**	**3,247**
Provision for compensation	3,444	3,182
Provision for liabilities	863	65
c) utilization	**65**	**2,894**
Provision for compensation	–	2,894
Provision for liabilities	65	–
d) release	**192**	**3,891**
Provision for compensation	192	3,891
e) as at the end of period	**7,930**	**3,880**
Provision for compensation	7,067	3,815
Provision for liabilities	863	65

Provision for compensation

As at December 31st, 2010, the balance of provisions for compensation in the Company's books amounted to PLN 7,067 thousand.
The amount of PLN 3,692 thousand is connected with a potential claim (main amount plus interest liabilities and costs of court proceedings) pertaining to court cases described in section 24.1 of these financial statements. This item also included a provision for the change of management of the property in Powązkowska Street amounting to PLN 3,375 thousand.

The amount of provisions is an estimated value and may be subject to change during realisation.

22 Employee benefits

PLN '000 **CHANGE IN THE BALANCE OF LONG-TERM RETIREMENT AND RELATED BENEFITS PROVISION (BY TYPE)**	**31.12.2010**	**31.12.2009**
a) at the beginning of the period	**1,776**	**1,644**
– provision for retirement and disability benefits	1,776	1,644
b) increases (due to)	**–**	**132**
Change of discount rate	–	132
c) decreases (due to)	**64**	**–**
Release	64	–
d) as at the end of period	**1,712**	**1,776**
– provision for retirement and disability benefits	1,712	1,776

PLN '000 **CHANGE IN THE BALANCE OF SHORT-TERM RETIREMENT AND RELATED BENEFITS PROVISION (BY TYPE)**	**31.12.2010**	**31.12.2009**
a) at the beginning of the period	**126**	**353**
– provision for retirement and disability benefits	126	353
b) increases (due to)	**185**	**73**
Creation	185	–
Change of discount rate	–	73
c) decreases (due to)	**64**	**300**
Use (payment of benefits)	64	275
Release	–	25
d) as at the end of period	**247**	**126**
– provision for retirement and disability benefits	247	126

22 Employee benefits (continued)

Provisions for employee benefits include provisions for retirement and disability gratuities. Employee benefits are measured on the basis of actuarial valuations. Annual financial discount rate at the level of 5.56% was applied in order to calculate the current value of future liabilities due to employee benefits. In accordance with the recommendations included in IAS 19, the applied discount rate is established in the face value. At the same time, future inflation in the amount of 2.5% per annum was taken into account. The estimated nominal growth rate of remunerations is 2.5%.

Staff turnover is established based on historic data, adjusted for employment restructuring plans. CIECH S.A. offers no employee share programmes, retirement benefits and other benefits after termination of employment. Information regarding employee benefits for key management personnel is presented in section 0 of notes and explanations to the financial statements of CIECH S.A.

23 Current liabilities

PLN '000

CURRENT LIABILITIES DUE TO LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS

	31.12.2010	31.12.2009
a) due to subsidiaries	**113,905**	**-**
– loans and borrowings, including:	113,905	-
f) due to other entities	**1,053,212**	**477,957**
– loans and borrowings, including:	1,052,530	477,233
– long-term, under repayment	1,052,530	36,611
– due to issue of debt securities	682	724
TOTAL	**1,167,117**	**477,957**

The terms of transactions with related entities have been presented in section0 of notes and explanations to the financial statements. Trade liabilities are not charged with interest. Commercial contracts concluded by CIECH S.A. provide for various terms of payment of trade liabilities, depending on the type of transaction, market characteristics and commercial conditions. The most common payment terms are: 14, 30, 60 and 90 days.

CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES, TRADE AND OTHER LIABILITIES

PLN '000

	31.12.2010	31.12.2009
a) due to subsidiaries	**367,648**	**335,636**
trade liabilities	**366,669**	**334,967**
– up to 12 months	366,669	327,590
– down payments received for supplies	**-**	7,377
other (by type)	**979**	**669**
– other	979	669
b) due to other entities	**55,920**	**156,936**
other financial liabilities, including:	**-**	**123,266**
– liabilities due to financial instruments	-	123,266
trade liabilities	**38,888**	**16,179**
– up to 12 months	35,886	14,629
– down payments received for supplies	3,002	1,550
other (by type)	**17,032**	**17,491**
– customs duties and social security	1,690	1,182
– provision for holidays	865	881
– provision for employee bonuses	2,177	2,285
– outsourced services	1,168	1,066
– assignment of debt	8,379	8,692
– other	2,753	3,385
TOTAL	**423,568**	**492,572**

24 Off-balance sheet items

24.1 Liabilities of CIECH S.A. (domestic and foreign) claimed in court or arbitration proceedings as at December 31st, 2010

Action by Enapharm

In June 2004, the Liquidator for Enapharm in Algeria filed a claim, which now amounts to USD 222.1 thousand (equivalent of PLN 658.3 thousand), as damages concerning deliveries of expired medications by CIECH S.A. between 1985 and 1991.

According to the claimant, CIECH S.A. did not replace the expired medications which the customer had not sold, in violation of the contract between the parties. CIECH S.A. claims that it was exempt from the replacement provision in light of the claimant failing to make the payments due from its sales of medications on the Algerian market; what is more, CIECH S.A. raised an objection that Enapharm's claims fall under the statute of limitations.

In June 2007, an opinion of a court expert was delivered to CIECH S.A., notifying an increase in the value of the medications subject to complaint to USD 372 thousand (equivalent of PLN 1,102.6 thousand).

The opinion was reviewed by CIECH S.A. for credibility and compliance with the purchase-sales contract. CIECH S.A. questioned the findings of the expert's report on formal and material grounds, claiming that the value of medications as promptly reported by Enapharm in line with the contractual provisions, accounts only for approx. 10% of the amount claimed by Enapharm. In November 2007, the Algerian court announced the judgement in favour of CIECH S.A., in which it rejected the existing expert's report, declaring infringement of laws applicable to civil proceedings. At the same time, the court ordered a new expert opinion to be prepared and appointed a new expert, recommending that a representative of the defendant attends the next examination. In September 2009, Enapharm filed a motion for resumption of proceedings and rejection of the latest expert witness's opinion. On January 31st, 2010, the Court called another expert witness, yet, their personal data was not revealed. The expert witness was appointed on the Court sitting which took place on November 2nd, 2010. The case is pending before the Algerian Court. CIECH S.A. is represented by a local attorney, supervised by a reputable Paris law office. The case is pending.

Provision in the amount of PLN 658 thousand was created in CIECH S.A. for the above liabilities.

CIECH S.A. claims (domestic and foreign)

Claims submitted to court or arbitration proceedings

CIECH S.A. is currently conducting five cases against its trade and other debtors under the Polish civil law for a total of PLN 347 thousand. The Company created a write-down in the full amount.

Claim of Polska Żegluga Morska

On December 31st, 2009, CIECH S.A. received a claim of Polska Żegluga Morska p.p. and Polstream Shipping Company Limited against CIECH S.A. for compensation amounting to USD 582,943, i.e. in accordance with the average currency exchange rate table of the Polish National Bank no. 240/A/NBP/2009 of December 9th – PLN 1,630,258.39.

The claim was based on art. 160 § 3 of the naval code and refers to a compensation allegedly due to the plaintiff on account of CIECH S.A.'s non performance of the entirety of the charter agreement of October 15th, 2007 regarding transport of phosphates to Morocco.

The case is pending before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw. A response to the claim was filed within the deadline set by the court. 3 arbitrators were appointed. Four court hearings were held: on April 15th, May 24th, July 2nd and on September 22nd. 3 witnesses for CIECH S.A. and 1 witness for the plaintiff were heard (the other witness for the plaintiff appeared on neither hearing). The court decided to appoint an expert witness for the case.

The case is conducted by the Law Firm Wybranowski, Nowicki, Łuczak Biuro Prawne from Szczecin which operates on the shipping market. A contingent liability amounting to PLN 1,728 thousand was created on account of this claim.

Claim of AVAS

In 2009, AVAS (a state-owned Romanian privatisation agency) claimed that CIECH S.A. failed to fulfil its information obligations under the Agreement for the purchase of shares in S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. (the Privatisation Agreement) and charged CIECH S.A. with contractual penalties. AVAS filed a petition against Ciech S.A. in the said case. Salans – the legal representative of CIECH S.A. – estimated the probability of accepting AVAS' s charges by a court of first instance (two appeal instances are not taken into account at this stage):

- For CIECH S.A.'s failure to fulfil its information obligations under paragraph 13.2.1 of the Privatisation Agreement with regard to claims incurring potential penalties in USD (USD 376 thousand + USD 10 thousand = USD 386 thousand) – medium to high probability;
- For non-performance of information obligations arising from section 13.11 of the Privatisation Agreement by CIECH S.A. with regard to charges threatened with a penalty of RON 1,669,334.23 – low or medium probability;

24 Off-balance sheet items (continued)

0 24.1 Liabilities of CIECH S.A. (domestic and foreign) claimed in court or arbitration proceedings as at December 31st, 2010(continued)

- For non-performance of information obligations arising from section 15.4 of the Privatisation Agreement by CIECH S.A. with regard to charges threatened with a penalty of RON 1,669,334.23 – after the wording of the claim was changed, medium probability;

At the beginning of October 2010, CIECH S.A. received a decision of the first instance court of 01.10.2010 on the dismissal of all aforementioned claims of AVAS, declaring them as null and void.
AVAS has the right to appeal against this verdict of the first instance court to a court of appeals, second instance, within 15 days after the written substantiation of the first instance court verdict has been issued. Until the end of February this year, parties did not receive the written substantiation of the first instance court verdict.
Considering the above, a possible decision of the court of appeals is not to be expected before the second half of 2011 (the first hearing could take place in the first half of 2011).
The decision of the court of appeals, second instance, may then be challenged in the supreme court (third instance).
Provision in the amount of PLN 1,144 thousand was created in CIECH S.A. for the above liabilities and contingent liabilities amounting to PLN 3,085 thousand were disclosed.

Claims for bankruptcy proceedings
A total of PLN 7,736 thousand is being claimed in twenty two domestic bankruptcy proceedings.
The forecasts as for the bankruptcy proceedings are unfavourable due to the fact that the claims of CIECH S.A. are not preferential.
The Company has created a write-down for all pending proceedings.

Claims due to enforcement and conciliatory proceedings
CIECH S.A. is claiming PLN 9,343 thousand from domestic debtors in sixteen enforcement proceedings.
The forecasts as for these proceedings vary depending on the debtor's assets.
The Company has created a 100% write-down for the aforesaid receivables.

Foreign bankruptcy and enforcement proceedings
For foreign bankruptcy proceedings, CIECH S.A. allocated claims in the amount of USD 315 thousand (equivalent of PLN 933 thousand) and EUR 753 thousand (in total equivalent of PLN 2,982 thousand) as well as PLN 181 thousand, whereof the largest portion includes the following bankruptcy proceedings:

- Chemapol – Praga – (PLN 1,040 thousand),
- Euroftal N.V. Belgium (PLN 828 thousand).

In foreign enforcement proceedings, there is one case worth EUR 27 thousand (equivalent of PLN 107 thousand), and in settlement proceedings, one claim amounting to EUR 14,660 (equivalent of PLN 58 thousand) was filed.
In connection with CIECH S.A. entering into agreements with Euler Hermes and Coface regarding debt recovery services, files of foreign cases were handed to the aforesaid companies. However, both companies refused to accept the order although all debts from foreign cases were submitted by CIECH S.A. on time. Consequently, the Company is conducting those cases on their own account.

Other cases with CIECH S.A.'s participation

On October 15th, 2010, CIECH S.A. received a subpoena to appear in a hearing conducted by the President of the Commercial Court in Rennes (France). The subpoena was also sent to Zakłady Chemiczne Siarkopol in Tarnobrzeg.
The subpoena is linked to a claim filed by Citis (a company with registered office in Colombes – France) and its insurer which were sued by two French manufacturers of animal food products. An expert witness appointed in the course of proceedings performed a number of evaluations in order to finally estimate the amount of damage borne by the French manufacturers, the supplier's liability and the compliance of French manufacturers with European and French food production procedures. As stipulated in the letter delivered to the representative of CIECH S.A. in April this year, the total damage claimed by the French manufacturers amounts to EUR 542,399.62.
CIECH S.A. sold oiled ground sulphur to Citis in 2009, the product was manufactured by Zakłady Chemiczne Siarkopol in Tarnobrzeg.
331 of the French code of civil procedure, CIECH S.A. has the status of additional defendant sued by

24 Off-balance sheet items (continued)

0 24.1 Liabilities of CIECH S.A. (domestic and foreign) claimed in court or arbitration proceedings as at December 31st, 2010(continued)

Citis, and with regards to the French food products manufacturers CIECH S.A. has the third party status. CIECH S.A. appointed a legal representative in France for the purpose of litigation. The insurer of CIECH S.A. also acceded to the case.

Claims regarding the property located in Warsaw at Powązkowska 46/50

1. Case is currently pending before the Local Government Appeals Court in Warsaw, Case File No. KOX/1596/Po/09.
By virtue of the letter of December 22nd, 2008 (file no. ZM.ZNO.722240-IV.3212/08/GL), the President of the Capital City of Warsaw cancelled the former annual charge paid by CIECH S.A. for the perpetual usufruct of land located in Warsaw at Powązkowska 46/50, being the property of the State Treasury, marked as plot no. 41, precinct 7-02-09, and determined the new charge as of January 1st, 2009 amounting to PLN 589,553.37. In conjunction with the aforesaid new charge, on January 28th, 2009, CIECH S.A. lodged a motion to the Local Government Appeals Court in Warsaw for declaring invalid the updated annual charge for the perpetual usufruct of land.

According to the information at hand, the Local Government Appeals Court is not taking any actions in order to resolve this case. In the course of the above proceedings, CIECH S.A. requested an analysis of the appraisal study, being the basis for the increase of the charge for the perpetual usufruct of the plot. In March 2010, the representative of CIECH S.A. upheld the motion of October 2009 for proceedings suspension until the proceedings held in the Regional Court in Warsaw, 25th Civil Division under case file no. XXV C 1388/09 is completed.

On May 4th, the motion for proceedings suspension was refiled and, additionally, an Opinion of the Arbitration Commission at the Polish Federation of Valuers' Associations was added to the case file, the subject matter of the opinion was the appraisal study being the base for amendment of the perpetual usufruct charge. The aforementioned appraisal study was given a negative evaluation.

2. The case is currently being heard by the Regional Court in Warsaw, 25th Civil Division under Case File No. XXV C 1388/09 (file number for the case heard by the Local Government Appeals Court: Kox/584/Po/04).

By virtue of a letter of December 17th, 2003, delivered to CIECH S.A. on January 6th, 2004, the President of the Capital City of Warsaw cancelled as of December 31st, 2003 the previous charge for the perpetual usufruct of land located in Warsaw at ul. Powązkowska 46/50, being the property of the State Treasury, marked as plot no. 41, precinct 7-02-09. The new charge as of January 1st, 2004 amounted to PLN 500,013.36 (previously PLN 25,834.35). As a result of an appeal lodged by CIECH S.A., the Local Government Appeals Court, pursuant to the decision of January 9th, 2009 (file no. KOX/584/Po/04), declared that CIECH S.A., being a perpetual lessee of the plot no. 41, is obliged to pay an annual charge amounting to PLN 408,878.14 starting from January 1st, 2005. On January 29th, 2009, CIECH S.A. appealed against the aforesaid decision via the Local Government Appeals Court in Warsaw to the Regional Court in Warsaw, 25th Civil Division.

A court decision of March 10th, 2010 allowed evidence from expert witness's opinion regarding property evaluation. At the beginning of May 2010, the Regional Court delivered an appraisal study of the aforementioned plot prepared in the course of court proceedings, CIECH S.A. accepted the study without reservations. During a hearing on December 3rd, 2010, the court accepted a motion of Ciech S.A. that the appraisal study be evaluated by the Arbitration Committee at the Polish Federation of Valuers' Associations.
Due to the aforedescribed proceedings (in connection with perpetual usufruct charges on the plot in Powązkowska Street), CIECH S.A. created a provision amounting to PLN 1,890 thousand.

24.2 Investment liabilities

CIECH S.A. has the following tasks and obligations arising from share purchase agreements:

24 Off-balance sheet items (continued)

0 Investment liabilities (continued)

a) Z.Ch ORGANIKA SARZYNA S.A. and Z.Ch ZACHEM S.A.

No	Item	ZCH ORGANIKA SARZYNA	ZCH Zachem
1	Investment liabilities	Realisation in the Company of Guaranteed Investments of the total value amounting to PLN 130,000 thousand within 7* years from the date of purchase. **As at December 31st, 2010, Guaranteed Investments for the amount of PLN 95,988 thousand were implemented.**	Company's implementation of Guaranteed Investments totalling PLN 176,120 thousand within 8* years from the date of purchase. **Realization of the Guaranteed Investments in ZCH ZACHEM S.A. as at December 31st, 2010 – in accordance with the Purchaser's interim report, amounted to PLN 106,983 thousand.**
2	Contractual penalties due to failure to realise Guaranteed Investments	Payment for the benefit of the Seller of a penalty amounting to 50% of the difference between the required and realised amount of increases made in the Company within 7 years from the date of purchase. In the case of failure to satisfy the Restricting Condition(1 in the amount of: At least 107% of fixed assets – Ciech S.A. shall be obliged to pay a penalty of PLN 150 thousand At least 100% but not more than 107% – CIECH S.A. will be obliged to pay a penalty of 20% of the difference between the value corresponding to 110% of the Company's fixed assets and the value of constant capitals at the end of a given reporting period. If the value of constant capitals is less than 100% of fixed assets, CIECH S.A. will be obliged to pay a penalty amounting to the sum of the following values: 100% difference between the value of long-term capital and the value corresponding to 100% of fixed assets at the end of a given reporting period, and 20% of the difference between the value corresponding to 110% of the Company's fixed assets at the end of a given reporting period and the value of long-term capital at the end of a given financial year.	Payment for the benefit of the Seller of a penalty amounting to 50% of the difference between the required and realised amount of increases made in the Company within 8 years from the date of purchase.
3	Contractual penalties due to non-fulfilment of the obligation to maintain the Company's Core Activity	Payment for the benefit of the Seller of a penalty amounting to 50% of the Company's sales revenues for 2005 but not more than 50% of the purchase price.	Payment for the benefit of the Seller of a penalty amounting to 50% of the Company's sales revenues for 2005 but not more than 100% of the purchase price.
4	Contractual penalties due to performing prohibited decrease of the Company's share capital and redemption of shares	Payment for the benefit of the Seller of a penalty amounting to 100% of the share capital decrease or, in the case of share redemption, of the remuneration paid to shareholders in conjunction with the redemption.	Payment for the benefit of the Seller of a penalty amounting to 100% of the share capital decrease or, in the case of share redemption, of the remuneration paid to shareholders in conjunction with the redemption.
5	Contractual penalties due to performing prohibited disposal or encumbrance of shares	Payment for the benefit of the Seller of a penalty amounting to 100% of the product of the number of sold or encumbered shares and the share price.	Payment for the benefit of the Seller of a penalty amounting to 100% of the product of the number of sold or encumbered shares and the share price.
6	Contractual penalties due to performing prohibited division or merger of the Company	Payment for the benefit of the Seller of a penalty equal to the purchase price.	Payment for the benefit of the Seller of a penalty equal to the purchase price.

24 Off-balance sheet items (continued)

0 Investment liabilities (continued)

7	Contractual penalties due to non-fulfilment of the obligation to retain profit in the Company	Payment for the benefit of the Seller of a penalty amounting to 80% of the dividend paid out by the Company.	Payment for the benefit of the Seller of a penalty equal to the dividend paid out by the Company to shareholders other than the Seller, ref. 2006.
8	Liability for violating the State Treasury's right to appoint one person as a member of the Company's Supervisory Board	Payment for the benefit of the Seller of a penalty being the product of PLN 30 thousand and the number of days for which the Company's Articles of Association did not include a specific rights of the State Treasury.	Payment for the benefit of the Seller of a penalty being the product of PLN 30 thousand and the number of days for which the Company's Articles of Association did not include a specific rights of the State Treasury.
9	Liability for non-compliance with the obligation to provide the Purchaser's Report	Payment of a penalty of: PLN 1 thousand for every day of delay up to 14 days, PLN 50 thousand for every day of delay exceeding 14 days	Payment of a penalty of PLN 30 thousand for every day of delay

[1)] Restricting Condition:

**On October 11th, 2010, CIECH S.A. and Nafta Polska S.A. company in liquidation signed annexes to the agreement regarding the sale of Z.Ch. ZACHEM S.A. shares and to the agreement regarding the sale of Z.CH. "Organika Sarzyna" S.A. of March 29th, 2006. The key provisions of the annex to the agreement regarding the sales of Z.Ch. ZACHEM S.A. shares extend the realisation period for guaranteed investments by three years for three investment tasks, i.e. electrolysis conversion, implementation of new EPI technology, increase of TDI production capacity to 90 thousand tons p.a. The annex to the sales agreement regarding Z.Ch. Organika-Sarzyna S.A. shares extends the realisation period for guaranteed investments by two years for one investment task, i.e. the construction of a production installation of the active substance MCPA with accompanying infrastructure.*

ZCh ZACHEM S.A.

The agreement contains "a restricting condition". The restricting condition is calculated as the ratio of long-term capital to fixed assets on the basis of the Separate Financial Statements, prepared according to PAS. Pursuant to the agreement, this ratio is to grow as follows: in 2007 by 20 pp in relation to the ratio calculated as at the date of sales, i.e. on December 20th, 2006, and in every subsequent year by another 10 pp until 2010 (total increase in 2007-2010 by 50 pp). CIECH S.A. shall pay Nafta Polska S.A. a penalty amounting to PLN 150 thousand for every full percentage point below the required ratio. Every full percentage point in excess of 10 pp deviation from the required ratio shall be followed by a penalty of PLN 500 thousand.

Annex no. 1, concluded on December 23rd, 2009, stipulates that fulfilment date of the "restricting condition", which was set in the previous Agreement at December 31st, 2009. (+ 40 pp) will take place on December 31st, 2010, with a restriction that in case CIECH S.A. does not meet the newly set deadline, Nafta Polska S.A. will be entitles to both the contractual penalty for non-fulfilment of the "restricting condition" by the end of 2010 and the contractual penalty which it would be entitled to in case the contractual level is not met by the end of 2009. Additionally, it was agreed that the fulfilment date of the "restricting condition" which was set out in the previous Agreement at December 31st, 2010, shall be December 31st, 2011. If the "restricting condition" is fulfilled by December 31st, 2010, as stipulated by the provisions of the original Agreement (i.e. +50 pp), the "restricting condition", as at December 31st, 2011, will not be examined anymore and no contractual penalty for non-observance of the restricting condition in 2009 will be charged. When necessary, CIECH S.A. will provide ZACHEM S.A. with financial support to ensure that the restricting condition is fulfilled.

On January 11th, 2010, CIECH S.A. and Nafta Polska signed annex 3 to the agreement on the sale of Zachem shares by virtue of which the Zachem's obligation to meet a certain level of constant capital/ fixed assets ratio by December 31st, 2010 was prolonged by June 30th, 2011, the payment of potential penalty not meeting this ratio level by December 31st, 2009 and December 31st, 2010 was also deferred until this deadline (in case this condition is not fulfilled by June 30th, 2011).

If the required ratio level is not met by June 30th, 2011, the Company will have to pay a contractual penalty for not maintaining the appropriate ratio level in Zachem amounting to PLN 150,000 for every percentage point of the difference between the Initial Value increased by 40 percentage points and the actual Ratio value as at December 31st, 2009; regardless of the obligation to pay a contractual penalty for not meeting the Ratio level by December 31st, 2010, which level the Company was expected to meet in accordance with the agreement version in force on January 11th, 2011 (in case the required Ratio level is not met by December 31st, 2010). In case the difference exceeds 10 percentage points, the contractual penalty for each full percentage point of the difference over 10 percentage points will be increased to PLN 500,000. Moreover, if the required Ratio level is not met by June 30th, 2011, the Company will have to pay Nafta Polska an additional amount constituting 6.5% of the sum of contractual penalties discussed above.

24 Off-balance sheet items (continued)

0 Investment liabilities (continued)

If the Ratio level reached by June 30th, 2011 will be equal to the Initial Value increased by 50 percentage points, the Ratio level as at December 31st, 2011 will not be tested and the Company's obligation to maintain the Ratio level will not apply.

ZCh Organika Sarzyna S.A.
By the end of 2011, the Company must fulfil the condition of maintaining the liabilities' structure in Organika Sarzyna on such level that the value of constant capital (equity/ own funds, non-current provisions and liabilities with maturity over one year) constitutes at least 110% of fixed assets as defined in the Accounting Act (with the exception of the right of the perpetual usufruct of land gained by virtue of a law or by way of an administrative decision).

Purchase of employee shares
Additionally, pursuant to § 13 of Appendix 14 to the agreement concerning the acquisition of 80% shares in Zachem S.A., CIECH S.A. obliged to repurchase shares distributed free of charge to individuals authorised in accordance with Art. 36 of the Act dated August 30th, 1996 on Commercialisation and Privatisation of Public Enterprises. The motion for share repurchase may be lodged within 60 days from the second, third and fourth anniversary of the acquisition of shares in Zachem S.A. by CIECH S.A. Authorised individuals shall hold not more than 2,220,000 shares in Zachem S.A. The guaranteed share repurchase price amounts to 75% of the price provided in the agreement concerning the acquisition of 80% of the shares in Zachem S.A.

In 2010, – the 3rd stage of employee shares repurchase was conducted in ZCh Zachem S.A., CIECH S.A. purchased 493,815 shares, which constitutes 3.337% of Company shares, for PLN 2,503,642.05. The equity interest of Ciech S.A. in ZCh Zachem S.A. increased to 90.674%.

Additionally, pursuant to the provisions of Chapter 10, Appendix 13 to the agreement concerning the acquisition of 80% shares in Sarzyna S.A., CIECH S.A. obliged to repurchase shares distributed free of charge to individuals authorised in accordance with Art. 36 of the Act dated August 30th, 1996 on Commercialisation and Privatisation of Public Enterprises. The request for share repurchase may be lodged after the expiry of statutory restrictions between April 1st and April 30th every year. Authorised individuals shall hold not more than 1,273,500 shares in Sarzyna S.A. The guaranteed share repurchase price amounts to:

- after April 30th, 2008 – PLN 20 per share,
- after April 30th, 2009 – PLN 23 per share,
- after April 30th, 2010 – PLN 26 per share,
- after April 30th, 2011 – PLN 29 per share,
- after April 30th, 2012 – PLN 32 per share,
- after April 30th, 2013 – PLN 35 per share.

On June 15th, 2010, CIECH S.A. completed the third stage of (employee) share repurchase in Z.Ch. Organika-Sarzyna S.A. and acquired 184,816 ordinary registered shares Series "A" (constituting 2.177% of the Company's shares) for a total of PLN 4.8 thousand. The equity interest of CIECH S.A. in ZCh Organika Sarzyna S.A. increased to 93.05%.

IAS 39 stipulates that derivatives are to be measured and recognised at fair value, except for investments in capital instruments not listed on the active market. The shares of Zachem S.A. and Sarzyna S.A. are not traded on any active market. Therefore, the fair value of the issued put options cannot be credibly estimated and, in the opinion of the Management Board, the impact of evaluation of such an instrument on the statement, if it were recognised, is negligible. In consideration of this fact, they have not been recognised in the presented financial statements but only disclosed with a detailed description of the realisation terms.

The offer to purchase the remaining shares of ZCh Zachem S.A. and the offer to purchase the remaining shares of ZCh Organika Sarzyna S.A.
While performing the agreement to purchase shares of Zachem and the agreement to purchase the shares of Organika Sarzyna, on December 20th, 2006 the Company placed to the State Treasury an irrevocable offer to purchase the remaining shares of Zachem and an irrevocable offer to purchase the remaining shares of Organika Sarzyna, which were later amended by agreements between the Company and the State Treasury of January 5th, 2010 and December 28th, 2010. The State Treasury is entitled to accept the offers within ten days after they were placed, i.e. until December 20th, 2016. The share unit purchase price for which the Company undertook to buy the shares of Zachem and Organika Sarzyna is equal to the purchase price for which these shares were acquired from Nafta Polska, adjusted in accordance with principles defined in the agreement between the State Treasury and the Company of December 28th, 2010 based on the WIBOR 12M rate for the period ending on December 20th, 2011. Following the expiry of this period, the share price will not be indexed.

The Company filed an alternative proposal, namely, to convert existing liabilities to equity by making a contribution to the Company of 762,224 shares of Zachem and 429,388 shares of Organika Sarzyna which are owned by the State Treasury.

24 Off-balance sheet items (continued)

0 Investment liabilities (continued)

b) US Govora

No.	Obligation arising under the US Govora share purchase agreement	Penalty for non-performance
1	Obligation not to suggest, support or decide about any changes in the subject of activity described in the Statute. There is a possibility to supplement the subject of activity.	10% of share purchase price
2	Obligation to obtain min. 70% of annual turnover from the Company's business included in the subject of its activity on the date of signing the agreement.	5% of unrealised difference in turnover up to the level of 70%
3	Obligation to maintain posts held by existing employees for 5 years from the date of transferring share ownership.	5% of share purchase price
4	Obligation not to make decisions about mergers, divisions, liquidation, dissolution, voluntary liquidation, legal reorganisation and/or bankruptcy.	10% of share purchase price
5	Obligation to convince USG not to sell assets under annex 1.12 without AVAS' written consent.	market value of asset sold
6	Obligation to protect, promote and not to sell USG's brand names, trade marks, service marks, patents and licenses.	10% of share purchase price
7	Obligation to inform AVAS about any changes in the registered office, name, division or merger of CIECH S.A.	10% of share purchase price
8	Obligation not to dispose of all or some of the acquired shares until fulfilling all obligations under the agreement without the seller's written consent.	cancellation of agreement
9	Obligation to obtain AVAS's written consent for the assignment of the privatisation agreement.	cancellation of agreement
10	Obligation not to use the acquired USG's shares as a guarantee of other own liabilities until realising all obligations under the agreement.	cancellation of agreement

Moreover, CIECH S.A. obliged to execute investment liabilities from own means amounting to USD 2.5 million (in the opinion of the Company the liability was fulfilled but as at the balance sheet date was not confirmed by AVAS – National Privatisation Agency in Romania) and to provide free of charge production know-how, technological methods (save for licenses), marketing data, selling market access, qualification methods, design methods (save for licenses), human resources methods, IT systems methods, economic and financial methods, etc. to the extent set out in the Romanian legal regulations.

24.3 Guarantees and sureties, and other off-balance sheet receivables and liabilities

The table below presents off-balance sheet items, including guarantees and sureties granted by CIECH S.A. to other entities (from outside the Ciech Group). The description of sureties and guarantees granted to related entities (within the Ciech Group) has been included in the table "Sureties and guarantees granted".

PLN '000

OFF-BALANCE SHEET ITEMS	31.12.2010	31.12.2009
Contingent liabilities	**281,519**	**344,799**
Due to guarantees and sureties granted	281,519	344,799
Other off-balance sheet items	**22,066**	**27,619**
Other trade sureties	–	9,400
Other	22,066	18,219
Total off-balance sheet items	**303,585**	**372,418**

24 Off-balance sheet items (continued)

0 Guarantees and sureties, and other off-balance sheet receivables and liabilities (continued)

As at December 31st, 2010, contingent receivables did not occur in CIECH S.A.

The value of contingent liabilities and other off-balance sheet liabilities as at December 31st, 2010 amounted to PLN 303,585 thousand, which is a decrease in comparison to December 2009 by PLN 68,833 thousand.
The main cause of this difference is termination of sureties and guarantees on liabilities of a subsidiary GOVORA amounting to EUR 15,000 thousand, on liabilities of a subsidiary ZACHEM S.A. amounting to PLN 4,500 thousand and on liabilities of a subsidiary CHEMAN S.A. amounting to PLN 9,000 thousand. A surety on a liability of ZACHEM S.A. amounting to PLN 40,000 thousand was also withdrawn. The growth resulted from the fact that a subsidiary Govora obtained a surety amounting to EUR 13,000 thousand (equivalent of PLN 51,484 thousand) in connection with a consortium loan it had raised. The remaining difference results from the changes in exchange rates applied in the measurement of liabilities.

Other contingent liabilities in the amount of PLN 22,066 thousand include:

- contingent liability of PLN 1,728 thousand in connection with claims filed by Polska Żegluga Morska (Polish naval authority),
- contingent liability of PLN 17,253 thousand due to not achieving the ratio required by the agreement for the purchase of ZACHEM S.A.'s shares,
- contingent liability of PLN 3,085 thousand due to non-compliance by CIECH S.A. with information obligations under the agreement with AVAS regarding the purchase of S.C. Uzinele Sodice Govora-Ciech Chemical Group.

Compared to 2009, this item increased by PLN 3,847 thousand. The main cause of this change was an increase in the contingent liability due to non-achievement of the ratio required under the agreement for the purchase of ZACHEM S.A. by PLN 2,253 thousand and increase in the contingent liability due to non-compliance of CIECH S.A. with information obligations under the agreement with AVAS regarding the purchase of S.C. Uzinele Sodice Govora- Ciech Chemical Group amounting to PLN 1,466 thousand.

The aforesaid items do not include the value of suits filed by third parties, described in section 24.1 of the notes and explanations to the financial statements.

Sureties and guarantees granted or effective in 2010

Beneficiary's name	Amount of loans covered by surety in whole or in specific part		Surety period	Financial terms, including surety fee due to the company	Principal	Nature of relations between CIECH S.A. and the borrower
	currency in '000	PLN '000.				
PKN ORLEN S.A.		1,200	for an unspecified period of time	Payment to CIECH S.A. equal to 1% of the surety value	Cheman S.A.	Subsidiary
Commerzbank	25,000 EUR	99,008	30.09.2014	To the loan agreement of January 23rd, 2008 for EUR 75 million	Soda Deutschland GmbH	Subsidiary
BANK CONSORTIUM	13,000 EUR	51,484	31.12.2013	Fixed % of the surplus of granted surety over the surety required to hedge the actual amount of financing	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. – Romania	Subsidiary
Total		**151,692**				

24 Off-balance sheet items (continued)

0 Guarantees and sureties, and other off-balance sheet receivables and liabilities (continued)

Beneficiary's name	Total amount of guarantees granted, backed in whole or in specific part		Guarantee period	Financial terms, including guarantee fee due to the company	Principal	Nature of relations between CIECH S.A. and the beneficiary
	currency in '000	PLN '000.				
SG Equipment Leasing Polska Sp. z o.o. – Warsaw	EUR 1,666	6,598	30.09.2011	To the lease agreement concluded between S.C Uzinele Sodice Govora – Ciech Chemical Group S.A. and ECS International Polska Sp. z o.o. of July 10th, 2007	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. – Romania	Subsidiary
Air Products, LLC and Air Products Chemicals Europe B.V.	USD 38,500	114,118	2013	The surety was estimated on the basis of half-yearly deliveries under the contract concluded by ZACHEM S.A. in 2004, and annexed in October 2007. The value of annual supplies amounts to USD 77 million	ZACHEM S.A.	Subsidiary
GATX Rail Poland Sp. z o.o.	EUR 64	253	30.10.2011	Guarantee of payment of lease fee for tanks	ZACHEM S.A.	Subsidiary
ING Lease Romania IFN S.A.	EUR 2,237	8,858	April 30th, 2013	Payment collateral to lease agreements	S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. – Romania	Subsidiary
Total amount of guarantees granted		**129,827**				

The aforesaid items do not include the value of suits filed by third parties, described in section 24.1 (off-balance sheet items) of the notes and explanations to the financial statements.

25 Information about agreements concluded with the entity authorised to audit CIECH S.A.'s financial statements

The entity authorised to audit financial statements for the period from January 1st, 2010 to December 31st, 2010 is Deloitte Audyt Sp. z o.o. with its registered office in Warsaw.

On July 7th, 2010, an agreement on examination of semi-annual and audit of annual financial statements was signed with Deloitte Audyt Sp. z o.o.

PLN '000	2010	2009
Audit of the annual financial statements	220	228
Other auditing services, including the examination of the financial statements	154	293
Tax advisory services	313	-

26 Financial lease

Ciech S.A. does not apply financial lease.

27 Operating lease

Pursuant to the adopted accounting principles, operating lease in CIECH S.A. includes the right of perpetual usufruct of land for a period of 89-99 years obtained through administrative allocation by the State Treasury as well as passenger cars. Operating lease is renewable lease, making it possible to acquire an asset at its estimated market value at the end of its use. The Company is not obliged to redeem the leased assets. No conditions of extending lease agreements or purchasing the subject of lease have been included in administrative decisions concerning the right of perpetual usufruct of land. Price indexation may occur in conjunction with land revaluation.

In the financial year 2010, the costs of lease fees were as follows:
- due to the tight of usufruct of land – PLN 1,327 thousand,
- due to lease of passenger cars – PLN 715 thousand.

Total amounts of future minimum lease charges due to the use of passenger cars are presented in the table below:

PLN '000

	31.12.2010	**31.12.2009**
up to 1 year	870	648
Between 1 and 5 years	10	154
Total	**880**	**802**

No sublease agreements have occurred in CIECH S.A. CIECH S.A. does not act as a lessor.

28 Information about related entities

28.1 List of companies forming the Ciech Group

The list below presents the companies forming the Ciech Capital Group:

		31.12.2010			31.12.2009		
Company's name	**Registered office**	**Direct share**	**Indirect share**	**carrying value**	**Direct share**	**Indirect share**	**carrying value**
Polcommerce Handel -und Vrtretungssesellschaft GmbH	Vienna, Austria	100%		653	100%		653
POLFA Sp. z o.o.	Warsaw	100%		1,912	100%		1,912
Polfa Hungaria Ltd.	*Budapest, Hungary*		100%			100%	
Chemia.Com S.A.	Warsaw	100%		1,010	100%		1,010
Ciech FINANCE Sp. z o.o.	Warsaw	100%			100%		3
Cheman S.A.	*Warsaw*		100%			100%	
Pol-Plast S.A.	*Pionki*		32.14%				
Pro-Agro S.A.	*Kunów*		21.56%				
Zakład Gastronomiczno-Hotelowy MIREX Sp. z o.o.	*Bydgoszcz*		33.75%				
Calanda Polska Sp. z o.o.	Warsaw	95.70%			95.70%		
CIECH America Latina Ltda.	Sao Paulo, Brazil	99.99%			99.99%		
Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A.	Inowrocław	99.85%		165,839	99.85%		165,839
Soda Polska Ciech Sp.z o.o.	Inowrocław		99.75%			99.75%	
TRANSODA Sp. z o.o.	Inowrocław		99.75%			99.75%	
"VITROSILICON" Spółka Akcyjna	Iłowa		99.96%			99.96%	
Zakład Gospodarki Popiołami Sp. z o.o.	Małogoszcz		28.62%			29.24%	
PTU S.A.						45.30%	
Janikowskie Zakłady Sodowe JANIKOSODA S.A.	Janikowo	99.62%		165,550			165,550
Nordiska Unipol Aktienbolag	Stockholm, Sweden	97.78%		842	97.78%		842
Suomen Unipol Oy	Espoo, Finland		24.78%			24.78%	
S.C. UZINELE SODICE GOVORA – CIECH CHEMICAL GROUP S.A.	Romania	92.91%			92.91%		

28 Information about related entities (continued)

0 28.1 List of companies forming the Ciech Group(continued)

		31.12.2010			31.12.2009		
Company's name	**Registered office**	**Direct share**	**Indirect share**	**carrying value**	**Direct share**	**Indirect share**	**carrying value**
Soda Deutschland Ciech GmbH	Germany	100%		158,467	100%		142,404
Sodawerk Holding Strassfurt GmbH	Germany		100%			100%	
Sodawerk Stassfurt Verwaltungs GmbH	Germany		100%			100%	
Sodawerk Stassfurt GmbH & Co. KG	Germany		100%			100%	
KWG – Kraftwerksgesellschaft Stassfurt GmbH	Germany		100%			100%	
Sodachem Handes GmbH	Germany		100%			100%	
KPG Kavernen-Projekt-Beteiligungsgesellschaft mbH i.L.	Germany		100%			100%	
Kaverngesellschaft Stassfurt mbH	Germany		50%			50%	
PPV Pottasche Produktions-undVertriebs GmbH i.L.	Germany					100%	
Gdańskie Zakłady Nawozów Fosforowych "FOSFORY" Sp. z o.o.	Gdańsk	89.46%		20,888	89.46%		20,888
"AGROCHEM" Spółka z ograniczoną odpowiedzialnością w Dobrym Mieście	Dobre Miasto		89.46%			89.46%	
"AGROCHEM" Spólka z ograniczoną odpowiedzialnością w Człuchowie	Człuchów		89.46%			89.46%	
Polsin Private Limited	Singapore	98%		5,696	98%		5,696
Polsin Overseas Shipping Ltd.	Sopot		29.40%			29.40%	

28 Information about related entities (continued)

0 28.1 List of companies forming the Ciech Group(continued)

		31.12.2010			31.12.2009		
Company's name	**Registered office**	**Direct share**	**Indirect share**	**carrying value**	**Direct share**	**Indirect share**	**carrying value**
Zakłady Chemiczne ZACHEM S.A.	Bydgoszcz	90.67%		77,522	87.34%		75,018
ZACHEM UCR Sp. z o.o.	Bydgoszcz		90.67%			87.34%	
BORUTA-KOLOR Sp. z o.o.	Zgierz		90.67%			87.34%	
Boruta – Zachem KOLOR Sp. z o.o.	Bydgoszcz		90.66%			83.43%	
TRANSCLEAN Sp. z o.o.	Bydgoszcz		95.34%			93.67%	
Natural Chemical Product. Sp. z o.o.	Bydgoszcz		39.93%			38.46%	
BUDPUR Sp. z o.o.	Bydgoszcz		21.64%			20.84%	
Zakłady Chemiczne "Organika-Sarzyna" S.A.	Nowa Sarzyna	93.05%		270,869	90.88%		266,064
Komunalna Biologiczna Oczyszczalnia Ścieków Sp. z o.o.	Nowa Sarzyna		52.68%			51.45%	
Zakład Doświadczalny Organika Sp. z o.o.	Nowa Sarzyna		47.43%			46.35%	
Zakład Chemiczny Silikony Polskie Sp. z o.o.	Nowa Sarzyna		21.40%			27.26%	
Zakład Remontowo-Budowlany Organika Sp. z o.o.	Nowa Sarzyna		23.13%			22.59%	
Zakład Usługowo-Produkcyjny Gumokor-Organika Sp. z o.o.	Nowa Sarzyna		23.08%			22.54%	
Zakład Projektowo-Usługowy Organika-Projekt Sp. z o.o.	Nowa Sarzyna		22.79%			22.36%	
Przedsiębiorstwo Handlowo-Usługowe NS Automatyka Sp. z o.o.	Nowa Sarzyna		20.88%			20.39%	

28 Information about related entities (continued)

0 28.1 List of companies forming the Ciech Group(continued)

		31.12.2010			31.12.2009		
Company's name	**Registered office**	**Direct share**	**Indirect share**	**carrying value**	**Direct share**	**Indirect share**	**carrying value**
Zakłady Chemiczne " Alwernia" S.A.	Alwernia	73.75%		54,050	1	73.75%	55,015
ALWERNIA – FOSFORANY Spółka z ograniczoną odpowiedzialnością	Alwernia		73.75%			73.75%	
SOC-AL. Spółka z ograniczoną odpowiedzialnością	Alwernia		73.75%			73.75%	
Daltrade Ltd.	United Kingdom	61.20%		3,426	61.20%		3,426
"VITROSILICON" Spółka Akcyjna	Iłowa	99.96%		12,302	99.96%		12,302
Huta Szkła Wymiarki S.A.	Wymiarki		36.17%			35.12%	
TRANSCLEAN Sp. z o.o.	Bydgoszcz	95.34%		2,193	93.67%		2,193
Suomen Unipol Oy	Espoo, Finland	24.78%		52	24.78%		52
Ciech SERVICE Sp. z o.o.	Warsaw				100%		705
Polskie Konsorcjum Chemiczne Sp z o.o.	Warsaw				51.54%		52
Chemiepetrol GmbH (in liquidation)	Germany				60.00%		43

** By way of decision of CIECH S.A.'s Management Board of June 29th, 2009, the company suspended its operations.*

28 Information about related entities (continued)

0 28.1 List of companies forming the Ciech Group(continued)

In 2010 and in the comparative period, the Ciech Group was not subject to any restrictions as to the ability of subsidiaries to transfer funds to the parent company Ciech S.A., e.g. in the form of dividends or borrowings repayment, except for the duration of the standstill agreement.

As at December 31st, 2010, the State Treasury held a significant share and was able to control CIECH S.A.
Owing to the State Treasury supervision over CIECH S.A. State Treasury Companies (as listed by the Ministry of Treasury) fulfil the definition of related entities.
In connection with earlier adoption of amendments to IAS 24, the Company's Management Board has assumed that costs of collecting such information exceed the potential benefits to be gained by the users of these financial statements and the funds involved in transactions with State Treasury Companies do not have a significant impact on these statements.

Additionally, CIECH S.A. holds shares of entities where its control has been limited or lost:
- ZAO – Polfa Ciech, Russia – in bankruptcy, 65.00 % shares/votes held directly by Ciech S.A.
- Polfa Nigeria – loss of control, no contact with the company, 20% shares held directly by CIECH S.A.
- Zach-Ciech Sp. z o.o. – 35.65% shares/votes held directly by Ciech S.A., on January 24th, 2006 the District Court in Katowice declared the Company's bankruptcy.

The following section provides selected financial information as at December 31st, 2010 regarding the affiliate Suomen Unipol Oy with registered office in Finland:
- total assets* PLN 16,937 thousand
- total liabilities* PLN 11,378 thousand
- total revenue** PLN 91,839 thousand
- current year result** PLN 1,729 thousand

*figures in EUR calculated at the balance exchange rate of 31.12.2010 – 3.9603

*figures in EUR calculated at the average exchange rate for 2010 – 4.0044

28.2 Transactions with related entities

The table below presents the amounts of transactions concluded with related entities for the periods presented in the financial statements:

28 Information about related entities (continued)

0 Transactions with related entities (continued)

PLN '000

01.01.-31.12.2010	Revenue				Costs				Balance sheet items			
	Revenues from sales of products and services	Revenues from sales of goods	Other operating revenues	Financial revenues	Purchases of products and services	Purchases of goods	other operating expenses	Financial expenses	Receivables, borrowings granted, etc. (net)	Write-downs on receivables, including:	created in the current reporting period	Liabilities, borrowings received, etc.
GK Janikosoda	-	12,043	-	183	-	-	197	183	2,706	367	367	56,704
Cheman	-	16,708	130	1,026	160	-	-	3,674	9,725	15,075	3,625	35
Vitrosilicon	1,049	20,016	-	2,644	1	50,179	-	740	71,549	-	-	10,722
GK Alwernia	1,043	70,402	-	439	-	7,075	-	2,657	18,286	-	-	941
Polsin	-	32,018	-	2	57	-	-	1,255	-	-	-	-
GK Fosfory	1,488	120,105	-	3,532	4,058	49,068	-	416	125,041	-	-	2,009
GK Soda Mątwy	3,408	-	-	4,652	26,305	716,364	197	7,765	125,005	197	197	257,299
Transoda	-	-	-	-	-	-	-	-	-	-	-	-
Daltrade	-	1,267	-	5,984	-	-	-	102	1,399	-	-	-
Polfa	3	234	5	1,984	155	-	-	169	5,487	-	-	50
Organika Sarzyna	2,236	12,214	-	3,960	262	235,938	-	8,156	67,537	-	-	70,659
Z D "ORGANIKA" Sp. z o.o.	-	3	-	-	-	-	-	-	-	-	-	-
Z. Ch. Ch. "Silikony Polskie" Sp. z o.o.	-	2	-	-	-	-	-	-	-	-	-	-
Z.U.P. "Gumokor-Organika" Sp. z o.o.	-	7	-	-	-	-	-	-	-	-	-	-
GK Zachem	5,143	2,714	-	6,226	78	486,170	-	13,556	198,674	-	-	78,222
Natural Chemical Products Sp. z o.o.	-	2,714	-	24	-	-	-	3	132	3	3	-
Przedsiębiorstwo Transportowo-UsługoweTransclean Sp. z o.o.	-	-	-	29	12,053	-	-	40	1,028	-	-	2,379
USG	1	4	-	22,180	291	826	6,341	44,089	104,393	212,320	21,941	152
Ciech Finance	12	-	93	242	-	-	42	253	457	22	21	-

28 Information about related entities (continued)

0 Transactions with related entities (continued)

01.01.-31.12.2010	Revenue				Costs				Balance sheet items			
	Revenues from sales of products and services	Revenues from sales of goods	Other operating revenues	Financial revenues	Purchases of products and services	Purchases of goods	other operating expenses	Financial expenses	Receivables, borrowings granted, etc. (net)	Write-downs on receivables, including:	created in the current reporting period	Liabilities, borrowings received, etc.
Soda Deutschland Ciech Group	-	22	-	28,346	-	-	-	35,427	329,866	-	-	-
Chemiepetrol (in liquidation)*	-	-	-	2	-	-	-	-	-	-	-	-
Ciech Service	98	2	259	181	1,700	-	-	-	-	-	-	20
Nordiska Unipol	-	20,564	-	116	910	-	-	853	2,732	-	-	302
Polfa Hungaria Ltd	-	334	-	-	-	-	-	14	-	-	-	-
Polcommerce, Vienna	-	7,199	-	27	659	-	-	292	828	-	-	330
Chemia.com	139	-	793	38	4,649	-	-	-	625	-	-	1,579
Suomen Unipol	-	31,359	-	62	973	-	-	950	2,727	-	-	168
Total	**14,620**	**349,931**	**1,280**	**81,879**	**52,311**	**1,545,620**	**6,777**	**120,594**	**1,068,197**	**227,984**	**26,154**	**481,571**

* On March 15th, 2010, the company was removed from the Commercial Register.

28 Information about related entities (continued)

0 Transactions with related entities (continued)

01.01.-31.12.2009	Revenue				Costs				Balance sheet items			
	Revenues from sales of products and services	Revenues from sales of goods	Other operating revenues	Financial revenues	Purchases of products and services	Purchases of goods	other operating expenses	Financial expenses	Receivables, borrowings granted, etc.	Write-downs on receivables, including:	created in the current reporting period	Liabilities, borrowings received, etc.
GK Janikosoda	-	10,719	-	979	-	-	-	-	2,112	-	-	-
Cheman	-	25,703	1	739	663	-	-	5	14,407	11,455	5	30
Vitrosilicon	1,044	20,601	-	632	-	45,480	-	162	12,583	-	-	6,063
GK Alwernia	1,164	67,034	-	17,703	32	9,367	-	633	1,009	-	-	441
Polsin	-	21,607	-	-	-	-	-	-	2,700	-	-	-
GK Fosfory	1,425	43,207	-	-	3,894	3,820	-	4	-	-	-	7,681
GK Soda Mątwy	3,773	-	44	963	19,769	708,740	19	1,775	614	-	-	194,143
Daltrade	-	6,455	-	241	-	-	-	-	384	-	-	-
Ciech Polfa	83	-	5	460	147	-	-	-	8	-	-	13
Organika Sarzyna	2,266	-	-	-	270	93,757	-	1,471	150	-	-	76,407
Z.U.P. "Gumokor-Organika" Sp. z o.o.	-	1	-	-	-	-	-	-	-	-	-	-
GK Zachem	4,479	1,337	-	2,055	284	497,696	-	-	42,853	-	-	62,500
Natural Chemical Products Sp. z o.o.	-	3,214	-	-	-	-	-	-	1,279	1	-	-
Przedsiębiorstwo Transportowo-Usługowe Transclean Sp. z o.o.	-	-	-	-	10,684	-	-	-	-	-	-	1,807
USG	-	1	-	6,374	646	2,242	771	6,541	136,140	192,264	140,204	-
Ciech Finance	14	-	93	22	-	-	-	1,947	264	200	200	-
Soda Deutschland Ciech Group	-	-	-	15,013	-	24	-	-	352,177	-	-	-
Polskie Konsorcjum Chemiczne	5		37		-	-	-	-	8	-	-	-
Chemiepertol (in liquidation)*	-	-	1,682	-	-	-	-	-	-	-	-	-
Ciech Service	79		442	-	2,358	-	-	-	4	-	-	284
Nordiska Unipol	-	28,821	-	-	778	-	-	-	4,505	-	-	217
Polcommerce, Vienna	-	31,428	-	89	322	-	-	-	1,898	-	-	203
Chemia.com	152	-	967	25	4,609	-	-	-	541	-	-	1,175
Calanda Polska	-	-	-	-	-	-	-	-	-	1,243	-	-
CIECH AMERICA LATINA LTDA	-	-	-	-	12	-	-	-	-	-	-	11
Suomen Unipol	-	27,669	-	116	666	-	-	-	1,654	-	-	79
Polfa Hungaria Ltd	-	359	-	-	42	-	-	-	41	-	-	10
Total	**14,484**	**288,156**	**3,271**	**45,411**	**45,134**	**1,361,126**	**790**	**12,538**	**575,290**	**205,163**	**140,409**	**351,054**

* on March 15th, 2010, the company was removed from the Commercial Register

28 Information about related entities (continued)

0 Transactions with related entities (continued)

Terms of transactions with related entities
Sales to and purchases from related entities are realised at standard market prices. Overdue liabilities and receivables are not secured and settled in cash or by compensation. Receivables from related entities have not been covered by any guarantees granted or received. Information about write-downs on receivables from related entities has been presented in section 16 of notes and explanations to the financial statements.

28.3 Significant agreements between Ciech S.A. and its related entities

No significant agreements were concluded between related entities in 2010.

28.4 Transactions concluded by key managerial staff

Key managerial staff is formed of persons who are authorised to and responsible for direct planning, managing and controlling the activities of the Company.

In 2010, no transactions were concluded by key managerial staff in CIECH S.A.

Remuneration of the Management Board of CIECH S.A.

The following table presents the amount of remuneration and additional benefits paid to particular Members of the Management Board (in office in 2010) by CIECH S.A. and subsidiaries in 2010.

PLN '000

31.12.2010	Base remuneration	Semi-annual bonus	Redundancy severance pay	Non-competition	Membership in SB of Group's Companies in 2010	Total
Andrzej Bąbaś	**260**	**-**	-	-	**73**	**333**
Ryszard Kunicki	**948**	**616**	-	-	**372**	**1,936**
Artur Osuchowski	**612**	**367**	-	-	**250**	**1,229**
Rafał Rybkowski	**256**	**-**	**-**	**-**	**58**	**314**
Robert Bednarski	368	306	306	306	84	1,370
Marcin Dobrzański	399	306	180	90	142	1,117
Total	**2,843**	**1,595**	**486**	**396**	**978**	**6,299**

31.12.2009	Base remuneration	Semi-annual bonus	Annual bonus	Non-competition	Membership in SB of Group's Companies in 2009	Total
Robert Bednarski	**612**	**227**	**102**	-	**197**	**1,138**
Marcin Dobrzański	**618**	**306**	**206**	-	**133**	**1,263**
Ryszard Kunicki	**948**	**431**	**206**	-	**302**	**1,887**
Artur Osuchowski	**612**	**306**	**206**	-	**82**	**1,206**
Mirosław Kochalski	-	-	-	1,776	-	1,776
Rafał Pasieka	-	-	21	794	-	815
Kazimierz Przełomski	-	-	4	153	-	157
Marek Trosiński	-	-	21	686	-	707
Wojciech Wardacki	-	-	21	835	-	856
Total	**2,790**	**1,270**	**787**	**4,244**	**714**	**9,805**

As at December 31st, 2010, the liability of CIECH S.A. payable to former Members of the Management Board of CIECH S.A. due to non-competition amounted to PLN 486 thousand.

28 Information about related entities (continued)

0 Transactions concluded by key managerial staff (continued)

Members of the Management Board are employed based on employment contracts. In accordance with the binding Resolution of the Supervisory Board of CIECH S.A., the Members of the Management Board are entitled to:

- monthly remuneration determined in individual employment contracts;
- semi-annual bonus amounting up to 100% of six-month remuneration in the amount determined by the Supervisory Board;
- annual bonus determined in individual employment contracts.

Remuneration of the Supervisory Board of CIECH S.A.

PLN '000

First name and surname	**Remuneration paid by CIECH S.A. for 2010**
Ewa Sibrecht-Ośka	123
Przemysław Cieszyński	54
Krzysztof Salwach	82
Jacek Goszczyński	92
Arkadiusz Grabalski,	44
Grzegorz Kłoczko	39
Waldemar Maj	44
Marzena Okła-Anuszewska	39
Sławomir Stelmasiak	82
Total	**598**

Members of the Supervisory Board, pursuant to a resolution of the Extraordinary General Meeting, receive monthly remuneration amounting to:

- Chairman of the Supervisory Board – 300%
- Deputy Chairman of the Supervisory Board – 250%
- Other Members of the Supervisory Board – 200% of average monthly remuneration in the sector of enterprises, including profit distribution in the month preceding the calculation.

29 Objectives and principles in financial risk management

The aim of financial risk management policy is to indicate areas requiring risk analysis, to present means to identify and measure it, to establish activities undertaken in relation to identified risk areas and to define organisational solutions in the risk management process.

The Ciech Group is exposed to the following financial risks:

- customers credit reliability risk,
- liquidity risk,
- market risk, including:
  - currency risk,
  - interest rate risk,
  - raw material and product price risk

While fulfilling its main goals, the Company aims to avoid excessive market risk. This aim is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of debt. When assessing risk, the Group takes into account the portfolio effect resulting from the variety of conducted business activity. Risk effects are materialised in the cash flow statement, balance sheet and the statement of results for the Company.

Financial risk management covers processes of identifying, measuring and establishing the manner of responding to it, including processes related to currency exchange rates and interest rate fluctuations.
The Company monitors risk areas which are the most important for the Company's activity.

Interest rate risk

CIECH S.A. finances its activity mainly through interest bearing debt, including loans and bonds, corresponding expenditure borne by the Company is dependent on the reference rate and margin. Therefore, the Company is exposed to risk of change of financial costs due to changing interest on existing debt. This may result in increased financial costs and, consequently, deteriorate the financial result of CIECH S.A.

29 Objectives and principles in financial risk management (continued)

The table below presents balance sheet items exposed to interest rate risk:

PLN '000.	31.12.2010 Total carrying value	31.12.2009 Total carrying value
Floating interest rate instruments		
Financial assets	910,982	552,566
Financial liabilities	1,483,018	904,180

The table below shows the effects of a change in the interest rate by 100 base points over the floating interest rate instruments disclosed in the balance sheet.

PLN '000.	Income statement		Equity*	
	increase by 100 bp	*decrease by 100 bp*	*increase by 100 bp*	*decrease by 100 bp*
31.12.2010				
Floating interest rate instruments	(5,720)	5,720	-	-
Exposure of net cash flows (net)	**(5,720)**	**5,720**	**-**	**-**

PLN '000.	Income statement		Equity	
	increase by 100 bp	*decrease by 100 bp*	*increase by 100 bp*	*decrease by 100 bp*
31.12.2009				
Floating interest rate instruments	(3,516)	3,516	-	-
Exposure of net cash flows (net)	**(3,516)**	**3,516**	**-**	**-**

** The influence of the financial result on equity is not taken into account.*

Currency risk

Currency risk is an intrinsic component of running commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, CIECH S.A. is subject to currency exposure connected with considerable surplus of exports over imports. Sources of currency risk which threatened the Company in 2010 included: purchase of raw materials, sales of goods, loans and borrowings granted and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen CIECH S.A.'s financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. Pursuant to the provisions of the loan agreement of April 26th, 2010, the Company undertook not to enter into any derivatives transaction, excluding hedging transactions agreed on with banks. CIECH S.A. prematurely terminated all active option transactions and as at the end of 2010 was not party to any active option transactions. Owing to lack of available treasury limits in banks, at present, CIECH S.A. may not enter into any derivatives transactions. Surplus of negative foreign exchange differences over positive differences in 2010 amounted to approx. PLN 79 million.

The table below present the maximum exposure of financial instruments to currency risk denominated in foreign currencies.

PLN '000.	31.12.2010, Face value	
	EUR, including:	USD, including:
Trade receivables	92,011	25,376
Borrowings granted	394,665	28,159
Trade liabilities	(51,945)	(59,233)
Liabilities due to loans and borrowings	(18,568)	(1,482)
Face value	**416,163**	**(7,180)**

PLN '000.	31.12.2009, Face value	
	EUR, including:	USD, including:
Trade receivables	86,769	37,916
Borrowings granted	439,395	-
Trade liabilities	(42,434)	(40,546)
Liabilities due to loans and borrowings	(44,120)	-
Value of derivatives (delta equivalent)	**(572,055)**	-
Face value	**(132,445)**	**(2,630)**

29 Objectives and principles in financial risk management (continued)

The table below presents the estimated currency exposure of CIECH S.A. in Euro as at December 31st, 2010 due to financial instruments and future net operating revenues (excluding SDC figures):

Exposure to currency risk in EURO	(EUR '000)	Impact on income statement	Impact from 1.01.2011 to 31.12.2011
Assets			
Borrowings granted sensitive to FX rate changes	68,169	x	
Trade and other receivables	36,895	x	
Bank deposits	4,000		
Equity and liabilities			
Trade and other liabilities	(25,701)	x	
Liabilities due to loans and borrowings	(4,688)	x	
Future net sales planned			
Forecasted future net result* in EUR (12 months)	**192,209**		**X**
Total result	**270,884**		

* net result = operating revenues in EUR – operating costs in EUR

The next table contains an analysis of the sensitivity of individual balance-sheet items to FX rate changes as at 31.12.2010

Analysis of sensitivity to FX rate changes	(PLN '000)*	Impact on income statement	Impact from 1.01.2011 to 31.12.2011
F/x balance-sheet items (excluding borrowings)	105	105	
Borrowings granted sensitive to FX rate changes	682	682	
Forecasted future net result in EUR	1,922		1,922
Total impact	**N/A**	**787**	**2,297**

Raw material price risk

A significant portion of the Company's activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature connected with fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries and a decrease of demand generated by recipients. On the other hand, falling prices are usually a symptom of decreasing demand and the beginning of an economic downturn. On the domestic market, raw materials are subject to similar tendencies. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of the Company. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation will have negative influence on the activity related to trading in chemical raw materials.

In most segments of the Company's activity goods are not subject to significant price fluctuations. Nevertheless, the organic segment is exposed to price risk. This correlated with the condition of global economy, current demand and supply situation of final customers, the level of prices of basic raw materials and energy. The Company reduces price risk through regulating price policy, concluding agreements with suppliers anticipating collaterals and insurance of supplies and containing a proper price formula.

Credit risk

Credit risk means a threat that the borrower will not fulfil obligations stipulated in the agreement and expose the lender to financial loss.

From the CIECH S.A.'s point of view, credit risk is linked to:

- trade receivables from customers,
- own borrowings granted,
- granted guarantees and sureties,
- cash and bank deposits.

29 Objectives and principles in financial risk management (continued)

CIECH S.A. is exposed to credit risk connected with the credit rating of customers being parties to product and goods sales transactions. This risk is reduced through internal procedures for determining loan limits for customers and through management of trade receivables (the Company mainly applies letters of credit, bank guarantees, mortgages, insurance and factoring without recourse as hedge). Customers' credit rating is assessed and appropriate collateral is obtained from the borrowers, allowing for a reduction of potential losses in the case of failure to repay the debt. Credit risk assessment for customers is performed prior to concluding an agreement and cyclically at subsequent supplies of goods, in accordance with the binding procedures. The risk of the receivables portfolio is assessed weekly. On selected markets, where more risky terms of payment are applied, the Company uses services provided by companies specialising in insuring receivables.

Credit risk connected with cash in bank and bank deposits is low as the Company enters into transaction with high-rating banks which have a stable market position.

The table below presents the maximum exposure of financial assets to credit risk as at the balance sheet date.

PLN '000.	Carrying value of financial assets	
	31.12.2010	**31.12.2009**
Cash and cash equivalents	35,131	46,445
Assets available for sale	-	38,118
Borrowings and trade receivables and others	1,183,036	823,130
Total	**1,218,167**	**907,693**

The table below presents maximum credit risk exposure for trade receivables and granted borrowings as at the balance sheet date.

PLN '000.	31.12.2010 **Trade receivables**	31.12.2009 **Trade receivables**	31.12.2010 **Borrowings granted**	31.12.2009 **Borrowings granted**
Poland	125,033	126,101	469,305	50,293
European Union	87,136	94,419	390,705	439,395
Other European countries	33,399	22,284	-	-
North America	3,538	-	-	-
North America	534	-	-	-
Africa	2,051	7,304	-	-
Asia	15,260	25,966	-	-
Other regions	2,223	580	-	-
Total	**269,174**	**276,654**	**860,010**	**489,688**

PLN '000.	**31.12.2010 Trade receivables**	**31.12.2009 Trade receivables**	**31.12.2010 Borrowings granted**	**31.12.2009 Borrowings granted**
Soda Segment	140,207	128,152	515,188	439,395
Organic Segment	99,100	133,064	259,303	41,667
Agrochemical Segment	20,149	3,581	10,960	-
Silicates and Glass Segment	6,224	10,553	67,563	8,000
Other Operations Segment	3,494	1,304	6,996	626
Total	**269,174**	**276,654**	**860,010**	**489,688**

29 Objectives and principles in financial risk management (continued)

The table below presents a classification of trade receivables by overdue periods.

PLN '000.	31.12.2010 Total gross value of receivables	Impairment loss
Not overdue	253,785	2,929
Up to 1 month	14,754	-
1 to 3 months	3,289	-
3 to 6 months	284	9
6 months to 1 year	1,189	1,189
Over 1 year	12,281	12,281
Total	**285,582**	**16,408**

PLN '000.	31.12.2009 Total gross value of receivables	Impairment loss
Not overdue	250,464	3,314
Up to 1 month	28,690	-
1 to 3 months	257	3
3 to 6 months	326	6
6 months to 1 year	991	751
Over 1 year	11,988	11,988
Total	**292,716**	**16,062**

Classification of borrowings granted by overdue periods.

PLN '000.	31.12.2010 Total gross value of borrowings	31.12.2010 Impairment loss	31.12.2009 Total gross value of borrowings	31.12.2009 Impairment loss
Not overdue	1,079,446	220,042	692,791	203,131
Up to 1 month	606	-	28	-
Over 1 year			1,243	1,243
Total	**1,080,052**	**220,042**	**694,062**	**204,374**

In 2010, the Company granted borrowings to subsidiaries for a total of PLN 594,844 thousand.

In 2009, the Company granted borrowings amounting to PLN 48,271 thousand (including negative FX differences due to valuation, amounting to PLN 5,916 thousand). S.C. Uzinele Sodice Govora Ciech Chemical Group S.A. received a borrowing amounting to PLN 45,190 thousand (EUR 11,000 thousand).
In 2009, the method of presenting the advance granted in 2008 to the Romanian company for the delivery of goods amounting to PLN 43,096 thousand was changed (including FX difference due to valuation, PLN 571 thousand), which, as at December 31st, 2009, amounted to EUR 10,490 thousand. CIECH S.A. still awaits the realisation of the advance for the delivery of goods by the Romanian company.

According to the Company, assets that are not overdue or written down are of high credit quality.
In 2010, CIECH S.A. did not take over any assets established as a collateral for its claims.
The value of Other financial assets exposed to credit risk is similar to their carrying value.

Liquidity risk

CIECH S.A. is exposed to liquidity risk due to a high portion of short-term borrowing, limited opportunities to obtain new funding given the high level of existing debt.

The following measures are applied to reduce liquidity risk:
- regular monitoring of the Company's liquidity,

29 Objectives and principles in financial risk management (continued)

- monitoring and optimization of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities of the Group's companies.
- current monitoring of the fulfilment of loan agreements provisions, including maintenance of current and forecasted financial ratios stipulated in loan agreements,
- seeking other sources of funding – issuance of Offered Shares.

In order to reduce the external funding risk, in 2010, the process of refinancing and consolidation was continued and in April 2010, it entered into a consortium loan agreement with banks financing CIECH S.A. and the Ciech Group, the provisions of this agreement have been detailed in section 20.1 of notes and explanations to the financial statements of the CIECH S.A. for 2010.

The table below presents financial liabilities at face value, grouped by maturity.

31.12.2010

PLN '000.	**Face value**	**Contractual cash flows**	**Under 6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**
Other financial liabilities	**1,914,160**	**1,918,974**	**650,491**	**938,917**	**329,566**	**-**	**-**
– trade liabilities	405,557	405,557	405,364	168	25	-	-
– loans and borrowings	1,166,435	1,166,435	236,066	930,369	-	-	-
– bonds	300,618	300,618	682	-	299,936	-	-
– other	41,550	46,364	8,379	8,380	29,605	-	-
Total financial liabilities	**1,914,160**	**1,918,974**	**650,491**	**938,917**	**329,566**		

31.12.2009

PLN '000.	**Face value**	**Contractual cash flows**	**Under 6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**
Other financial liabilities	**1,246,371**	**1,246,371**	**808,896**	**11,148**	**126,327**	**300,000**	**-**
– trade liabilities	342,218	342,218	342,218	-	-	-	-
– loans and borrowings	603,560	603,560	466,085	11,148	126,327	-	-
– bonds	300,593	300,593	593	-	-	300,000	-
Financial lease liabilities	-	**-**	-	**-**	-	-	**-**
Hedging derivatives with negative value*	**139,759**	**139,759**	**93,061**	**30,206**	**16,492**	**-**	**-**
Total financial liabilities	**1,386,130**	**1,386,130**	**901,957**	**41,354**	**142,819**	**300,000**	**-**

* The designation of options to hedge accounting changed in 2009. As at December 31st, 2009, all options were of a hedging nature.

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the income statement, has been presented in section 30 of the notes and explanations to the financial statements of CIECH S.A. for 2010.

Risk management principles

CIECH S.A. actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the Company's goodwill.

29 Objectives and principles in financial risk management (continued)

CIECH S.A.'s policy assumes natural hedging of imports and exports and hedging of up to 70% of net exposure to currency risk. The instruments used in hedging the aforesaid exposures in 2010 were option-related strategies.

Cash management

CIECH S.A. cooperates with service providers (banks) of high credibility and with vast experience in the cash management area. Consequently, the existing bank services may be improved and the costs of financing reduced. The works aimed at integrating bank servicing of the Ciech Group's companies continue.

30 Financial instruments

The main financial instruments disclosed in the balance sheet of CIECH S.A. as at December 31st, 2010 include:

- **Financial assets:**
  - trade receivables,
  - borrowings granted.
- **Financial liabilities:**
  - trade liabilities
  - bank loans and borrowings
  - liabilities due to bonds issued,

30 Financial instruments (continued)

Carrying value

Categories of financial instruments

31.12.2010 *PLN '000.*	Note	Financial assets available for sale	Investments kept until maturity date	Loans and receivables	Financial liabilities measured at amortised cost	Total
Classes of financial instruments						
Cash and cash equivalents	18	35,131	-	-	-	**35,131**
Trade receivables	16	-	-	269,174	-	**269,174**
Borrowings granted	13, 17	-	-	860,010	-	**860,010**
Other financial assets	14	-	15,841	53,852	-	**69,693**
Trade liabilities	23	-	-	-	(405,557)	**(405,557)**
Loans and borrowings	23	-	-	-	(1,166,435)	**(1,166,435)**
Debt securities – issued bonds	20, 23	-	-	-	(300,618)	**(300,618)**
Other	23	-	-	-	(41,550)	**(41,550)**
		35,131	**15,841**	**1,183,036**	**(1,914,160)**	**(680,152)**

30 Financial instruments (continued)

Categories of financial instruments

31.12.2009 *PLN '000.*	Note	Financial assets available for sale	Investments kept until maturity date	Loans and receivables	Financial liabilities measured at amortised cost	Hedging instruments	Total
Classes of financial instruments							
Cash and cash equivalents	18	46,445	-	-	-	-	**46,445**
Shares	14	38,118	-	-	-	-	**38,118**
Trade receivables	16	-	-	276,654	-	-	**276,654**
Borrowings granted	13, 17	-	-	489,688	-	-	**489,688**
Other financial assets	14	-	16,433	48,433	-	-	**64,866**
Trade liabilities	23	-	-	-	(342,218)	-	**(342,218)**
Loans and borrowings	20, 23	-	-	-	(603,560)	-	**(603,560)**
Debt securities – issued bonds	20, 23	-	-	-	(300,593)	-	**(300,593)**
Derivatives recognised		-	-	-	-		
under financial liabilities	20, 23	-	-	-	-	(139,759)	**(139,759)**
set as hedging instruments							
Other	23	-	-	-	(50,811)	-	**(50,811)**
		84,563	**16,433**	**814,775**	**(1,297,182)**	**(139,759)**	**(521,170)**

Selected trade receivables in CIECH S.A. are subject to factoring. It is factoring without recourse since the moment the receivables are transferred to factoring they are used as factor's receivables.

30 Financial instruments (continued)

Fair value

The table below presents the fair value of financial instruments.

		Fair value	Carrying value	Fair value
PLN '000.		**2010**	**2009**	
Cash	35,131	35,131	46,445	46,445
Shares	-	-	38,118	38,118
Borrowings granted	860,010	860,010	489,688	489,688
Trade receivables	269,174	269,174	276,654	276,654
Other	69,693	69,693	52,274	60,628
Assets by category	**1,234,008**	**1,234,008**	**903,179**	**911,533**
Loans and borrowings	1,166,435	1,166,435	603,560	603,560
Debt securities	300,618	300,618	300,593	300,593
Trade liabilities	405,557	405,557	342,218	342,218
Liabilities due to evaluation of derivatives			140,402	140,402
Other	41,550	41,550	50,811	57,992
Financial liabilities	**1,914,160**	**1,914,160**	**1,437,584**	**1,444,765**

30 Financial instruments (continued)

Items of revenues, costs, profits and losses recognised in the income statement, grouped into categories of financial instruments

PLN '000.

for the period 01.01.- 31.12.2010	Financial assets available for sale	Assets held until maturity	Loans and receivables	Financial assets/ liabilities measured at the fair value through the income statement	Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities excluded from IAS 39	Total financial instruments
Interest revenues/costs, including revenues/costs calculated by using the effective interest rate method	646	74	26,540	-	(92,350)	–	(65,090)
Revenues/costs due to fees other than those considered when determining the effective interest rate	-	-	-	-	(11,007)	(661)	(11,668)
Revenue/ costs on account of measurement of non-current liabilities	-	-	-	-	-	–	–
Foreign exchange profit/loss	-	-	-	-	(79,128)	–	(79,128)
Creation of write-downs	-	-	(8,405)	-	-	-	(8,405)
Reversal of write-downs	–	-	252	-	-	-	252
Revenues/ costs on account of measurement and usage of derivatives	-	-	-	12,721	-	-	12,721
Profit/ (loss) on the disposal of financial instruments	(6,144)	-	-	-	-	-	(6,144)
Total net profit/(loss)	**(5,498)**	**74**	**18,387**	**12,721**	**(182,485)**	**(661)**	**(157,462)**

PLN '000.

for the period 01.01.- 31.12.2009	Financial assets available for sale	Assets held until maturity	Loans and receivables	Financial assets/ liabilities measured at the fair value through the income	Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities excluded from IAS 39	Total financial instruments

				statement			
Interest revenues/costs, including revenues/costs calculated by using the effective interest rate method	1,663	586	21,513	-	(64,285)	–	(40,523)
Revenues/costs due to fees other than those considered when determining the effective interest rate	-	-	-	-	(11,007)	(31)	(11,038)
Interest revenues connected with financial assets of lost value (calculated in accordance with OS93 IAS 39)	-	-	-	-	-	–	–
Foreign exchange profit/loss	-	-	-	-	(139,212)	–	(139,212)
Creation of write-downs	-	-	(3,671)	-	-	-	(3,671)
Reversal of write-downs	171	-	239	-	-	-	410
Measurement of financial instruments	-	-	-	(20,666)	-	-	(20,666)
Profit/ (loss) on the disposal of financial instruments	(256)	-	-	-	-	-	(256)
Total net profit/(loss)	**1,578**	**586**	**18,081**	**(20,666)**	**(214,504)**	**(31)**	**(214,956)**

30 Financial instruments (continued)

Fair value hierarchy

The following table present information on financial instruments measured at fair value, grouped according to a three tier hierarchy:

- **Tier 1** – fair value based on market listing, stock exchange prices (unadjusted), offered for identical assets or liabilities on active markets
- **Tier 2** – CIECH S.A. measures derivatives to the fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates, etc.
- **Tier 3** – fair value established on the basis of various evaluation techniques which are not based on observable market data.

		31.12.2010		31.12.2009	
PLN '000.	**Note**	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**
Financial assets					
Shares listed on stock exchange		-	-	38,118	-
Total		-	-	**38,118**	-
Financial liabilities		-	-	-	-
Hedging instruments		-	-	-	139,759
Total		-	**-**	-	**139,759**

As at the day of preparing the financial statements, CIECH S.A. did not own any available-for-sale financial assets.

CIECH S.A. did not hold any instruments whose initial transactional value differs from the fair value determined as at that day by using the measurement method applied.

The table below presents securities by maturity dates, as owned by the Company in the comparable period.

31.12.2009

PLN '000.	**up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**over 5 years**	**Total**
Shares (other than those evaluated by the equity method):	**38,118**	**-**	**-**	**-**	**38,118**
> listed on the stock exchange	38,118	-	-	-	**38,118**
> not listed on the stock exchange	-	-	-	-	**-**
Participation units in investment funds	-	-	-	-	-
Total securities	**38,118**	**-**	**-**	**-**	**38,118**

30.1 Derivatives

As at the day of preparing the financial statements, CIECH S.A. did not own any available-for-sale financial instruments.

Held-for-sale financial instruments in the comparable period:

31.12.2009	**Fair value**					
PLN '000.	**up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Total**	**Assets**	**Liabilities**
FX instruments	**-**	**-**	**-**	**-**	**-**	**-**
- FX options sold	(40,972)	(57,724)	(16,492)	(115,188)	-	(115,188)
Total derivatives	**(40,972)**	**(57,724)**	**(16,492)**	**(115,188)**	**-**	**(115,188)**

As at the reporting date, CIECH S.A. is not party to any active derivatives which would hedge currency risk.

30 Financial instruments (continued)

30.2 Financial instruments assigned for hedge accounting

In October 2008, the Management Board of CIECH S.A. approved the Financial Risk Management Policy. At the same time, the Company started the process of restructuring option structures, concluded in August 2008, hedging future revenues from sales denominated or indexed to the EUR rate.

As a result of the restructuring process in February and August 2009, option structures were converted into a derivative transaction, covering put options purchased and call options issued, resulting in synthetic currency forwards.

The following instruments were designated to be used in hedge accounting:

- Synthetic currency forwards

The table below presents a summary of specific groups assigned for hedge accounting:

Hedged risk	Type of hedge	Hedged item	Hedging instrument
Currency risk EUR/PLN	Cash flow hedging	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR rate	- A series of synthetic forwards created through the identification among the option structures described in the table above of instruments being a combination of put options purchased (plain vanilla) and call options issued (plain vanilla) of the same face value and identical strike rates on specific dates

30 Financial instruments (continued)

0 Financial instruments assigned for hedge accounting (continued)

Detailed information concerning instruments assigned for hedge accounting is provided in the table below:

No.	FINANCIAL INSTRUMENTS					TRANSACTION DETAILS		CASH FLOW HEDGING					
	Swap transactions	Loan taken	Other financial liabilities	Face value of f/x options (-) issued: (+) purchased as at 31.12.2010		Transactions assigned for hedge accounting	Fair value as at the reporting date	Nature of hedged risk	Cash flow occurrence		Amount recognised in equity (after income tax)	Amount derecognised in equity and recognised in income statement (after income tax)	Inefficiency recognised in income statement
				put	call				Forecast period of cash flow occurrence	Expected date of impact on the financial result			
	EUR '000						*PLN '000.*				*PLN '000.*		
21-23, 28, 31, 32, 35, 38, 41, 44						CIECH S.A. synthetic forward – EUR sales	Cancelled relation	Currency risk (PLN/EUR)	until 19.05.2011	until 19.05.2011	6,194	35,922	-
24, 26, 29, 33, 36, 39, 42, 45						CIECH S.A. synthetic forward – EUR sales	Cancelled relation	Currency risk (PLN/EUR)	until 02.08.2010	until 02.08.2010	-	4,949	-
25, 27, 30, 34, 37, 40, 43, 46						CIECH S.A. synthetic forward – EUR sales	Cancelled relation	Currency risk (PLN/EUR)	until 05.08.2010	until 05.08. 2010	-	2,502	-
										Total	**6,194**	**43,373**	**-**

30 Financial instruments (continued)

0 Financial instruments assigned for hedge accounting (continued)

The aim of CIECH S.A. when taking the decision concerning the implementation of the principles of cash flow hedging was to limit the influence of changes to the fair value of derivatives on the income statement through reflecting their hedging nature in financial statements.

The result of the measurement of effective derivative transactions assigned for hedge accounting is entered under equity into the income statement upon the execution of the hedged item and its influence on the income statement. The result of the measurement of the aforesaid effective derivative transactions is recognised under the same item where the hedged item influences the income statement, i.e. revenues from sales (in relation to synthetic forwards concluded).

In the reporting period, there was no instance of a failure to realise a future transaction subject to cash flow hedging. The relations described in sections 21-46 were closed due to restructuring of option structures.

The revenues from sales assigned for hedge accounting are described as highly probable. Their occurrence has been projected in the Financial Plan of CIECH S.A. These are also transactions with regular customers of CIECH companies, which make their potential occurrence probable.

The influence of cash flow hedging in the effective part was presented in the statement of changes in equity of CIECH S.A.

30.3 Embedded instruments

The Company did not issue liabilities or capitals including embedded derivatives.

31 Assets and financial position of the Przedsiębiorstwo Chemiczne Cheman S.A., S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., Zakłady Chemiczne Zachem S.A. and changes to the ownership structure of soda companies.

Przedsiębiorstwo Chemiczne Cheman S.A.,
Cheman S.A. is a subsidiary in which CIECH S.A. indirectly holds 100% of shares. The company has been operating on the chemical market since 1987, while since 1989 it has been specialising in the distribution of chemicals.
In connection with recurring lack of profitability in the company, the Management Board of the Company implements key assumptions of the Recovery Programme aimed at:

- generating a positive net sales margin by focusing on higher margin products, in particular by collaborating with the Group's companies in the soda and organic segments
- further reduction of fixed costs until a sustainable operating profitability is achieved,
- employment reduction – adjusting the Company's staff numbers and structure to a new business model,
- sale of non-essential fixed assets,
- reduction of interest debt,
- more effective debt collection and recoverability of overdue receivables.

In response to negative equity and the presented financial plan for 2011, which assumes further restructuring of the Company, CIECH S.A.'s Management Board has declared its support for the company in the period between March 2011 and May 2012 to the extent allowing for further operation.

S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.
S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. is a subsidiary in which CIECH S.A. holds 92.91% of shares. The company is important for the strengthening of Ciech Group's position as the runner-up in the soda ash sector.
Given the objectively difficult market situation affecting the Company's finances, the recovery plan was continued in 2010. The plan's main focus was on the following elements:

- improving current cost effectiveness of production through:
  - Intensive negotiation with main suppliers
  - further improvement of efficiency of main raw materials usage
- increase and stabilisation of production volume through implementation of the most essential investment tasks,

31 Assets and financial position of the Przedsiębiorstwo Chemiczne Cheman S.A., S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., Zakłady Chemiczne Zachem S.A. and changes to the ownership structure of soda companies. (continued)

- increase of trade activity efficiency, mainly through:
  - using trade synergies in the process of contracting global clients
  - elimination of the least profitable transactions
  - better penetration of local and neighbouring markets
- strict monitoring of the working capital involvement

Starting from fourth quarter of 2010, there has been a significant increase in the use of capacity, stabilisation of the production level and a substantial reduction of costs. The end of the year and the contracting process which took place at the time produced a clear signal that the company's trade position improved, especially in the context of price expectations for 2011 and the probability of placing a larger production volume on the market. Consequently, is it expected that the financial results will improve in 2011. The positive market assumptions for the company, confidence of largest clients, further restructuring in commercial, production and activities supporting the plant's operations, as well as continued implementation of the investment plan adjusted to the company's financial potential, should enable S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. to generate positive results in the coming years.

In connection with negative capitals observed in the Company, the Management Board of CIECH S.A. declared its intention to maintain the operating activity and not to withdraw its financial involvement from S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., for in the Board's opinion the financial position of S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. Uzinele Sodice Govora – Ciech Chemical Group S.A. should improve gradually in the following years as a result of borne investment outlays.

Zakłady Chemiczne ZACHEM S.A.
Zakłady Chemiczne Zachem S.A. is a subsidiary in which CIECH S.A. holds 90.67% of shares. The main business activity of the Company is production and sale of large tonnage organic chemistry products.
Considering a difficult market situation which has impact on the Company's financial results, in 2010, the Management Board of the Company implemented the assumptions approved at the beginning of 2010 in the development and restructuring plan for 2010-2012, this includes a plan to reduce activity operating costs through a restructuring of organisation, ownership, assets and employment..

In response to negative financial results of the Zachem Group in years 2009-2010 and the financial plan for Zachem S.A. for 2011, which assumes further implementation of the development and restructuring programme in the Company, CIECH S.A.'s Management Board declared its support for Zachem S.A. in the period between March 2011 and March 2012 to the extent allowing for further operation.

Changes to the soda companies' ownership structure
CIECH S.A. owns nearly 100% of shares in JANIKOSODA S.A. and SODA MĄTWY S.A. Having transferred the companies to Soda Polska Ciech Sp. z o.o., the main aim of JANIKOSODA S.A. and SODA MĄTWY S.A. was the management of share blocks being in their possession.
In connection with the sale of owned blocks of shares in Towarzystwo Ubezpieczeniowe S.A. in December 2010, it is planned to merge soda companies or to liquidate them, which should result in improved operating efficiency and synergy effect in terms of the activity of Soda Polska Ciech Sp. z o.o. and Transoda Sp. z o.o.
The aforedescribed planned restructuring of ownership structure within the Soda Division will not have a negative impact on Soda Polska Ciech Spółka z o.o. and Transoda Spółka z o.o., the companies will continue their activity in unchanged scope under the supervision of CIECH S.A.

32 Events occurring after the balance-sheet date

- On January 20th, 2011, CIECH S.A. signed a mandate agreement with Commercial Banks. The Commitment Letter confirms the will of Commercial Banks to provide New Funding pursuant to conditions states therein. The Commitment Letter stipulates that New Funding will be granted jointly by Commercial Banks and EBRD. On January 20th, 2011, EBRD informed CIECH S.A. of their intension to participate in the New Funding, however, the participation of EBRD is still to be approved by the Board of Directors of EBRD which was voted on February 15th, 2011.
  Key terms and conditions of the New Funding described in the Commitment Letter were discussed in Current Report no. 4 of January 21st, 2011.
- On January 20th, 2011, banks – parties to the Existing Loan Agreement, approved for the funds from Issuance with Subscription Right and funds from the sale of GZNF Fosfory Sp. z o.o. – in the scope in which they will not

32 Events occurring after the balance-sheet date (continued)

be used for repayment of PLN 400 million, decreased by approx. PLN 155 million (i.e. amount of funds preliminary intended by CIECH S.A. for repayment or early repayment of loans under the Existing Loan Agreement), due on March 31st, 2011 – were not spent by CIECH S.A. on an obligatory early repayment of loans under the Existing Loan Agreement. At the same time, CIECH S.A. obliged that funds from the Issuance with Subscription Right and funds from the sale of GZNF Fosfory Sp. z o.o. be paid into a restricted bank account in PLN managed on behalf of CIECH S.A. by a hedge agent. The Surplus held on the Restricted Account may be used by CIECH S.A. on capital expenditure in defined companies of the Ciech Group in accordance with a defined schedule, provided that CIECH S.A. has fulfilled requirements stipulated in the Existing Loan Agreement and the loan agreement under which the New Funding will be provided. After the funds on account of the New Loan Agreement have been paid and CIECH S.A. has met required financial ratios with reference to a reporting period ending on September 30th, 2011, the funds held on the Restricted Account will be entirely released.

- On February 10th, 2011, annexes to loan agreements granted to S.C. Uzinele Govora – Ciech Chemical Group S.A. by CIECH S.A. were signed, they prolong the repayment of loans granted to US Govora S.A. up to December 26th, 2011. The annexes cover loans by and between the Company and US Govora S.A. from years 2006-2009 of a total amount at the debt prolongation day approx. EUR 56.9 million.
- On February 10th, 2011, CIECH S.A., being the borrower, entered into a loan agreement with its subsidiaries, being guarantors, (Janikowskie Zakłady Sodowe Janikosoda S.A., Inowrocławskie Zakłady Chemiczne Soda Mątwy S.A., Soda Polska Ciech sp. z o.o., Zakłady Chemiczne Alwernia S.A., Przedsiębiorstwo Chemiczne Cheman S.A., Zakłady Chemiczne Organika Sarzyna S.A., Polfa sp. z o.o., Vitrosilicon S.A., Transclean sp. z o.o. and Zakłady Chemiczne Zachem S.A.) and Bank DnB Nord Polska S.A., Bank Handlowy w Warszawie S.A. (“Loan Agent"), Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bankiem Polskim S.A. (jointly referred to as “Commercial Banks”), regarding refinancing of the current financial debt of the Ciech Group resulting from the Loan Agreement of April 26th, 2010. The agreement provides that S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. shall accede as a guarantor and borrower and that the European Bank for Reconstruction and Development shall accede as creditor. The conditions for EBRD to accede the agreement include gaining a positive decision of the Board of Directors of EBRD and approval of the Loan Agreement content.
- On February 15th, 2011, pursuant to a decision of the Board of Directors, the European Bank for Reconstruction and Development acceded the Loan Agreement and approved its provisions. The conditions of the release of funds by EBRD include: agreement on hedges documentation and fulfilment of conditions for releasing the Investment Loan stipulated in the Loan Agreement. EBRD's accession to the Loan Agreement was one of the conditions precedent to release of loans discussed in the Loan Agreement.
- On February 22nd, 2011, CIECH S.A. received from the Krajowy Depozyt Papierów Wartościowych w Warszawie S.A. information on the results of subscription on the 23,000,000 ordinary bearer shares Series "D" offered by the Company, of face value PLN 5 each ("Series D shares"). In the subscription period between February 3rd and February 16th, 2011, within the performance of the subscription right, a total of 20,322,318 basic subscriptions were made for 21,825,287 Series D shares. At the same time, 533 additional subscriptions were made on 20,322,318 Series D shares. In accordance with the Offering schedule available in the Prospectus, the allocation of Series D shares will take place on February 25th, 2011. The information was announced in Current Report no. 15 of February 22nd, 2011.
- On February 25th, 2011, 23,000,000 Series D shares were allocated. 3,451 basic subscriptions for 21,825,287 Series D shares and 533 additional subscriptions for 20,322,318 Series D shares were made during the subscription. The additional subscription reduction rate was 94.2%. The issuance results from the performance of Resolution no. 3 of the Extraordinary General Meeting of October 28th, 2010 on the raise of Company's share capital by means of an issuance of ordinary bearer shares Series D with face value of PLN 5 each.
- On March 2nd, 2011, CIECH S.A. informed that the subscribers were allocated 23,000,000 ordinary bearer shares Series D with face value of PLN 5 each ("Series D shares") and that the issuance of Series D shares with subscription right conducted by way of public offering pursuant to Resolution no. 3 of the Extraordinary Meeting of October 28th, 1010 regarding the raise of Company's share capital and amendments of the Company's Articles of Association was completed.
- On March 2nd, 2011, CIECH S.A. informed that the Management Board of Krajowy Depozyt Papierów Wartościowych S.A., pursuant to Resolution no. 171/11 of March 1st, 2011, decided to accept to the securities' deposit 23,000,000 rights to ordinary bearer shares Series D of the Company with face value of PLN 5 each, issued pursuant to Resolution no. 3 of the Extraordinary General Meeting of October 28th, 2010 and to register them under code no. PLCIECH00067.
- On March 4th, 2011, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. decided to introduce on the stock exchange base market 23,000,000 rights to ordinary bearer shares Series D of the Company with face value PLN 5 each ("Rights to Series D shares") registered in Krajowy Depozyt Papierów Wartościowych S.A. under code no. "PLCIECH00067", effective as of March 7th, 2011. The Rights to Series D shares were introduce to the Warsaw Stock Exchange on March 7th, 2011 are listed in continuous trading under an abbreviated name "CIECH-PDA" and marked as "CIEA".

32 Events occurring after the balance-sheet date (continued)

- On March 7th, 2011, a Member of the Management Board of CIECH S.A., Mr Artur Osuchowski, informed of his purchase of 1,725 Issuer's shares Series "D", having made a subscription to perform the subscription right for Issuer's shares Series "D" (while at the day of lodging the information, the Issuer's shares Series "D" were represented in the regulated market trade conducted by Giełda Papierów Wartościowych w Warszawie S.A. by rights to Issuer's shares Series "D"). Purchase price of 1 Issuer's share Series "D" was equal to the issuance price, i.e. PLN 19.20. The transaction was accounted for on March 3rd, 2011. The purchase and registration transaction was performed on the regulated market.
- On March 14th, 2011, the District Court of Warsaw in Warsaw, 13th Economic Division of the National Court Register registered the amendment to the Company's Articles of Association adopted with the Resolution of the Extraordinary General Meeting of Company's Shareholders of October 28th, 2010 regarding the raise of Company's share capital and amendments of the Company's Articles of Association and registered the raise of Company's share capital from PLN 140,001,420 to PLN 255,001,420 by way of issuance of 23,000,000 ordinary bearer shares Series D with face value of PLN 5 each. The total number of votes resulting from all issued shares of the Company, after the share capital raise registration, is 51,000,000 and the share capital is divided into 51,000,000 Company shares of face value PLN 5 each, including 20,816 ordinary bearer shares Series "A", 19,775,200 ordinary bearer shares Series "B", 8,203,984 ordinary bearer shares Series "C" and 23,000,000 ordinary bearer shares Series "D".
- On March 18th, 2011, CIECH S.A. allocated approx. PLN 244.8 million on the repayment of loans granted under the Loan Agreement of April 26th, 2010. The total amount assigned by CIECH S.A. for reduction of loans in the period from August 30th, 2010 and March 18th, 2011 was PLN 400 million. The repayment constitutes fulfilment of one condition of the Loan Agreement and fulfilment of one condition precedent to the loan agreement of February 10th, 2011.
- The Management Board of Krajowy Depozyt Papierów Wartościowych S.A., pursuant to Resolution no. 221/11 of March 18th, 2011, decided to accept to the securities' deposit 23,000,000 rights to ordinary bearer shares Series D of the Company with face value of PLN 5 each ("Series D shares") and to register them under code no. PLCIECH00018, provided that a decision to introduce the shares to regulated market trading, where other Company shares registered under code no. PLCIECH00018 had been introduced is approved by the entity in charge of the regulated market. The registration of Series D shares in the securities' deposit will take place within three days after the delivery to KDPW of a document confirming the decision to introduce the shares to regulated market trading, where other Company shares registered under code no. PLCIECH00018 had been introduced by the entity in charge of the regulated market, not sooner than on the day indicated in the decision as the day of introduction of the registered Series D shares to trading on this market.
- On March 18th, 2011, Ciech S.A. and US Govora S.A. entered into an agreement regarding a novation of the claim of Ciech S.A. against US Govora S.A. amounting to EUR 1.467 million (“Claim”). The claim occurred on March 18th, 2011 in connection with Ciech S.A.'s partial repayment of a loan granted to US Govora S.A. by Bank Handlowy w Warszawie S.A. (under the loan agreement of April 26th, 2010) amounting to EUR 1.467 million. Pursuant to a novation agreement, the debt under this Claim was converted to an in-group loan with repayment date on December 26th, 2011.
- On Match 24th, 2011, the Supervisory Board compiled the consolidated text of the CIECH S.A. Articles of Association which accounts for the amendments to the CIECH S.A. Articles of Association adopted by virtue of Resolution no. 3 of the Extraordinary General Meeting of the Shareholders of CIECH S.A. of October 28th, 2010, registered on March 14th, 2011 by the District Court for the Capital City Of Warsaw, 13th Economic Division of the National Court Register. The amended Articles of Association were published on March 25th, 2011.
- On March 25th, 2011, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. adopted:
    - resolution no. 380/2011 regarding the indication of the last day of listing of 23,000,000 of rights to Company's ordinary bearer shares Series D with face value PLN 5 each ("Rights to Series D shares") in which the Management Board of GPW indicated March 29th, 2011 as the day of the last listing of the Rights to Series D shares registered in Krajowy Depozyt Papierów Wartościowych S.A. under code no. PLCIECH00067,
    - resolution no. 381/2011 regarding introduction to stock exchange trading on base market ordinary bearer shares Series D of the Company, in which the Management Board of GPW decided to introduce on the stock exchange base market 23,000,000 ordinary bearer shares Series D of the Company with face value PLN 5 each provided that KDPW registers the shares on March 30th, 2011 and registers them under the code no. PLCIECH00018.
- On April 5th, 2011, the Management Board of CIECH S.A. decided to complete works connected with the divestment process in Transclean Sp. z o.o. owing to lack of offers complaint with assumed requirements.
- On April 5th, 2011, the Management Board of CIECH S.A. decided to accept the proposal of ZCh Zachem S.A. regarding the sale of 4,322 shares constituting 50% of the share capital of Transclean Sp. z o.o. with registered office in Bydgoszcz.
- On April 14th, 2011, CIECH S.A. entered into a borrowing agreement with Organika Sarzyna S.A. regarding funding for the construction of a MCPA active substance production facility together with infrastructure. The agreement stipulates that the borrowing will be paid in tranches in the period from April 2011 to September 2012,

the forecasted amount of borrowing totals PLN 63 million. The borrowing repayment schedule assumes the complete repayment by December 31st, 2018.

33 Information about significant events from previous years, recognised in the financial statements for the financial year

No events from previous years that were disclosed in the financial statements for 2010 occurred in the presented period.

34 Information other than that mentioned above, having a material effect on the assessment of CIECH S.A.'s financial situation, assets and financial result

No such events occurred.

STATEMENT OF THE MANAGEMENT BOARD

These financial statements of CIECH S.A. have been approved by the Company's Management Board in the Company's registered office, on April 20th, 2011.

Warsaw, April 20th, 2011

…….....
Ryszard Kunicki – President of the Management Board of CIECH Spółka Akcyjna

……
Andrzej Bąbaś – Member of the Management Board of CIECH Spółka Akcyjna

……
Artur Osuchowski – Member of the Management Board of CIECH Spółka Akcyjna

……..
Rafał Rybkowski – Member of the Management Board of CIECH Spółka Akcyjna

……
Katarzyna Rybacka – Chief Accountant of CIECH Spółka Akcyjna