



## **Independent Registered Auditor's Report**

### **To the General Shareholders' Meeting and the Supervisory Board of CIECH S.A.**

#### ***Report on the consolidated financial statements***

We have audited the accompanying consolidated financial statements of the CIECH S.A. Group (hereinafter called "the Group"), having CIECH S.A., Wspólna 62 Street, Warsaw, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows for the year from 1 January to 31 December 2016 and a summary of significant accounting policies and other explanatory notes.

#### ***Management and Supervisory Board's Responsibility***

The Parent Company's Management Board is responsible for the preparation of these consolidated financial statements, on the basis of correctly maintained consolidation documentation, and their fair presentation in accordance with the International Financial Reporting Standards as adopted by the European Union and in accordance with the applicable regulations. The Parent Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Parent Company's Management Board and Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2016, item 1047 as amended).

#### ***Auditor's Responsibility***

Our responsibility was to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register (KRS) maintained by the District Court in Warsaw, with the reference number (KRS) 0000044655, and tax identification number (NIP) 526-021-02-28. Share capital amounts to PLN 10,363,900. Headquarters in Warsaw, Al. Armii Ludowej 14.



## **Independent Registered Auditor's Report (cont.)**

### **To the General Shareholders' Meeting and the Supervisory Board of CIECH S.A.**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the accompanying consolidated financial statements:

- a. give a true and fair view of the Group's financial position as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January to 31 December 2016, in accordance with the International Financial Reporting Standards as adopted by the European Union and the applicable accounting policies;
- b. comply in terms of form and content with the applicable laws, including the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions of recognizing as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133 as amended);
- c. have been prepared on the basis of correctly maintained consolidation documentation.

#### **Report on Other Legal and Regulatory Requirements**

##### *Opinion on the Management Board report on Group's activities*

Our opinion on the audit of the consolidated financial statements does not cover the Management Board report on the Group's and Parent Company's activities.

The Parent Company's Management Board is responsible for the preparation of the report on the Group's activities in accordance with the Accounting Act, and the Decree. Further, the Management Board and Supervisory Board are obliged to ensure that the report on the Group's activities meets the requirements of the Accounting Act.

With respect to our audit of the consolidated financial statements, our responsibility was to read the Management Board report on the Group's and Parent Company's activities and consider whether the information included in this Report complies with the regulations of article 49 of the Accounting Act and the Decree and is consistent with the information in the related consolidated financial statements. Our responsibility was also to consider, based on the knowledge of the Group and its environment obtained during our audit, whether the Management Board report on the Group's and Parent Company's activities does not contain any material misstatements.

In our opinion, the information contained in the Management Board report on the Group's and Parent Company's activities for the year from 1 January to 31 December 2016 comply with the requirements of article 49 of the Accounting Act and the Decree and is consistent with the information in the audited consolidated financial statements.

Further, based on the knowledge of the Group and its environment obtained during our audit we have not identified any material misstatements in the Management Board report on the Group's and Parent Company's activities.



## **Independent Registered Auditor's Report (cont.)**

### **To the General Shareholders' Meeting and the Supervisory Board of CIECH S.A.**

With respect to our audit of the consolidated financial statements, our responsibility was also to read the Group's Statement of Corporate Governance, which is a separate part of the Management Board report on the Group's and Parent Company's activities. In our opinion, the Group included information in accordance with the scope defined in the Decree, and information as indicated in the Decree, complies with the applicable regulations and is consistent with the information contained in the consolidated financial statements.

Auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o. Registered Audit Company No. 144:

Piotr Wyszogrodzki

Key Registered Auditor  
No. 90091

Warsaw, 20 March 2017

## **CIECH S.A. Group**

**Independent Registered Auditor's Report**

**Consolidated Financial Statements**

**Management Board Report on Group's and Parent Company's activities**

**Registered Auditor's Report on the audit of the consolidated financial statements**

**For the year from 1 January to 31 December 2016**

### **Content:**

**Independent Registered Auditor's Report**

prepared by PricewaterhouseCoopers Sp. z o.o.

**Consolidated Financial Statements**

prepared by CIECH S.A. Group

**Management Board Report on Group's and Parent Company's activities**

prepared by Management Board of CIECH S.A.

**Registered Auditor's Report on the audit of the consolidated financial statements**

prepared by PricewaterhouseCoopers Sp. z o.o.

## **CIECH S.A. Group**

### **Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

*Translation note:*

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**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

**To the General Shareholders' Meeting and the Supervisory Board of CIECH S.A.**

**This report contains 14 consecutively numbered pages and consists of:**

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

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**I. General information about the Group**

- a. CIECH S.A. ("the Parent Company") with its seat in Warsaw, Wspólna 62 Street is the parent company of the CIECH S.A. Group ("the Group").
- b. The Parent Company was formed on the basis of a Notarial Deed drawn up on 30 May 1995 at the Notary Public's Office of Paweł Błaszczak in Warsaw and registered with Rep. A No. 7512/95. On 25 May 2001, the Parent Company was entered in the Register of Businesses maintained by the District Court in Warsaw, XIII Business Department of the National Court Register, with the reference number KRS 0000011687.
- c. The Parent Company was assigned a tax identification number (NIP) 118-00-19-377 for the purpose of making tax settlements and a REGON number 011179878 for statistical purposes.
- d. As at 31 December 2016 the Parent Company's share capital amounted to PLN 287,614 thousand and included capital from the issued shares in the amount of PLN 263,500 thousand, which consisted of 52,699,909 shares, with a nominal value of PLN 5 each, and the adjustment for hyperinflation for the years from 1989 to 1996 in the amount of PLN 24,114 thousand.
- e. As at the date of preparation the financial statements (\*), the Parent Company's shareholders were:

| Shareholder's name                                  | Number of shares held | Par value of shares held (PLN '000) | Type of shares held | Votes (%)   |
|---|-----------------------|-------------------------------------|---------------------|-------------|
| KI Chemistry S. à r. l                              | 26,952,052            | 134,760,260                         | ordinary            | 51.14%      |
| TFI PZU Funds                                       | 6 428 681             | 32,143,405                          | ordinary            | 12.20%      |
| Nationale-Nederlanden<br>Otwarty Fundusz Emerytalny | 3 000 000             | 15,000,000                          | ordinary            | 5.69%       |
| Others  | 16 319 176            | 81,595,880                          | ordinary            | 30.97%      |
|   | <b>52,699,909</b>     | <b>263,499,545</b>                  |                     | <b>100%</b> |

(\*) Based on CIECH S.A. list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of Shareholders of CIECH S.A.

- f. In the audited year, the Group's operations comprised:
  - Wholesale of chemical products and other semi-finished products,
  - Production of pesticides and other agrochemical products,
  - Production of plastics in primary forms,
  - Production and distribution of electricity,
  - Production of other basic inorganic chemicals,
  - Manufacture of hosts glass,
  - Production and processing of other glass, including technical glass,

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

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**I. General information about the Group (cont.)**

- Manufacture of other plastic products,
- Road transport of goods,
- Rental and management of own or leased property,
- Activities of holding companies.

g. During the audited year, the Management Board of the Parent Company comprised:

- Maciej Tybura Chairman of the Board,
- Artur Król Board Member,
- Artur Osuchowski Board Member.

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements**  
**for the year from 1 January to 31 December 2016**

**I. General information about the Group (cont.)**

h. As at 31 December 2016, the CIECH S.A. Group comprised the following entities:

| Name                        | Nature of equity relationship (interest in %) | Consolidation method | Auditor of the financial statements | Type of opinion  | Balance sheet date |
|-----------------------------|---|----------------------|-------------------------------------|--|--------------------|
| CIECH S.A.                  | Parent Company                                | Not applicable       | PricewaterhouseCoopers Sp. z o.o.   | unqualified  | 31 December 2016   |
| CIECH Trading S.A.          | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.   | unqualified  | 31 December 2016   |
| CIECH Finance Sp. z o.o.    | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.   | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| CIECH R&D Sp. z o.o.        | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.   | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| CIECH Nieruchomości S.A.    | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.   | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| CIECH Soda Romania S.A.     | Subsidiary (98,74%)                           | Full                 | PricewaterhouseCoopers Audit S.R.L. | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| CIECH Vitrosilicon S.A.     | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.   | unqualified  | 31 December 2016   |
| CIECH Transclean Sp. z o.o. | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.   | unqualified  | 31 December 2016   |
| CIECH Pianki Sp. z o.o.     | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.   | unqualified  | 31 December 2016   |
| CIECH Group Financing AB    | Subsidiary (100%)                             | Full                 | Öhrlings PricewaterhouseCoopers     | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements**  
**for the year from 1 January to 31 December 2016**

**I. General information about the Group (cont.)**

| Name                          | Nature of equity relationship (interest in %) | Consolidation method | Auditor of the financial statements     | Type of opinion  | Balance sheet date |
|-------------------------------|---|----------------------|---|--|--------------------|
| Verbis ETA Sp. z o.o.         | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit | Not applicable   | 31 December 2016   |
| Verbis ETA Sp. z o.o. SKA     | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.       | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| CIECH Cerium Sp. z o.o. SK    | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit | Not applicable   | 31 December 2016   |
| Beta Cerium Sp. z o.o. Sp. k. | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit | Not applicable   | 31 December 2016   |
| Vasco Polska Sp. z o.o.       | Subsidiary (90%)                              | Full                 | The Company was not subject to an audit | Not applicable   | 31 December 2016   |
| JANIKOSODA S.A.               | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.       | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| CIECH Soda Polska S.A.        | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.       | unqualified  | 31 December 2016   |
| CIECH Cargo Sp. z o.o.        | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.       | unqualified  | 31 December 2016   |
| Cerium Sp. z o.o.             | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit | Not applicable   | 31 December 2016   |
| Gamma Finanse Sp. z o.o.      | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit | Not applicable   | 31 December 2016   |
| Cerium Finance Sp. z o.o.     | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit | Not applicable   | 31 December 2016   |
| CIECH Sarzyna S.A.            | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.       | unqualified  | 31 December 2016   |

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements**  
**for the year from 1 January to 31 December 2016**

**I. General information about the Group (cont.)**

| Name                                | Nature of equity relationship (interest in %) | Consolidation method | Auditor of the financial statements                       | Type of opinion  | Balance sheet date |
|-------------------------------------|---|----------------------|---|--|--------------------|
| Verbis KAPPA Sp. z o.o.             | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit                   | Not applicable   | 31 December 2016   |
| Verbis KAPPA Sp. z o.o. SKA         | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.                         | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| Algete Sp. z o.o.                   | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers Sp. z o.o.                         | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| SDC GmbH                            | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit                   | Not applicable   | 31 December 2016   |
| CIECH Soda Deutschland GmbH&Co. KG  | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| Sodawerk Holding Stassfurt GmbH     | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit                   | Not applicable   | 31 December 2016   |
| Sodawerk Stassfurt Verwaltungs GmbH | Subsidiary (100%)                             | Full                 | The Company was not subject to an audit                   | Not applicable   | 31 December 2016   |
| CIECH Energy Deutschland GmbH       | Subsidiary (100%)                             | Full                 | PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft | As at the date of this report the audit of the financial statements of the company has not been completed. | 31 December 2016   |
| Kaverngesellschaft Stassfurt GbmH   | Associate (50%)                               | Equity               | The Company was not subject to an audit                   | Not applicable   | 31 December 2016   |

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

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**I. General information about the Group (cont.)**

- i. During the financial year, the following changes took place in the scope of consolidation:
- On 24 June 2016 CIECH S.A. and other entities of CIECH Group formed the company Gamma Finanse Sp. z o.o.;
  - On 4 July 2016 entities of CIECH Group formed the company Beta Cerium Sp. z o.o. SK;
  - On 5 October 2016 CIECH S.A. and a natural person formed the company Vasco Sp. z o.o.
- j. The Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Company has decided to prepare its consolidated financial statements in accordance with IFRS as adopted by the European Union.

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

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**II. Information about the audit**

- a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Piotr Wyszogrodzki (no. 90091).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Parent Company by Resolution No. 28/IX/2015 of the Supervisory Board of CIECH S.A. dated 26 May 2015 in accordance with paragraph 21 of the Parent Company's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2016, item 1000 as amended).
- d. The audit was conducted in accordance with an agreement dated 25 June 2015, in the following periods:
  - interim audit from 21 to 25 November 2016;
  - final audit from 23 January to 20 March 2017.
- e. An audit was conducted in accordance with International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. The scope of an audit was influenced by an application of materiality. In accordance with these auditing standards, the concept of materiality is applied by the auditor at the planning stage and when conducting the audit as well as to evaluate the effect of misstatements identified and adjusted (if any) on the consolidated financial statements, and to form the opinion in the Independent Registered Auditor's Report.

An audit was designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. The misstatements are considered to be material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on a professional judgement, the certain quantitative thresholds for materiality were determined and documented, including the overall materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of the audit and the nature, timing and extent of the audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole. Therefore, all statements included in the Independent Registered Auditor's Report, including those related to the other legal and regulatory requirements, have been expressed considering the materiality determined in accordance with those auditing standards and the auditor's judgement.

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

**III. The Group's results, financial position and significant items of the consolidated financial statements**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2016 (selected lines)**

|                                     |                        |                        | Change         |             | Structure         |                   |
|-------------------------------------|------------------------|------------------------|----------------|-------------|-------------------|-------------------|
|                                     | 31.12.2016<br>PLN '000 | 31.12.2015<br>PLN '000 | PLN '000       | (%)         | 31.12.2016<br>(%) | 31.12.2015<br>(%) |
| <b>ASSETS</b>                       |                        |                        |                |             |                   |                   |
| Non-current assets                  | 3,209,515              | 2,901,325              | 308,190        | 10.6        | 71.3              | 73.4              |
| Current assets                      | 1,292,377              | 1,049,926              | 242,451        | 23.1        | 28.7              | 26.6              |
| <b>Total assets</b>                 | <b>4,501,892</b>       | <b>3,951,251</b>       | <b>550,641</b> | <b>13.9</b> | <b>100.0</b>      | <b>100.0</b>      |
| <b>LIABILITIES AND EQUITY</b>       |                        |                        |                |             |                   |                   |
| Share capital                       | 1,766,827              | 1,345,576              | 421,251        | 31.3        | 39.3              | 34.0              |
| Non-controlling interests           | (3,335)                | (4,072)                | 737            | (18.1)      | (0.1)             | (0.1)             |
| Long-term liabilities               | 1,695,514              | 1,844,005              | (148,491)      | (8.1)       | 37.7              | 46.7              |
| Short-term liabilities              | 1,042,886              | 765,742                | 277,144        | 36.2        | 23.2              | 19.4              |
| <b>Total liabilities and equity</b> | <b>4,501,892</b>       | <b>3,951,251</b>       | <b>550,641</b> | <b>13.9</b> | <b>100.0</b>      | <b>100.0</b>      |

**CONSOLIDATED INCOME STATEMENT**  
**for the year from 1 January to 31 December 2016 (selected lines)**

|                                       |                  |                  | Change         |             | Structure   |             |
|---------------------------------------|------------------|------------------|----------------|-------------|-------------|-------------|
|                                       | 2016<br>PLN '000 | 2015<br>PLN '000 | PLN '000       | (%)         | 2016<br>(%) | 2015<br>(%) |
| Revenue                               | 3,455,335        | 3,273,014        | 182,321        | 5.6         | 100.0       | 100.0       |
| Costs of sales                        | (2,415,670)      | (2,407,469)      | (8,201)        | 0.3         | (69.9)      | (73.6)      |
| <b>Gross profit on sales</b>          | <b>1,039,665</b> | <b>865,545</b>   | <b>174,120</b> | <b>20.1</b> | <b>30.1</b> | <b>26.4</b> |
| <b>Net profit</b>                     | <b>594,136</b>   | <b>346,005</b>   | <b>248,131</b> | <b>71.7</b> | <b>17.2</b> | <b>10.6</b> |
| <b>Total net comprehensive income</b> | <b>572,178</b>   | <b>355,438</b>   | <b>216,740</b> | <b>61.0</b> | <b>16.6</b> | <b>10.9</b> |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year from 1 January to 31 December 2016 (selected lines)**

|                                       |                  |                  | Change         |             | Structure   |             |
|---------------------------------------|------------------|------------------|----------------|-------------|-------------|-------------|
|                                       | 2016<br>PLN '000 | 2015<br>PLN '000 | PLN '000       | (%)         | 2016<br>(%) | 2015<br>(%) |
| <b>Net profit</b>                     | <b>594,136</b>   | <b>346,005</b>   | <b>248,131</b> | <b>71.7</b> | <b>17.2</b> | <b>10.6</b> |
| Other net comprehensive income        | (21,958)         | 9,433            | (31,391)       | (332.8)     | (0.6)       | 0.3         |
| <b>Total net comprehensive income</b> | <b>572,178</b>   | <b>355,438</b>   | <b>216,740</b> | <b>61.0</b> | <b>16.6</b> | <b>10.9</b> |

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

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**III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)**

**Selected ratios characterizing the Group's financial position and results**

The following ratios characterise the Group's activities, results of operations during the year and its financial position as at the balance sheet date compared with previous years:

|                              | <b>2016</b>       | <b>2015</b>       | <b>2014</b>       |
|------------------------------|-------------------|-------------------|-------------------|
| Asset ratios                 |                   |                   |                   |
| - receivables turnover       | 32 days           | 29 days           | 34 days           |
| - inventory turnover         | 58 days           | 52 days           | 42 days           |
| Profitability ratios         |                   |                   |                   |
| - net profit margin          | 17%               | 11%               | 4%                |
| - gross margin               | 19%               | 16%               | 10%               |
| - return on capital employed | 38%               | 30%               | 14%               |
| Liability ratios             |                   |                   |                   |
| - gearing                    | 61%               | 66%               | 69%               |
| - payables turnover          | 50 days           | 46 days           | 47 days           |
|                              | <b>31.12.2016</b> | <b>31.12.2015</b> | <b>31.12.2014</b> |
| Liquidity ratios             |                   |                   |                   |
| - current ratio              | 1.2               | 1.4               | 1.0               |
| - quick ratio                | 1.0               | 1.0               | 0.6               |

The above ratios have been calculated on the basis of the consolidated financial statements.

It was not the purpose of the audit to present the Group in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Group's operations and its circumstances.

*Translation note:*

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### **III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)**

The consolidated financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 0.8% in the audited year (-0.5% in 2015).

The following comments are based on information obtained during the audit of the consolidated financial statements.

The factors described below had a significant impact on the Group's results of operations and on its financial position as at the balance sheet date:

- At the end of the financial year, the Group's total assets amounted to PLN 4,501,892 thousand. During the year total assets increased by PLN 550,641 thousand, i.e. by 13.9%. This increase was financed mainly by net profit of PLN 594,136 thousand.
- The net balance of property, plant and equipment at 31 December 2016 amounted to PLN 2,623,660 thousand and comprised mainly machinery and equipment of PLN 1,509,855 thousand, buildings and structures of PLN 644,483 thousand and tangible fixed assets under construction of 336,041 thousand. The PLN 318,655 thousand increase in the net balance of property, plant and equipment compared with the previous year was mainly due to an acquisition within tangible fixed assets under construction.
- Cash and cash equivalents as at 31 December 2016 amounted to PLN 414,369 thousand. The PLN 211,434 thousand increase in cash and cash equivalents compared with the previous year was mainly due to positive cash flow from operating activities of PLN 836,871 thousand compensated negative cash flow from investment activities (of PLN 445,582 thousand) and from financial activities (of PLN 177,545 thousand).
- Long-term liabilities due loans and borrowings as at 31 December 2016 amounted to PLN 1,345,973 thousand. The PLN 148,802 thousand, i.e. by 10% decrease in long-term liabilities due loans and borrowings compared with the previous year mainly resulted from transfer bond liabilities of PLN 160,382 thousand to short-term liabilities.
- Liability ratios and the structure of liabilities have changed. The gearing ratio decreased from 66% at the end of the previous year to 61% at the end of the current year. The payables turnover ratio increased from 46 days to 50 days, respectively. The changes were mainly due to higher increase in equity than in liabilities, mainly due to generated net profit of PLN 594,136 thousand, while an increase in trade liabilities amounted to PLN 95,605 thousand.
- Revenue amounted to PLN 3,455,335 thousand, which constituted a 5.6% increase compared with the previous year. The Group's core activities in the current financial year consisted of production and sale of chemical products. The largest sales revenue in 2016 the Group has achieved in the soda segment, where revenues amounted to PLN 2,446,568 thousand, i.e. 70% of total revenues. The second largest segment was organic segment with revenues of PLN 766,119 thousand, constituting 22.2% of total revenues.

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**III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)**

- Cost of manufacture of products and services sold was the largest item of operating expenses and amounted to PLN 2,415,670 thousand in the audited year, which constituted 86.1% of operating expenses. This cost has increased by PLN 57,573 thousand compared with the previous year, which was connected with an increase in sales revenue in 2016 due to growth of prices.
- In 2016 financial costs amounted to PLN 59,595 thousand and decreased by PLN 159,408 thousand compared to previous financial year. This decrease was mainly due to a high fee and commission expense in 2015 referred among others foreign bonds (drop in cost by PLN 101,925 thousand) and lower interest expense in 2016 as a result of refinancing conducted by the Group at the end of 2015 (drop in costs by 55,360 thousand).
- Profitability measured with net profit amounted to 17% and was 6 percentage points higher than in the previous year. The change in the Group's profitability was primarily due to an increase in sales revenue, which was higher than increase in own selling costs.
- The Group's liquidity has changed. At the end of audited period the current and quick ratios amounted to 1.2 and 1.0 respectively, while at the end of 2015 amounted to 1.4 and 1.0 respectively.

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#### **IV. The independent registered auditor's statements**

- a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- d. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- e. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- f. There was no sale of shares in subsidiaries during the audited period.
- g. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.
- h. The consolidated financial statements of the Group for the year from 1 January to 31 December 2015 were approved by Resolution No. 4 passed by the General Shareholders' Meeting of the Parent Company on 16 June 2016 and filed with the National Court Register in Warsaw on 22 June 2016.
- i. The notes to the consolidated financial statements present all the significant information in accordance with IFRS as adopted by the European Union.
- j. The information in the Management Board report on the Group's and Parent Company's activities for the year from 1 January to 31 December 2016 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133 as amended) and is consistent with that presented in the consolidated financial statements.

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**CIECH S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016**

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**V. Final information**

This report has been prepared in connection with our audit of the consolidated financial statements of the CIECH S.A. Group having CIECH S.A., Wspólna 62 Street, Warsaw, as its Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board and the person entrusted with maintaining the books of account on 20 March 2017.

This report should be read in conjunction with the Independent Registered Auditor's Report dated 20 March 2017 to the General Shareholders' Meeting and the Supervisory Board of CIECH S.A. that includes the unqualified audit opinion on the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Piotr Wyszogrodzki

Key Registered Auditor  
No. 90091

Warsaw, 20 March 2017

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PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register (KRS) maintained by the District Court in Warsaw, with the reference number (KRS) 0000044655, and tax identification number (NIP) 526-021-02-28. Share capital amounts to PLN 10,363,900. Headquarters in Warsaw, Al. Armii Ludowej 14.