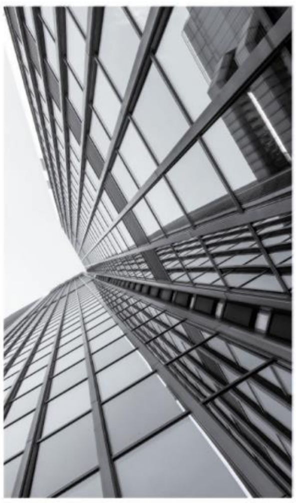


THE CONSOLIDATED FINANCIAL STATEMENTS

of the CIECH GROUP for 2016




The CIECH Group – SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	PLN '000		in EUR thousand	
	12 months ended 31.12.2016	12 months ended 31.12.2015	12 months ended 31.12.2016	12 months ended 31.12.2015
Sales revenues	3,455,335	3,273,014	789,665	782,120
Operating profit/(loss)	660,320	489,816	150,906	117,046
Profit/(loss) before tax	624,950	277,382	142,823	66,283
Net profit / (loss) for the year	594,136	346,005	135,780	82,681
Net profit/(loss) attributable to shareholders of the parent company	593,513	342,987	135,638	81,960
Net profit/(loss) attributed to non-controlling interest	623	3,018	142	721
Other comprehensive income net of tax	(21,958)	9,433	(5,018)	2,254
Total comprehensive income	572,178	355,438	130,762	84,935
Cash flows from operating activities	836,871	457,090	191,254	109,226
Cash flows from investment activities	(445,582)	(486,100)	(101,831)	(116,158)
Cash flows from financial activities	(177,545)	182,887	(40,575)	43,703
Total net cash flows	213,744	153,877	48,848	36,771
	as at 31.12.2016	as at 31.12.2015	as at 31.12.2016	as at 31.12.2015
Total assets	4,501,892	3,951,251	1,017,607	927,197
Non-current liabilities	1,695,514	1,844,005	383,254	432,713
Current liabilities	1,042,886	765,742	235,734	179,688
Total equity	1,763,492	1,341,504	398,619	314,796
Equity attributable to shareholders of the parent	1,766,827	1,345,576	399,373	315,752
Non-controlling interest	(3,335)	(4,072)	(754)	(956)
Share capital	287,614	287,614	65,012	67,491
Earnings (loss) per ordinary share (in PLN/EUR)	11.26	6.51	2.57	1.56

The above selected financial data were converted into PLN in accordance with the following principles:

- items in the consolidated statement of financial position were converted using the average exchange rate determined by the National Bank of Poland on the last day of the reporting period;
- items in the consolidated statement of profit or loss, consolidated statement of other comprehensive income and consolidated statement of cash flows were converted using the exchange rate constituting the arithmetic mean of rates determined by the National Bank of Poland on the last day of each calendar month of the reporting period.

as at 31.12.2016	as at 31.12.2015	12 months ended 31.12.2016	12 months ended 31.12.2015
EUR 1 = PLN 4.4240	EUR 1 = PLN 4.2615	EUR 1 = PLN 4.3757	1 EUR = PLN 4.1848

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	note	01.01.-31.12.2016	01.01.-31.12.2015*
CONTINUING OPERATIONS			
Sales revenues	3.1	**3,455,335**	**3,273,014**
Cost of sales	3.2	(2,415,670)	(2,407,469)
Gross profit/(loss) on sales		**1,039,665**	**865,545**
Other operating income	3.4	86,610	52,927
Selling costs		(231,462)	(194,866)
General and administrative expenses		(157,990)	(145,214)
Other operating expenses	3.4	(76,503)	(88,576)
Operating profit/(loss)		**660,320**	**489,816**
Financial income	3.5	23,551	6,406
Financial expenses	3.5	(59,595)	(219,003)
Net financial income/(expenses)		**(36,044)**	**(212,597)**
Share of profit / (loss) of equity-accounted investees	5.8	674	163
Profit/(loss) before tax		**624,950**	**277,382**
Income tax	4.1	(30,814)	68,623
Net profit/(loss) on continuing operations		**594,136**	**346,005**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	5.13	-	-
Net profit / (loss) for the year		**594,136**	**346,005**
including:			
Net profit/(loss) attributable to shareholders of the parent company		593,513	342,987
Net profit/(loss) attributed to non-controlling interest	6.5	623	3,018
Earnings per share (in PLN):			
Basic	6.6	11.26	6.51
Diluted	6.6	11.26	6.51

** Restated data, description of changes is provided in note 1.5 to these consolidated financial statements.*

The consolidated statement of profit or loss of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	note	01.01.-31.12.2016	01.01.-31.12.2015
Net profit/(loss) on continuing operations		**594,136**	**346,005**
Net profit/(loss) on discontinued operations		-	-
Net profit / (loss) for the year		**594,136**	**346,005**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	*3.6*	**(33,604)**	**11,809**
Currency translation differences (foreign companies)		4,714	(3,368)
Cash flow hedge		(38,242)	15,124
Other components of other comprehensive income		(76)	53
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	*3.6*	**685**	**676**
Actuarial gains		685	676
Income tax attributable to other comprehensive income		**10,961**	**(3,052)**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	*4.1*	11,091	(2,924)
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	*4.1*	(130)	(128)
Other comprehensive income net of tax		**(21,958)**	**9,433**
TOTAL COMPREHENSIVE INCOME		**572,178**	**355,438**
Comprehensive income including attributable to:		**572,178**	**355,438**
Shareholders of the parent company		571,446	351,693
Non-controlling interest		732	3,745

The consolidated statement of other comprehensive income of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	note	31.12.2016	31.12.2015*
ASSETS			
Property, plant and equipment	5.1	2,623,660	2,305,005
Right of perpetual usufruct	5.2	30,219	31,409
Intangible assets, including:	5.3	129,389	140,875
- goodwill	5.4	*64,180*	*62,378*
Investment property	5.5	31,384	34,308
Non-current receivables	5.6	99,252	89,612
Investments in associates and jointly-controlled entities measured under the equity method	5.8	5,610	4,918
Long-term financial assets	5.7	90,135	81,449
Deferred income tax assets	4.3	199,866	213,749
Total non-current assets		**3,209,515**	**2,901,325**
Inventory	5.9	299,265	293,631
Short-term financial assets	5.11	59,971	50,781
Income tax receivables		13,542	29,544
Trade and other receivables	5.10	502,000	469,652
Cash and cash equivalents	5.12	414,369	202,935
Non-current assets held for sale	5.13	3,230	3,383
Total current assets		**1,292,377**	**1,049,926**
Total assets		**4,501,892**	**3,951,251**
EQUITY AND LIABILITIES			
Share capital	6.2	287,614	287,614
Share premium		470,846	470,846
Cash flow hedge	8.2	(45,306)	(16,004)
Actuarial gains		989	434
Other reserve capitals	6.2	78,521	78,521
Currency translation reserve		(46,336)	(53,092)
Retained earnings		1,020,499	577,257
Equity attributable to shareholders of the parent		**1,766,827**	**1,345,576**
Non-controlling interest	6.4	**(3,335)**	**(4,072)**
Total equity		**1,763,492**	**1,341,504**
Loans, borrowings and other debt instruments	7.1	1,345,973	1,494,775
Finance lease liabilities	7.4	18,979	21,884
Other non-current liabilities	7.2	197,738	155,179
Employee benefits reserve	7.6	10,752	12,829
Other provisions	7.7	84,284	74,704
Deferred income tax liability	4.3	37,788	84,634
Total non-current liabilities		**1,695,514**	**1,844,005**
Loans, borrowings and other debt instruments	7.1	160,845	19,809
Finance lease liabilities	7.4	4,714	4,999
Trade and other liabilities	7.3	743,479	585,219
Reversed factoring liabilities		-	18,998
Income tax liabilities		43,868	55,020
Employee benefits reserve	7.6	1,194	1,603
Other provisions	7.7	88,786	80,094
Total current liabilities		**1,042,886**	**765,742**
Total liabilities		**2,738,400**	**2,609,747**
Total equity and liabilities		**4,501,892**	**3,951,251**

* *Restated data, description of changes is provided in note 1.5 to these consolidated financial statements.*

The consolidated statement of financial position of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	note	01.01.-31.12.2016	01.01.-31.12.2015
Cash flows from operating activities			
Net profit/(loss) for the period		**594,136**	**346,005**
Adjustments			
Amortisation/depreciation		223,474	217,722
Recognition of impairment allowances		1,540	2,294
Foreign exchange (profit) /loss		(3,130)	63,838
Investment property revaluation		(14,347)	6,347
(Profit) / loss on investment activities		2,255	1,735
(Profit) / loss on disposal of property, plant and equipment		(2,615)	(3,399)
Dividends and interest		27,703	127,598
Income tax		30,814	(68,623)
(Profit) / loss on the settlement of construction contracts (caverns)		(3,741)	(7,641)
Share of (profit) / loss on equity accounted investees		(674)	(163)
Change in liabilities due to loan arrangement fee		2,023	22,156
Valuation of embedded instruments		(2,087)	-
Ineffective portion of hedge accounting		(1,862)	1,862
Other adjustments		(1,485)	(3,596)
Cash from operating activities before changes in working capital and provisions		**852,004**	**706,135**
Change in receivables	*9.1*	(38,369)	(58,880)
Change in inventory	*9.1*	(3,873)	(36,000)
Change in current liabilities	*9.1*	134,471	(21,467)
Change in provisions and employee benefits	*9.1*	4,965	19,293
Cash generated from operating activities		**949,198**	**609,081**
Interest paid		(55,119)	(126,763)
(Profit) / loss on the settlement of construction contracts (caverns)		(2,739)	(3,712)
Income tax (paid)/returned		(53,970)	(21,516)
Expenses for reserch		(499)	-
Net cash from operating activities		**836,871**	**457,090**
Cash flows from investment activities			
Disposal of a subsidiary		2,930	-
Disposal of intangible assets and property, plant and equipment		2,353	6,552
Disposal of financial assets		-	1,101
Disposal of investment property		17,202	3,937
Dividends received		1,105	626
Interest received		6,015	2,808
Subsidies received		15,231	6,575
Other inflows		-	60
Cash outflow as a result of the loss of control of subsidiaries *		-	(3,443)
Acquisition of intangible assets and property, plant and equipment		(480,370)	(494,039)
Acquisition of financial assets		-	(28)
Acquisition of investment property		(28)	(706)
Development expenditures		(9,920)	(9,513)
Other outflows		(100)	(30)
Net cash from investment activities		**(445,582)**	**(486,100)**
Cash flows from financial activities			
Net proceeds from shares and other capital instruments issue and capital premium		-	2,355
Proceeds from loans and borrowings		-	1,333,059
Other financial inflows		-	2,848
Dividends paid to parent company		(150,195)	-
Repayment of loans and borrowings		(21,498)	-
Repayment of "silent partnerships"		-	(50,218)
Redumption of debt securities		-	(1,098,012)
Payments of finance lease liabilities		(5,852)	(7,130)
Other financial outflows		-	(15)
Net cash from financial activities		**(177,545)**	**182,887**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN ‘000)

	note	**01.01.-31.12.2016**	**01.01.-31.12.2015**
Total net cash flows		**213,744**	**153,877**
Cash and cash equivalents as at the beginning of the period		**202,935**	**49,162**
Impact of foreign exchange differences		*(2,310)*	*(104)*
Cash and cash equivalents as at the end of the period	*5.12*	**414,369**	**202,935**

** This item includes cash and cash equivalents deconsolidated as a result of liquidating CIECH Polsin Pte. Ltd. in the first quarter of 2015.*

The consolidated statement of cash flows of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company									
	Share capital	Share premium	Cash flow hedge	Actuarial gains	Other reserve capitals	Currency translation reserve	Retained earnings	**Equity attributable to shareholders of the parent**	Non-controlling interest	**Total equity**
note	*6.2*		*8.2*		*6.2*					
01.01.2015	**287,614**	**470,846**	**(28,254)**	**(114)**	**78,521**	**(47,716)**	**233,877**	**994,774**	**(9,300)**	**985,474**
Transactions with the owners	**-**	**-**	**-**	**-**	**-**	**(1,231)**	**340**	**(891)**	**1,483**	**592**
Change in the Group's structure	-	-	-	-	-	(1,231)	340	**(891)**	1,483	**592**
Total comprehensive income for the period	**-**	**-**	**12,250**	**548**		**(4,145)**	**343,040**	**351,693**	**3,745**	**355,438**
Net profit / (loss) for the period	-	-	-	-	-	-	342,987	342,987	3,018	346,005
Other comprehensive income	-	-	12,250	548	-	(4,145)	53	8,706	727	9,433
31.12.2015	**287,614**	**470,846**	**(16,004)**	**434**	**78,521**	**(53,092)**	**577,257**	**1,345,576**	**(4,072)**	**1,341,504**
Transactions with the owners	**-**	**-**	**-**	**-**	**-**	**-**	**(150,195)**	**(150,195)**	**5**	**(150,190)**
Dividend payment	-	-	-	-	-	-	(150,195)	**(150,195)**	-	(150,195)
Change in the Group's structure	-	-	-	-	-	-	-	**-**	5	**5**
Total comprehensive income for the period	**-**	**-**	**(29,302)**	**555**	**-**	**6,756**	**593,437**	**571,446**	**732**	**572,178**
Net profit / (loss) for the period	-	-	-		-	-	593,513	593,513	623	594,136
Other comprehensive income	-	-	(29,302)	555	-	6,756	(76)	(22,067)	109	(21,958)
31.12.2016	**287,614**	**470,846**	**(45,306)**	**989**	**78,521**	**(46,336)**	**1,020,499**	**1,766,827**	**(3,335)**	**1,763,492**

The consolidated statement of changes in consolidated equity of the CIECH Group should be analysed together with the notes which constitute an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

1 GENERAL INFORMATION

1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

Parent company	**CIECH Spółka Akcyjna**
Registered office	Warsaw
Address	Wspólna Street 62, 00-684 Warsaw
KRS (National Court Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 13th Commercial Division of the National Court Register)
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
Website	www.ciechgroup.com
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Ultimate parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

The CIECH Group is an international group with a well-established position of a leader of the chemical sector in Central and Eastern Europe. It manufactures products which are used in the production of articles necessary in everyday life of people all over the world - state-of-the-art products of the highest, world quality. Taking advantage of the support of a reliable strategic investor – Kulczyk Investments – it implements the strategy of global development.

The Parent company of the Group is CIECH S.A. It is a holding company that manages domestic and foreign manufacturing, trade and service companies of the Group. CIECH S.A. also provides support services to key subsidiaries. Key products manufactured by the CIECH Group include: soda ash, baking soda, evaporated salt, epoxy and polyester resins, agrochemical products, polyurethane foams, lanterns and jars, sodium and potassium silicates.

The core sales market for the CIECH Group is the European Union, including mainly Poland, Germany and Central Eastern European countries. Products manufactured by the CIECH Group is also exported to overseas markets and sold mainly to customers in India, North Africa and the Middle East.

A detailed description of the CIECH Group entities is provided in note 9.5 to these financial statements.

1.2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES

1.2.1. REPRESENTATIONS OF THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group for the period from 1 January 2016 to 31 December 2016, including comparative data, were approved by the Management Board of CIECH S.A. on 20 March 2017.

The Management Board of CIECH S.A. declares that these consolidated financial statements for the current and including comparable period have been prepared in compliance with International Financial Reporting Standards approved by the European Union and related interpretations issued by the European Commission in the form of Regulations (IFRS).

The Management Board of CIECH S.A. represents that to the best of its knowledge these consolidated financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group's financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the directors' report contains a true image of the Group's developments, achievements, and condition, including the description of major risks and threats.

The Management Board of CIECH S.A. represents that PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under the registry no. 144 kept by the National Chamber of Statutory Auditors was chosen in accordance with the binding legal regulations for the auditor of these consolidated financial statements. The above entity, including the certified auditors performing the audit, satisfy all the conditions required in order to issue an unbiased and independent opinion and audit report, pursuant to the applicable domestic legal regulations.

1.2.2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on the historical cost basis except for investment property as well as financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

These consolidated financial statements have been prepared based on individual financial statements of the CIECH Group's parent company and its subsidiaries, prepared from the accounting ledgers maintained in accordance with the applicable accounting principles of their respective countries of operation. For the purpose of these consolidated financial statements, adjustments have been made to the accounting policies used in the preparation of the abovementioned individual financial statements for them to be aligned with International Financial Reporting Standards.

Since 2007, the Parent Company, CIECH S.A., has been preparing separate financial statements in accordance with IFRS.

Major accounting principles applied in the preparation of these consolidated financial statements are listed in note 1.4. These principles have been applied on a continuous basis in all presented periods, except for the principles described in note 1.5.

These consolidated financial statements were prepared under the assumption that the CIECH Group will continue as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements, no facts or circumstances are known that would indicate any threat to the Group continuing as a going concern.

All entities belonging to the CIECH Group operate according to the financial year corresponding to the calendar year, except for Cerium Sp. z o.o. whose financial year ends on 30 September.

The consolidated statement of profit or loss of the CIECH Group is prepared in the cost by function format. The Group's consolidated statement of cash flows is prepared under the indirect method.

Preparation of the financial statement in accordance with IFRS requires the Management Board to make own assessments and apply certain assumptions and accounting estimates as part of the application of accounting principles adopted by the Group. Issues which require significant assessments or areas where the assumptions and estimates made have a significant impact on these consolidated financial statements have been described in note 1.4.

1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of the parent company, CIECH S.A., and the reporting currency of these consolidated financial statements. Unless stated otherwise, all financial data in these consolidated financial statements have been presented in thousands of Polish zlotys (PLN '000).

The functional currencies for the significant foreign subsidiaries are as follows: SDC Group and Ciech Group Financing AB – EUR, CIECH Soda Romania S.A. – RON. For the purpose of conversion into PLN, the following foreign exchange rates determined on the basis of quotations announced by the National Bank of Poland ("NBP") have been applied for consolidation purposes:

	31.12.2016[1]	**31.12.2015**[2]
EUR	4.4240	4.2615
RON	0.9749	0.9421
Average NBP rate for the reporting period	**12 months ended 31.12.2016**[3]	**12 months ended 31.12.2015**[4]
EUR	4.3757	4.1848
RON	0.9739	0.9421

[1] NBP's average foreign exchange rates table applicable as at 31 December 2016.
[2] NBP's average foreign exchange rates table applicable as at 31 December 2015.
[3] According to the exchange rate constituting the arithmetic mean of average exchange rates determined by NBP on the last day of each month of the period from 1 January 2016 to 31 December 2016.
[4] According to the exchange rate constituting the arithmetic mean of average exchange rates determined by NBP on the last day of each month of the period from 1 January 2015 to 31 December 2015.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

1.4. ACCOUNTING POLICIES

To ensure more legible presentation and better understanding of the information disclosed in the consolidated financial statements, key accounting policies applicable in the CIECH Group as well as judgements and estimates made have been presented in separate notes.

Note	Title	Accounting principles	Judgements and estimates
3.1	Sales revenues	x	
3.2	Cost of sales	x	
3.4;3.5	Other income and expenses	x	x
4.1	Income tax	x	
4.3	Deferred tax assets and liabilities	x	x
5.1	Property, plant and equipment	x	x
5.2	Right of perpetual usufruct	x	
5.3	Intangible assets	x	x
5.5	Investment properties	x	x
5.6	Long-term receivables	x	
5.7	Long-term financial assets	x	
5.8	Shares in joint ventures / investments in associates	x	
5.9	Inventories	x	x
5.10	Short-term receivables	x	x
5.11	Short-term financial assets	x	
5.12	Cash and cash equivalents	x	
5.13	Discontinued operations and assets and liabilities connected with assets classified as held for sale	x	
6.2	Equity	x	
6.4	Business combinations and acquisition of non-controlling interest	x	
6.6	Earnings per share	x	
7.1	Information about significant financial liabilities	x	
7.2	Other non-current liabilities	x	
7.3	Current trade and other liabilities	x	x
7.4	Finance leases	x	
7.5	Operating leases	x	
7.6	Provisions for employee benefits	x	x
7.7	Other provisions	x	x
8.1	Financial instruments	x	x
8.2	Hedge accounting	x	
9.2	Contingent liabilities and assets	x	x
9.5	Composition of the Group	x	

1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES

Apart from the changes in accounting policies resulting from new standards, amendments to standards and interpretations described above, the CIECH Group made the following changes in accounting policies:

- change in the presentation of financial instrument valuation in the statement of financial position following which the valuation of these items is reported separately,
- change in the presentation of support services provided by CIECH S.A. to the Group companies within segment reporting — at present, all revenues and expenses from support services are presented under relevant segments within which the services are provided, whereas previously they were reported mainly in the "Other activities" segment.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

Amendments to IFRS that came into force from 1 January 2016, have had no significant impact on the consolidated financial statements of the CIECH Group.

New Standards, amendments to Standards and Interpretations:	
New standards, amendments to standards and interpretations which entered into force as of 1 January 2016	**Impact on the financial statements**
Annual improvements to IFRS 2010–2012	No material impact on the financial statements
Defined benefit plans: Employee contributions – amendments to IAS 19	No material impact on the financial statements
Annual improvements to IFRS 2010–2012	No material impact on the financial statements
Amendments to IFRS 11 regarding acquisitions of interest in joint operations	No material impact on the financial statements
Amendments to IAS 16 and IAS 38 regarding depreciation and amortisation	No material impact on the financial statements
Amendments to IAS 16 and IAS 41 concerning crops	No material impact on the financial statements
Amendments to IAS 27 concerning equity method in separate financial statements	No material impact on the financial statements
Annual improvements to IFRS 2012–2014	No material impact on the financial statements
Amendments to IAS 1	No material impact on the financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28 concerning exclusion of investment entities from consolidation	No material impact on the financial statements
New standards, amendments to standards and interpretations which are not yet effective and have not been adopted early by the Group	**Impact on the financial statements**
IFRS 14 "Regulatory deferral accounts"	No material impact on the financial statements is estimated
Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associates or joint ventures	No material impact on the financial statements is estimated
Amendments to IAS 12 relating to the recognition of deferred tax assets on unrealised losses	No material impact on the financial statements is estimated
Amendments to IAS 7: Disclosure Initiative	No impact on the financial statements is estimated — the reconciliation of net debt is presented
Clarifications to IFRS 15 "Revenue from contracts with customers"	No material impact on the financial statements is estimated
Amendments to IFRS 2: Classification and measurement of share-based payment transactions	No material impact on the financial statements is estimated
Amendments to IFRS 4: Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"	No material impact on the financial statements is estimated
Annual improvements to IFRS 2014–2016	No material impact on the financial statements is estimated
Amendments to IAS 40: Transfers of investment property	No material impact on the financial statements is estimated
IFRIC 22: Foreign currency transactions and advance consideration	No material impact on the financial statements is estimated

IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018. The standard introduces one model providing for only two classification categories for financial assets: measured at fair value and measured at amortised cost. The classification is performed as at the initial recognition and depends on the financial instrument management model adopted by the entity, as well as the characteristics of contractual cash flow from those instruments. IFRS 9 introduces a new model for the determination of revaluation write-downs — the model of expected credit losses.

Most of the IAS 39 requirements with regard to classification and measurement of financial liabilities have been moved to IFRS 9 in an unchanged form. The key change is the requirement imposed on entities – to publish changes of own credit risk from financial liabilities earmarked for fair value measurement by the financial result in other total income. In the area of hedge accounting, the objective of the amendments is to align hedge accounting to risk management practices better.

The CIECH Group plans to apply this standard as of 1 January 2018. At present, the Company is analysing the impact of IFRS 9 on the consolidated financial statements. It is likely that the new IFRS will affect the area of hedge accounting and recognition of write-downs on receivables based on the expected credit losses; however, the value of write-downs and the area of hedge accounting are not expected to change significantly.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from Contracts with Customers" was issued by the International Accounting Standards Board on 28 May 2014 and is effective for annual periods beginning on or after 1 January 2018. The rules provided for in IFRS 15 will apply to all contracts resulting in revenue. The fundamental principle of the new standard is to recognise revenue at the time of transfer of goods or services to the client, in the amount of the transaction price. Any goods or services sold in packages that can be distinguished within the package are to be reported separately; moreover, any discounts and rebates on the transaction price should in principle be allocated to the individual elements of the package. In the case where the amount of revenue is variable, in accordance with the new standard, the amount of variables is included in the revenue, if there is a high probability that in the future there will be no reversal of the recognition of revenue as a result of the revaluation. Furthermore, in accordance with IFRS 15 costs incurred to acquire and secure a contract with a customer must be activated and accounted for over the period of consumption of the benefits of this contract.

The CIECH Group plans to apply IFRS 15 as of 1 January 2018. At present, the Group is conducting the process of identifying material sales agreements. Based on the preliminary analysis, it was concluded that the material sales agreement signed do not contain provisions, as a result of which the currently applied approach to the recognition of sales revenue would change. The CIECH Group companies have not signed any material agreements with multiple components, remuneration is paid within 90 days and has no variable components. Material contracts concluded with third parties do not contain any lending, rental or lease components, the companies do not transfer any tangible rights, do not provide any licences or services similar to licences, and do not provide any free products or services. The preliminary assessment conducted by the Group suggests that IFRS 15 will have no material impact both at the timing, and the amount of revenues recognised.

IFRS 16 "Leases"

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset and liability due to its payment obligation. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The CIECH Group plans to apply IFRS 16 as of 1 January 2019. The CIECH Group is currently analysing the agreements it has signed. As at the date of publication of these financial statements, the CIECH Group companies recognised primarily real property rental agreements and low-value property, plant and equipment components, e.g. cars, as operating leases. The SDC Group recognises a long-term sewage system agreement effective until 2095 as an operating lease. These agreements are recognised in the financial statements as operating lease agreements, which means that the value of the fixed assets used was recognised in off-balance sheet records.

After the application of IFRS 16, all these items will be disclosed in the statement of financial position which, in consequence, may increase the balance sheet total (resulting from the recognition of fixed assets in the statement of financial position as the right to use the assets and, on the opposite side, as a lease liability) and change the classification of costs in the statement of profit or loss (where lease expenses will be replaced by the costs of depreciation and interest).

Moreover, the CIECH Group companies recognise the right of perpetual usufruct acquired free of charge on the basis of administrative decisions as operating lease.

However, it should be noted that at present there is no clear interpretation as regards the treatment of such assets upon the entry of IFRS 16 into force, therefore the CIECH Group is currently unable to estimate the ultimate impact of the application of the standard on the consolidated financial statements. If the right of perpetual usufruct was treated as finance lease, the recognition of assets held by the Group under this right would have a significant impact primarily on the total assets.

The entry of IFRS 16 into force may also affect the determination of the ratio calculated in relation to the loan agreement. Should this be the case, the CIECH Group will seek to update the definition in the loan agreement, so that the change in presentation will have no adverse impact on the level of ratios calculated.

2 SEGMENT REPORTING

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

From the product perspective, the CIECH Group has been divided into the following operating segments:

Soda segment – the most important manufactured goods in the scope of the segment products are: light and dense soda ash, evaporated salt, baking soda and calcium chloride. The products of this segment are sold mainly by the parent company CIECH S.A. Production of the soda segment goods manufactured by the CIECH Group is implemented in CIECH Soda Polska S.A., the Romanian company CIECH Soda Romania S.A. and in the German company CIECH Soda Deutschland GmbH&Co. KG. Soda segment goods are used in the glass, food, detergent and pharmaceutical industries.

Organic segment – the CIECH Group is a producer of a variety of organic compounds manufactured by the companies: CIECH Sarzyna S.A. and CIECH Pianki Sp. z o.o. In 2016, it was producing, among others, polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. The Group also produces plant protection products used in agriculture.

Silicates and glass segment includes mainly the products of CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A. Products manufactured by Ciech Soda Romania S.A. are sold by CIECH S.A. The silicates and glass segment covers the production of glass and soda glaze, as well as glass packaging (lanterns and jars). The goods made of glass are used in construction and food industries, and for production of headstone lamps.

The transport segment is concentrated in the CIECH Cargo company, rendering rail transport services in Poland, within the scope of: rental of rail carriages, rail cargo transport and maintenance services of rail sidings. Financial results of the segment include also results of CIECH Transclean Sp. z o.o. CIECH S.A. decided to cease operating activities of CIECH Transclean Sp. z o.o., and to phase out the company's business due to changes in model of purchases of forwarding services. The transport segment includes also forwarding activities carried out by CIECH S.A. since 2016 for its subsidiaries, i.e. CIECH Pianki Sp. z o.o. and CIECH Sarzyna S.A.

Other activities segment covers mainly services rendered outside the Group and goods sold mainly by CIECH S.A. and CIECH Trading S.A.

Information for a given operating segment may include sales of products and goods also included in the core product range of other divisions. Such items, however, are not significant for those divisions' management accounting.

The Group financing (including finance expenses and incomes with the exception of interest on trade receivables and liabilities) and income tax are managed and monitored on the Group level and are not allocated to particular segments.

The CIECH Group has been divided into the following geographical areas: Poland, European Union, Other European countries, Africa, Asia, Other regions. Information on the Group geographical areas is established based on the Group's assets localisation.

Reporting segments are identical to operating segments. Revenues and costs, assets and liabilities of segments are recognised and measured in a manner consistent with the method used in the consolidated financial statements.

Operational segments results are assessed by the CIECH S.A's Management Board on the basis of sales revenue, operating profit, level of EBITDA and normalised EBITDA.

EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and serve debt. EBITDA and normalised EBITDA levels are not defined by the IFRS and can be calculated in a different manner by other entities. The reconciliation and definitions applied by the CIECH Group when determining these measures are presented below.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

	01.01.-31.12.2016	01.01.-31.12.2015
Net profit/(loss) on continuing operations	594,136	346,005
Income tax	30,814	(68,623)
Share of profit / (loss) of equity-accounted investees	(674)	(163)
Financial expenses	59,595	219,003
Financial income	(23,551)	(6,406)
Amortisation/depreciation	223,474	217,722
EBITDA on continued operations	**883,794**	**707,538**

	01.01.-31.12.2016	01.01.-31.12.2015
EBITDA	**883,794**	**707,538**
One-offs including:	(6,962)	40,918
Impairment (a)	1,612	2,119
Cash items (b)	(3,371)	1,143
Non-cash items (without impairment) (c)	(5,203)	37,656
Normalised EBITDA from continuing operations	**876,832**	**748,456**

(a) Impairment losses are associated with the creation/reversal of impairment write-downs of assets value.

(b) Cash items include, among others, profit/loss of the sale of property, plant and equipment and other items (including costs associated with discontinued operations, fees and compensations).

(c) Non-cash items include: fair value measurement of investment properties, costs of liquidation of inventories and property, plant and equipment, the costs of suspended investments, environmental provisions, provisions for liabilities and compensation, costs of unused production capacity and other items (including extraordinary costs and other provisions).

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

OPERATING SEGMENTS OF THE CIECH GROUP

Revenue and costs data as well as assets, equity and liabilities data of particular CIECH Group operating segments for periods disclosed in statements are presented in the tables below.

OPERATING SEGMENTS 01.01.-31.12.2016	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions – reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,417,253	761,977	190,164	11,393	74,548	-	-	3,455,335
Revenue from inter-segment transactions	29,315	4,142	4	107,827	33,645	-	(174,933)	-
Total sales revenues	**2,446,568**	**766,119**	**190,168**	**119,220**	**108,193**	**-**	**(174,933)**	**3,455,335**
Cost of sales	(1,567,354)	(629,231)	(139,118)	(104,755)	(75,906)	-	100,694	(2,415,670)
Gross profit /(loss) on sales	**879,214**	**136,888**	**51,050**	**14,465**	**32,287**	**-**	**(74,239)**	**1,039,665**
Selling costs	(214,801)	(52,139)	(24,325)	(1,068)	(7,935)	(1,428)	70,234	(231,462)
General and administrative expenses	(54,503)	(22,082)	(8,183)	(5,133)	(5,462)	(64,822)	2,095	(157,990)
Result on management of receivables	(4,850)	(5,125)	(89)	(44)	(1,547)	-	-	(11,655)
Result on other operating activities	27,498	(9,379)	772	(5,143)	12,707	(4,092)	(601)	21,762
Operating profit /(loss)	**632,658**	**48,163**	**19,225**	**3,077**	**30,050**	**(70,342)**	**(2,511)**	**660,320**
Exchange differences and interest on trade settlements	(7,560)	(16,501)	262	(288)	18	-	-	(24,069)
Group borrowing costs	-	-	-	-	-	(33,333)	-	(33,333)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	21,358	-	21,358
Share of profit / (loss) of equity-accounted investees	674	-	-	-	-	-	-	674
Profit /(loss) before tax	**625,772**	**31,662**	**19,487**	**2,789**	**30,086**	**(82,317)**	**(2,511)**	**624,950**
Income tax	-	-	-	-	-	-	-	(30,814)
Net profit /(loss) on continuing operations	-	-	-	-	-	-	-	594,136
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-	-
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**594,136**
Amortization/depreciation	166,779	29,669	15,450	5,777	1,152	4,647	-	223,474
EBITDA	799,437	77,832	34,675	8,854	31,202	(65,695)	(2,511)	883,794
Normalised EBITDA*	793,921	79,543	34,676	13,976	19,015	(61,769)	(2,530)	876,832

** Normalised EBITDA for the 12-month period ended 31 December 2016 is calculated as EBITDA adjusted for untypical one-off events: valuation of investment property at fair value: PLN 14.3 million; costs of unused production capacity: PLN -4.8 million; costs of written-off development activities: PLN -2.2 million; gain on disposal of non-financial non-current assets: PLN 2.0 million; change in impairment losses on assets: PLN -1.5 million; other: PLN -0.8 million.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

OPERATING SEGMENTS 01.01.-31.12.2015	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions – reconciliation item	Eliminations (consolidation adjustments)	TOTAL*
Revenues from third parties	2,214,900	766,740	174,998	13,205	103,171	-	-	3,273,014
Revenue from inter-segment transactions	27,085	3,137	14	109,423	24,289	-	(163,948)	-
Total sales revenues	**2,241,985**	**769,877**	**175,012**	**122,628**	**127,460**	**-**	**(163,948)**	**3,273,014**
Cost of sales	(1,520,174)	(635,329)	(129,575)	(109,015)	(100,807)	-	87,431	(2,407,469)
Gross profit /(loss) on sales	**721,811**	**134,548**	**45,437**	**13,613**	**26,653**	**-**	**(76,517)**	**865,545**
Selling costs	(186,330)	(52,535)	(21,038)	(656)	(8,257)	(519)	74,469	(194,866)
General and administrative expenses	(50,020)	(21,968)	(7,210)	(6,228)	(5,399)	(55,617)	1,228	(145,214)
Result on management of receivables	(590)	2,306	92	14	(137)	-	-	1,685
Result on other operating activities	(17,174)	(11,242)	1,332	2,701	(8,080)	(3,024)	(1,847)	(37,334)
Operating profit /(loss)	**467,697**	**51,109**	**18,613**	**9,444**	**4,780**	**(59,160)**	**(2,667)**	**489,816**
Exchange differences and interest on trade settlements	(6,771)	(10,129)	93	(358)	(1,075)	-	-	(18,240)
Group borrowing costs	-	-	-	-	-	(193,529)	-	(193,529)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(828)	-	(828)
Share of profit / (loss) of equity-accounted investees	163	-	-	-	-	-	-	163
Profit /(loss) before tax	**461,089**	**40,980**	**18,706**	**9,086**	**3,705**	**(253,517)**	**(2,667)**	**277,382**
Income tax	-	-	-	-	-	-	-	68,623
Net profit /(loss) on continuing operations	-	-	-	-	-	-	-	346,005
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-	-
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**346,005**
Amortization/depreciation	157,401	34,992	15,002	6,091	328	3,908	-	217,722
EBITDA	625,098	86,101	33,615	15,535	5,108	(55,252)	(2,667)	707,538
Normalised EBITDA**	651,002	85,751	33,462	12,720	13,449	(46,970)	(958)	748,456

**Restated data, description of changes is provided in note 1.5 to these consolidated financial statements.*

*** Normalised EBITDA for the 12-month period ended 31 December 2015 is calculated as EBITDA adjusted for untypical one-off events: change in provisions: PLN -23.5 million, measurement of investment property: PLN -6.4 million, refinancing costs included in general and administrative expenses: PLN -5.1 million, result on liquidation of CIECH Polsin Pte. Ltd.: PLN -2.8 million, change in impairment losses on assets: PLN -1.3 million; other: PLN -1.8 million.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

SALES REVENUES — BUSINESS SEGMENTS

	01.01.-31.12.2016	01.01.-31.12.2015	Change 2016/2015	Change %
Soda segment, including:	**2,446,568**	**2,241,985**	**204,583**	**9.1%**
Dense soda ash	1,432,439	1,267,148	165,291	13.0%
Light soda ash	448,085	436,637	11,448	2.6%
Salt	181,374	170,203	11,171	6.6%
Baking soda	162,390	153,580	8,810	5.7%
Energy	90,853	64,237	26,616	41.4%
Gas*	20,124	37,885	(17,761)	(46.9%)
Calcium chloride	23,256	18,282	4,974	27.2%
Other products	58,732	66,928	(8,196)	(12.2%)
Revenues from inter-segment transactions	29,315	27,085	2,230	8.2%
Organic segment, including:	**766,119**	**769,877**	**(3,758)**	**(0.5%)**
Resins	297,891	343,080	(45,189)	(13.2%)
Polyurethane foams	245,120	218,881	26,239	12.0%
Plant protection chemicals	208,903	192,678	16,225	8.4%
Other	10,063	12,101	(2,038)	(16.8%)
Revenues from inter-segment transactions	4,142	3,137	1,005	32.0%
Silicates and Glass segment, including:	**190,168**	**175,012**	**15,156**	**8.7%**
Sodium silicates	106,562	81,093	25,469	31.4%
Potassium silicates	5,048	5,431	(383)	(7.1%)
Container glass	77,279	85,156	(7,877)	(9.3%)
Other	1,275	3,318	(2,043)	(61.6%)
Revenues from inter-segment transactions	4	14	(10)	(71.4%)
Transport segment, including:	**119,220**	**122,628**	**(3,408)**	**(2.8%)**
Transport services	11,393	13,205	(1,812)	(13.7%)
Revenues from inter-segment transactions	107,827	109,423	(1,596)	(1.5%)
Other operations segment, including:	**108,193**	**127,460**	**(19,267)**	**(15.1%)**
Revenues from third parties	74,548	103,171	(28,623)	(27.7%)
Revenues from inter-segment transactions	33,645	24,289	9,356	38.5%
Consolidation adjustments	**(174,933)**	**(163,948)**	**(10,985)**	**(6.7%)**
TOTAL	**3,455,335**	**3,273,014**	**182,321**	**5.6%**

** Resale of surpluses of the gas purchased.*

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Soda segment	2,566,589	2,329,529	217,161	180,843
Organic segment	527,848	495,938	123,634	77,103
Silicates and glass segment	172,186	129,063	22,378	14,873
Transport segment	66,295	65,431	12,763	11,620
Other operations segment	68,349	25,491	32,189	20,685
Corporate functions – reconciliation item	1,144,574	941,947	2,370,033	2,336,415
Eliminations (consolidation adjustments)	(43,949)	(36,148)	(39,758)	(31,792)
TOTAL	**4,501,892**	**3,951,251**	**2,738,400**	**2,609,747**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

INFORMATION ON GEOGRAPHICAL AREAS

Information on the CIECH Group geographical areas is established based on the Group's assets localisation.

	Non-current assets other than financial instruments	Deffered tax asset	Other assets	TOTAL ASSETS
31.12.2016				
Poland	2,008,662	199,866	915,484	3,124,012
European Union (excluding Poland)	922,211	-	346,472	1,268,683
Other European countries	-	-	52,816	52,816
Africa	-	-	2,852	2,852
Asia	-	-	50,550	50,550
Other regions	-	-	2,979	2,979
TOTAL	**2,930,873**	**199,866**	**1,371,153**	**4,501,892**
31.12.2015				
Poland	1,695,754	211,404	775,297	2,682,455
European Union (excluding Poland)	921,766	2,345	267,880	1,191,991
Other European countries	-	-	44,621	44,621
Africa	-	-	8,628	8,628
Asia	-	-	22,596	22,596
Other regions	-	-	960	960
TOTAL	**2,617,520**	**213,749**	**1,119,982**	**3,951,251**

SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-31.12.2016	01.01.-31.12.2015	2015/2016 Dynamics
Poland	1,318,520	1,264,858	4.2%
European Union (excluding Poland)	1,649,109	1,596,556	3.3%
Germany	693,675	677,155	2.4%
Romania	137,740	191,777	(28.2%)
Czech Republic	156,427	155,177	0.8%
Italy	99,963	119,754	(16.5%)
The Netherlands	109,156	89,434	22.1%
Finland	58,177	69,100	(15.8%)
Sweden	70,560	45,562	54.9%
Belgium	29,700	30,915	(3.9%)
United Kingdom	52,582	30,251	73.8%
Denmark	35,416	26,701	32.6%
France	51,885	27,027	92.0%
Luxembourg	25,277	22,252	13.6%
Lithuania	20,332	18,230	11.5%
Other EU countries	108,219	93,221	16.1%
Other European Countries	246,022	232,557	5.8%
Switzerland	131,647	103,640	27.0%
Norway	40,356	39,614	1.9%
Russia	13,221	16,102	(17.9%)
other European countries	60,798	73,201	(16.9%)
Africa	73,421	55,176	33.1%
Asia	147,890	112,441	31.5%
China	42	-	-
Other Asian countries	147,848	112,441	31.5%
Other regions	20,373	11,426	78.3%
TOTAL	**3,455,335**	**3,273,014**	**5.6%**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

3 NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

3.1. SALES REVENUES

Accounting policy

Revenues from the sale of products and goods are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Revenues from services rendered are recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Revenues are not recognised when significant doubts exist as to the collectibility of the amounts due or the reimbursement of costs, or as to the amounts of potential returns of goods and products.

Revenues from the sales of products and goods in foreign currencies are recognised in profit or loss at the NBP's average exchange rate from the date preceding the date of invoice, when the significant risks and rewards of ownership have been transferred to the buyer.

SALES REVENUES	01.01.-31.12.2016	01.01.-31.12.2015
Revenues from sales of products and services	**3,348,436**	**3,080,389**
- products	3,321,369	3,053,057
- services	27,067	27,332
Revenues from sales of goods and materials	**106,899**	**192,625**
- goods	104,361	189,761
- materials	2,538	2,864
Net sales of products, goods and materials	**3,455,335**	**3,273,014**

3.2. COST OF SALES

Accounting policy

Expenses are probable decreases in economic benefits in the form of outflows or depletions of assets or increases in liabilities and provisions.

Cost of sales comprises the production cost of products and services sold and the value of sold goods and materials.

Selling costs include, among others: sales commissions and the costs of advertising, promotion and distribution.

General and administrative expenses are expenses associated with activities of the entity's management or those of general functions.

COST OF SALES	01.01.-31.12.2016	01.01.-31.12.2015*
Cost of manufacture of products and services sold	(2,329,436)	(2,248,499)
Cost of sold goods and materials sold	(86,512)	(160,082)
Reversal of impairment losses on inventory	4,601	5,939
Recognition of impairment losses on inventory	(4,323)	(4,827)
TOTAL	**(2,415,670)**	**(2,407,469)**

* *Restated data, description of changes is provided in note 1.5 to these consolidated financial statements.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN ‘000)

3.3. COSTS BY TYPE

COST BY TYPE (SELECTED)	01.01.-31.12.2016	01.01.-31.12.2015
Amortisation	(221,601)	(214,836)
Consumption of materials and energy	(1,761,475)	(1,631,600)
Employee benefits, including:	(332,492)	(283,056)
- payroll	(269,188)	(227,530)
- social security and other benefits	(61,493)	(53,891)
- expenditure on retirement benefit and jubilee awards (including provisions)	(491)	(258)
- expenditure on pension schemes with defined benefits	(416)	(435)
- other	(904)	(942)
External services	(366,523)	(327,713)

3.4. OTHER INCOME AND EXPENSES

Accounting policy

The reporting period’s results are also affected by other operating income and expenses indirectly related to the Group's core operations. The key items include:

- ✓ gains/ losses on disposal and liquidation of non-financial long-term assets,
- ✓ gains/ losses on sales of emission rights,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables) and recognition/ reversal of provisions,
- ✓ revenue / expenses associated with construction contracts – when the outcome of the contract can be estimated reliably, contract revenue and expenses are recognised in accordance with the stage of completion of the contract. The stage of completion is determined by comparing the work physically performed to the contracted work, or as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work. An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable,
- ✓ income from rental of investment property is recognised in profit or loss on a straight-line basis over the lease term. Any lease incentives granted are an integral part of the net consideration agreed for the use of the asset,
- ✓ gains / losses on remeasurement of fair value of investment property,
- ✓ unused production capacity.

Subsidies

Government subsidies are recognised when there is reasonable assurance that the subsidy will be received and that the entity will comply with all relevant conditions of the subsidy. Subsidies are recognised as income in profit or loss on a systematic basis when the entity recognises, as expenses, the related costs that the subsidies are intended to compensate.

Government subsidies related to assets, including non-monetary subsidies at fair value, are presented in the balance sheet by setting up the subsidy as deferred income. It is recognised as income over the useful life of the asset. Repayment of a subsidy related to income should be applied first against any unamortised deferred credit set up in respect of the subsidy. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment should be recognised immediately in profit or loss. Repayment of a subsidy related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable.

Judgements and estimates

Impairment of non-financial assets

The carrying amounts of the company’s non-financial assets, other than inventory and deferred tax assets, are reviewed at reporting date to determine whether there is any indication of impairment. If any such indication exists, then the company estimates the recoverable amount of the respective cash-generating unit.

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For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date, irrespective of the existence of the aforesaid indications.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised against the carrying amount of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Impairment losses are recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in profit or loss. Impairment losses in respect of assets are recognised in those expense categories that correspond to the function of the asset to which they relate.

OTHER OPERATING INCOME	01.01.-31.12.2016	01.01.-31.12.2015
Subsidies	10,747	8,382
Rents/lease income	2,609	2,106
Gain on disposal of non-financial non-current assets	2,049	3,982
Reversal of impairment allowances on receivables	780	3,625
Reversal of impairment losses on property, plant and equipment and intangible assets	133	142
Reversal of provisions on employee benefits	1,577	552
Reversal of provisions for compensation – changing the base	81	708
Reversal of provisions for environmental protection – changing the base	1,047	3,352
Reversal of provisions for liabilities – changing the base	16,115	2,529
Reversal of other provisions	5,115	2,961
Penalty fees and compensations received	5,064	2,514
Refund of taxes and charges	3,935	1,154
Revenues from caverns	3,741	7,641
Valuation of investment property in fair value	14,347	-
Other services	3,120	3,962
Other	16,150	9,317
TOTAL	**86,610**	**52,927**

As at 31 December 2016, the CIECH Group made an assessment of premises, originating both from external and internal sources of information, of indicators of impairment. These analyses did not indicate the need to estimate the recoverable value.

Subsidies

Subsidies recognised in the statement of profit or loss in the reporting period amounted to PLN 10,747 thousand (PLN 8,382 thousand in the comparable period) settled over time in proportion to the amortisation of capitalised development costs to which they relate. Subsidies included in liabilities as at 31 December 2016 amounted to PLN 92,335 thousand (compared to PLN 90,847 thousand as at 31 December 2015). The CIECH Group companies receive subsidies for research and development activities, purchase of property, plant and equipment and for adapting investment projects to environmental requirements. The subsidies are mainly received by the CIECH Group companies from the European Regional Development Fund.

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The most significant subsidies are as follows:

SIGNIFICANT SUBSIDIES RECEIVED BY:	CIECH Soda Polska S.A.	CIECH Sarzyna S.A.	CIECH Vitrosilicon S.A
"Establishment of an exhaust gas desulphurisation plant in CHP plant in Janikowo"	15,904		
"Extension of CKTI boilers in CHP plant Janikowo in order to adjust them to environmental requirements – CKTI 2 boiler"	13,443		
"Extension of CKTI boiler No. 3 in order to adjust CHP plant in Janikowo to environmental requirements"	9,591		
"Extension of the centre of decantation and filtration of distillation sludge in the Plant in Inowrocław"	10,930		
"Construction of an innovative MCPA and MCPP-P manufacturing system"		39,997	
"BarvaGlass packaging glass - Vitrosilicon turns vision into reality"			7,537

Other forms of State aid

In 2016, in connection with the implementation of R&D projects as part of the "Intelligent Development" Operational Programme for 2014-2020, the CIECH Group companies concluded co-financing agreement for the total amount of co-financing of PLN 25.7 million. The R&D projects implemented enable the creation of the CIECH Group's value through the increase of innovation and introduction of new and improved products on the market.

Also investment projects in the production area are implemented with the participation of funds provided by the State Budget. In connection with the fulfilment, as at the end of August 2016, of conditions specified in the Permit No 126/PSSE dated 23 May 2014 for carrying out business activities in the Pomeranian Special Economic Zone, CIECH Soda Polska S.A. started to take advantage of its exemption from the corporate income tax. The amount of CIT unpaid in 2016 was PLN 5,072 thousand. As at 31 December 2016, CIECH Soda Polska S.A. recognised the deferred tax asset in the amount of PLN 90,759 thousand due to the tax exemption applicable in the Pomeranian Special Economic Zone.

In December 2016, the area of CIECH Vitrosilicon S.A.'s Plant in Żary was covered by the status of the Kostrzyn and Słubice Special Economic Zone.

Construction contracts

The SDC Group, in accordance with IAS 11 "Construction Contracts", attributes revenues and costs connected with contracts concerning cavern desalination to particular periods in which the works were conducted.

- Project 1 –project has been completed, other receivables relating to the implementation in the amount of PLN 2,044 thousand (EUR 462 thousand) are disclosed under trade and other receivables.
- Project 2 – contract includes the sale of mining rights, land and preparation of four gas caverns (S113 to S116). The stage of completion is determined as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work.

Revenue recognised in statement of profit or loss for 2016 represent the amount of the expected sales revenues multiplied by the percentage of completion of the contract in the accounting period.

The results on construction contract (Project 2) recognised in other operating income for 2016 amounted to PLN 3,741 thousand (EUR 855 thousand). In the comparable period, it amounted to PLN 7,641 thousand (EUR 1,826 thousand). The receivables relating to the construction contract (Project 2) recognised in assets as long-term receivables amounted to PLN 99,106 thousand (EUR 22,402 thousand) as at the end of 2016. As at 31 December 2015, they amounted to PLN 89,453 thousand (EUR 20,991 thousand).

The total amount of costs incurred and profits recognised (less recognised losses) due to ongoing contracts for the period of duration of these contracts amounted to PLN 148,139 thousand (in the comparable period: PLN 144,398 thousand).

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OTHER OPERATING EXPENSES	01.01.-31.12.2016	01.01.-31.12.2015
Costs related to investment property	(1,661)	(1,017)
Recognition of impairment losses on receivables	(12,435)	(1,940)
Recognition of impairment losses on property, plant and equipment and intangible assets	(1,674)	(1,428)
Recognition of provisions on employee benefits	(1,475)	(2,466)
Recognition of provisions for compensation – changing the base	(973)	(3,125)
Recognition of provisions for environmental protection – changing the base	(188)	(506)
Recognition of provisions for liabilities – changing the base	(8,709)	(15,129)
Recognition of provision for anticipated losses - changing the base	(6,964)	(11,325)
Recognition of other provisions - changing the base	(7,433)	(4,139)
Liquidation costs of property, plant and equipment	(771)	(807)
Liquidation costs of materials	(879)	(587)
Amortisation/depreciation	(1,873)	(2,886)
Costs of idle assets and production capacity	(15,402)	(13,580)
Costs of remediating the effects of fortuitous events	(2,584)	(2,777)
Valuation of investment property at fair value	-	(6,347)
Receivables written-off	(2,188)	(5,960)
Result from losing control over a subsidiary	-	(2,834)
Penalties and compensations paid	(2,324)	(2,913)
Other	(8,970)	(8,810)
TOTAL	**(76,503)**	**(88,576)**

The total amount of expenditure on research and development expensed in the period, as not meeting the capitalisation criteria, amounted to PLN 394 thousand (PLN 1,427 thousand in the comparable period).

3.5. FINANCIAL INCOME AND EXPENSES

Accounting policy

Financial income and expenses relate to an entity's financing activities including the acquisition and disposal of equity, securities, drawing of loans and borrowings, issuance of debt securities. Accordingly, key items of financing activities include:

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ interest earned by the Group on cash and cash equivalents (bank deposits and accounts loans granted and receivables) – accounted for in the profit and loss on accrual basis using the effective interest method,
- ✓ dividend income – recognised in profit or loss when the Group's right to receive payment is established,
- ✓ write-downs on investments,
- ✓ net foreign exchange gains or losses,
- ✓ gains/ losses on sales of financial assets,
- ✓ ineffective portion of hedge accounting.

FINANCIAL INCOME	01.01.-31.12.2016	01.01.-31.12.2015
Interest	4,930	2,955
Dividends and shares in profit	930	437
Net foreign exchange gains	5,301	-
Reversal of impairment losses	207	714
Decrease in provisions due to change in discount rate	57	298
Income from liquidated companies	-	1,102
Ineffective portion of hedge accounting	1,862	-
Reversal of provision of financial liabilities - changing the base	7,477	487
Other	2,787	413
TOTAL	**23,551**	**6,406**

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FINANCIAL EXPENSES	01.01.-31.12.2016	01.01.-31.12.2015
Total interest	(35,765)	(91,125)
Net foreign exchange losses	-	(4,355)
Recognition of impairment losses on non-current investments and investments in equity accounted associates	-	(1,011)
Recognition of other impairment losses	-	(160)
Factoring commissions	(3,503)	(4,458)
Bank fees and commissions*	(3,279)	(105,204)
Recognised provisions	(8,808)	(2,258)
Increase in provisions due to change in discount rates	(5,473)	(4,660)
Costs of discounting of liabilities	(2,080)	(2,301)
Ineffective portion of hedge accounting	-	(1,862)
Other	(687)	(1,609)
TOTAL	**(59,595)**	**(219,003)**

**Including a premium for early redemption of foreign bonds and write-off of the arrangement fee relating to bonds redeemed in 2015.*

The decrease in financial expenses from interest resulted mainly from the refinancing facility arranged by the Group at the end of 2015.

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income of the CIECH Group

Tax effect of each component of other comprehensive income	01.01.-31.12.2016			01.01.-31.12.2015		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net currency at translation differences	4,714	2,151	6,865	(3,368)	(50)	(3,418)
Cash flow hedge	(38,242)	8,940	(29,302)	15,124	(2,874)	12,250
Valuation of actuarial provisions	685	(130)	555	676	(128)	548
Other components of other comprehensive income	(76)	-	(76)	53	-	53
TOTAL	**(32,919)**	**10,961**	**(21,958)**	**12,485**	**(3,052)**	**9,433**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2016	01.01.-31.12.2015
Currency translation differences (foreign companies)	**4,714**	**(3,368)**
remeasurement for the current period	4,714	(3,368)
Cash flow hedge	**(38,242)**	**15,124**
fair value remeasurement in the period	(23,777)	6,158
reclassification to profit or loss	(14,465)	8,966
Valuation of actuarial provisions	**685**	**676**
remeasurement for the current period	685	676
Other components of other comprehensive income	**(76)**	**53**
remeasurement for the current period	(76)	53
Income tax attributable to other components of other comprehensive income	**10,961**	**(3,052)**
accrued for the current period	8,212	(1,348)
reclassification to profit or loss	2,749	(1,704)
Other comprehensive income net of tax	**(21,958)**	**9,433**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

4 INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

4.1. MAIN COMPONENTS OF TAX EXPENSE

Accounting policy

Current tax

Current tax receivables and liabilities for the current and prior periods are measured in the amount of the expected tax amount to be paid to tax authorities (recoverable from tax authorities) using tax rates and tax laws that are legally or substantively enacted at the reporting date.

The main components of tax expense include:

MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-31.12.2016	01.01.-31.12.2015
Current income tax	**(53,783)**	**(33,539)**
Income tax for the reporting period	(52,904)	(30,526)
Adjustment to tax for previous years	(879)	(3,013)
Deferred tax	**22,969**	**102,162**
Origination/reversal of temporary differences	20,986	104,793
Unrecognized deferred tax assets	1,983	(2,631)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(30,814)**	**68,623**

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2016	01.01.-31.12.2015
Net currency at translation differences	2,151	(50)
Cash flow hedge	8,940	(2,874)
Valuation of actuarial provisions	(130)	(128)
TOTAL	**10,961**	**(3,052)**

4.2. EFFECTIVE TAX RATE

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Group's pre-tax financial result to income tax calculated based on the effective tax rate:

EFFECTIVE TAX RATE	01.01.-31.12.2016	01.01.-31.12.2015
Profit/(loss) before tax	**624,950**	**277,382**
Income tax based on currently enacted tax rate	**118,740**	**52,703**
Difference due to the application of tax rates of other tax jurisdictions	13,886	(304)
Withholding tax unrealised	257	503
Tax effect of revenues adjusting profit (loss) before taxes (permanent difference)	(17,869)	(21,272)
Effect of participation in equity-accounted investees	(53)	(50)
Tax effect of costs adjusting profit (loss) before taxes (permanent difference)	23,077	(88,417)
Current income tax adjustment of previous years	(3,343)	3,164
Deferred tax asset from tax losses from previous years	(8,976)	(18,221)
Tax losses from statement periods from which deferred tax asset was not included	-	1,833
Special economic zone	(95,831)	-
Tax reliefs	248	-
Other	678	1,438
Income tax recognised in income statement	**30,814**	**(68,623)**
EFFECTIVE TAX RATE	**4.9%**	**(24.7%)**

4.3. DEFERRED INCOME TAX

Accounting policy

Deferred tax

Deferred tax is recognised in respect of temporary differences between the tax values of assets and liabilities and the carrying amounts recognised in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from:

- ✓ the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, or
- ✓ the investor is able to control the timing of the reversal of temporary differences in respect of investments in subsidiaries, associates and joint ventures, and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and for unused tax credits and tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised:

- ✓ unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, and
- ✓ deductible temporary differences in respect of investments in subsidiaries, associates and joint ventures are recognised in statement of financial position only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of every reporting period and is reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the asset can be utilised. Any previously unrecognised deferred tax asset is reassessed at each reporting date and is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates and laws that have been enacted at the reporting date or whose application in the future is certain at the reporting date.

Income tax related to items recognised outside profit or loss statement is itself recognised outside profit or loss: either in other comprehensive income, when it relates to items recognised in other comprehensive income, or directly in equity, when it relates to items recognised directly in equity.

Deferred tax assets and liabilities are offset solely if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Judgements and estimates

Deferred tax

Deferred income tax is based on the assumption that future taxable profit will allow for its usage. In determining the amount of deferred tax assets, the CIECH Group subsidiaries base their calculations on estimates related to the term and amount of future taxable income.

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Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2016			31.12.2015		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	2,081	136,195	(134,114)	1,772	121,325	(119,553)
Intangible assets	32,430	499	31,931	36,611	4,975	31,636
Right of perpetual usufruct	-	5,147	(5,147)	-	5,218	(5,218)
Investment property	2,003	1,673	330	2,365	1,602	763
Financial assets	1,732	13,454	(11,722)	32,655	3,514	29,141
Inventory	2,106	557	1,549	1,558	538	1,020
Trade and other receivables	4,053	35,599	(31,546)	2,011	30,634	(28,623)
Provisions for employee benefits	3,181	31	3,150	2,788	11	2,777
Other provisions	22,107	-	22,107	22,431	1	22,430
Tax losses carried forward	139,309	-	139,309	174,232	-	174,232
Foreign exchange differences	3,839	376	3,463	2,522	728	1,794
Liabilities	61,850	306	61,544	34,023	877	33,146
Special Economic Zone	90,759	-	90,759	-	-	-
Other	207	1,777	(1,570)	132	4,594	(4,462)
Deferred tax assets/liability	**365,657**	**195,614**	**170,043**	**313,100**	**174,017**	**139,083**
Set-off of deferred tax assets/ liability	(157,826)	(157,826)	-	(89,383)	(89,383)	-
Unrecognized deferred tax assets	(7,965)	-	(7,965)	(9,968)	-	(9,968)
Deferred tax assets/liability recognised in the statement of financial position	**199,866**	**37,788**	**162,078**	**213,749**	**84,634**	**129,115**

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2016	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	Currency translation differences	31.12.2016
Property, plant and equipment	(558,775)	(44,705)	-	(6,516)	(609,996)
Intangible assets	142,558	(826)	-	756	142,488
Right of perpetual usufruct	(27,460)	371	-	-	(27,089)
Investment property	13,558	533	-	-	14,091
Financial assets	78,151	(199,061)	(2,271)	(322)	(123,503)
Inventory	5,439	2,798	-	-	8,237
Trade and other receivables	(100,653)	8,447	-	(3,945)	(96,151)
Provisions for employee benefits	14,613	2,594	(685)	183	16,705
Other provisions	89,287	(20,001)	-	2,984	72,270
Tax losses carried forward	917,030	(183,320)	-	-	733,710
Foreign exchange differences	15,799	(53,187)	61,972	-	24,584
Liabilities	123,546	113,559	(715)	2,667	239,057
Other	(23,978)	15,214	-	-	(8,764)
TOTAL	**689,115**	**(357,584)**	**58,301**	**(4,193)**	**385,639**

The above table does not contain any temporary differences from the deferred tax asset of the special economic zone as according to the rules, the above mentioned relief is tax deductible rather than income.

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CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2015	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	Currency translation differences	31.12.2015
Property, plant and equipment	(498,253)	(60,735)	-	213	(558,775)
Intangible assets	174,476	(31,865)	-	(53)	142,558
Right of perpetual usufruct	(27,831)	371	-	-	(27,460)
Investment property	7,596	5,962	-	-	13,558
Financial assets	162,585	(81,150)	(3,284)	-	78,151
Inventory	14,812	(9,373)	-	-	5,439
Trade and other receivables	(100,124)	(373)	-	(156)	(100,653)
Provisions for employee benefits	5,149	10,048	(676)	92	14,613
Other provisions	63,244	25,880	-	163	89,287
Tax losses carried forward	319,173	597,857	-	-	917,030
Foreign exchange differences	66,180	(39,181)	(11,200)	-	15,799
Liabilities	105,032	18,814	(902)	602	123,546
Other	(18,678)	(5,300)	-	-	(23,978)
TOTAL	**273,361**	**430,955**	**(16,062)**	**861**	**689,115**

Dividend payment to the shareholders of the CIECH Group has no effect on deferred tax.

The CIECH Group companies who recognised deferred tax assets in respect of tax loss carried forward, on the basis of their tax budgets, predict that sufficient taxable profits will be realised within 5 years against which the Group can fully utilise the benefits therefrom.

In connection with the fulfilment, as at the end of August 2016, of conditions specified in the Permit No 126/PSSE dated 23 May 2014 for carrying out business activities in the Pomeranian Special Economic Zone, CIECH Soda Polska S.A. started to take advantage of its exemption from the corporate income tax. The amount of CIT unpaid in 2016 was PLN 5,072 thousand. As at 31 December 2016, CIECH Soda Polska S.A. recognised the deferred tax asset in the amount of PLN 90,759 thousand due to the tax exemption applicable in the Pomeranian Special Economic Zone.

5 NOTES TO ASSETS REPORTED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Own property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and all other costs directly attributable to the acquisition of the asset and bringing it to a working condition for its intended use. The cost also includes the cost of replacing components of machinery and equipment when incurred if the recognition criteria are met.

Property, plant and equipment used under finance lease agreements

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of an item of property, plant and equipment are classified as finance leases. Upon initial recognition the leased item of property, plant and equipment is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset's carrying amount is decreased by accumulated depreciation and accumulated impairment losses.

In the case of an asset used under a finance lease, if it is not reasonably certain that the lessee will obtain ownership of the asset by the end of the lease term, then the tangible asset is depreciated over one of the following two periods, whichever shorter:

- ✓ the lease term,
- ✓ the expected useful life of the asset.

When an agreement is classified as a finance lease, the underlying asset is recognised within the Company's (lessee's) property, plant and equipment and is depreciated in accordance with principles specified below. Payments under operating lease agreements are recognised as an expense over the lease term.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment are capitalised. Other costs are capitalised only to the extent that it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Other subsequent costs are recognised in the profit or loss statement as incurred expenses.

A separate component of an item of property, plant and equipment, requiring replacement at regular intervals, is depreciated over its economic useful life.

The Group increases the value of property, plant and equipment by the value of outlays for periodic major overhauls, necessary for the functioning of a given item of property, plant and equipment. These expenditures are treated as a separate item of property, plant and equipment and depreciated through the anticipated period to the next planned overhaul. Upon capitalisation of new costs of overhauls, the non-depreciated value of previous repairs is allocated to operating expenses.

Upon the acquisition or creation of an item of property, plant and equipment, the Group separates from the cost a value equal to the expenditures that need to be made during the next overhaul of a given item of property, plant and equipment and depreciates it through the anticipated period left until the next planned overhaul.

Depreciation

Items of property, plant and equipment, and also their significant and separate components, are depreciated on a straight-line basis over their respective estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

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Buildings	20-50 years
Machinery and equipment	2-20 years
Means of transport	2-20 years
Other	1-15 years

Borrowing costs

For qualifying assets, the borrowing costs that otherwise would have been avoided if the expenditure on the qualifying asset has not been made are included in purchase price of these assets. The amount of borrowing costs eligible for capitalisation is defined as the appropriate portion of loan interest, the cost of arranging financing and respectively foreign exchange differences on foreign currency loans.

Judgements and estimates

Depreciation and amortisation rates. These are determined on the basis of the expected useful lives of property, plant and equipment and are subject to annual verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.

01.01.-31.12.2016	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**81,567**	**908,740**	**2,354,758**	**102,007**	**42,748**	**392,084**	**3,881,904**
Purchase	-	2,319	27,061	12,740	741	489,771	532,632
Reclassification	-	168,455	344,608	146	4,827	(561,821)	(43,785)
Capitalised borrowing costs	-	-	-	-	-	20,576	20,576
Exchange differences	3,012	8,696	33,639	489	393	1,543	47,772
Sales	-	(826)	(5,037)	(9,835)	(1,277)	(561)	(17,536)
Liquidation	-	(3,535)	(37,855)	(3,808)	(1,130)	(1,007)	(47,335)
Other	-	123	622	(180)	2	-	567
Gross value of property, plant and equipment at the end of the period	**84,579**	**1,083,972**	**2,717,796**	**101,559**	**46,304**	**340,585**	**4,374,795**
Accumulated depreciation at the beginning of the period	**(8,889)**	**(396,526)**	**(1,074,286)**	**(57,851)**	**(33,326)**	**-**	**(1,570,878)**
Annual depreciation charge	(1,609)	(42,783)	(163,123)	(6,465)	(3,072)	-	(217,052)
Sales	-	825	4,980	9,535	1,253	-	16,593
Liquidation	-	3,481	37,362	1,156	1,114	-	43,113
Exchange differences	(357)	(3,885)	(14,397)	(333)	(333)	-	(19,305)
Reclassification	-	377	7	-	(7)	-	377
Other	-	-	1,927	24	(1)	-	1,950
Accumulated depreciation at the end of the period	**(10,855)**	**(438,511)**	**(1,207,530)**	**(53,934)**	**(34,372)**	**-**	**(1,745,202)**
Impairment losses at the beginning of the period	**-**	**(945)**	**(508)**	**(13)**	**(11)**	**(4,544)**	**(6,021)**
Reversal	-	-	109	13	11	-	133
Exchange differences	-	(33)	(12)	-	-	-	(45)
Impairment losses at the end of the period	**-**	**(978)**	**(411)**	**-**	**-**	**(4,544)**	**(5,933)**
Carrying amount of property, plant and equipment at the beginning of period	**72,678**	**511,269**	**1,279,964**	**44,143**	**9,411**	**387,540**	**2,305,005**
Carrying amount of property, plant and equipment at the end of the period	**73,724**	**644,483**	**1,509,855**	**47,625**	**11,932**	**336,041**	**2,623,660**

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01.01.-31.12.2015	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**81,724**	**820,081**	**2,151,628**	**95,334**	**38,918**	**247,458**	**3,435,143**
Purchase	-	9,895	41,530	15,097	1,183	461,410	529,115
Reclassification	-	81,003	180,107	174	4,372	(339,171)	(73,515)
Capitalised borrowing costs	-	-	-	-	-	24,294	24,294
Exchange differences	(157)	(503)	(1,212)	(82)	(3)	(256)	(2,213)
Sales	-	(578)	(4,945)	(8,151)	(1,127)	(260)	(15,061)
Liquidation	-	(1,158)	(12,421)	(159)	(179)	(1,249)	(15,166)
Change in the Group's structure	-	-	(92)	(206)	(416)	-	(714)
Transferred from/to assets classified as held for sale	-	-	10	-	-	(135)	(125)
Other	-	-	153	-	-	(7)	146
Gross value of property, plant and equipment at the end of the period	**81,567**	**908,740**	**2,354,758**	**102,007**	**42,748**	**392,084**	**3,881,904**
Accumulated depreciation at the beginning of the period	**(7,309)**	**(333,119)**	**(965,863)**	**(55,547)**	**(30,305)**	**-**	**(1,392,143)**
Annual depreciation charge	(1,553)	(64,452)	(130,135)	(6,886)	(4,370)	-	(207,396)
Sales	-	578	3,698	4,171	789	-	9,236
Liquidation	-	776	12,289	157	151	-	13,373
Change in the Group's structure	-	-	92	206	416	-	714
Exchange differences	(27)	(367)	397	48	(7)	-	44
Reclassification	-	58	5,236	-	-	-	5,294
Accumulated depreciation at the end of the period	**(8,889)**	**(396,526)**	**(1,074,286)**	**(57,851)**	**(33,326)**	**-**	**(1,570,878)**
Impairment losses at the beginning of the period	**-**	**-**	**(165)**	**-**	**-**	**(6,097)**	**(6,262)**
Recognition	-	(945)	(343)	(13)	(11)	(116)	(1,428)
Reversal	-	-	-	-	-	142	142
Liquidation	-	-	-	-	-	1,527	1,527
Impairment losses at the end of the period	**-**	**(945)**	**(508)**	**(13)**	**(11)**	**(4,544)**	**(6,021)**
Carrying amount of property, plant and equipment at the beginning of period	**74,415**	**486,962**	**1,185,600**	**39,787**	**8,613**	**241,361**	**2,036,738**
Carrying amount of property, plant and equipment at the end of the period	**72,678**	**511,269**	**1,279,964**	**44,143**	**9,411**	**387,540**	**2,305,005**

In 2016, the capitalisation rate applied to determine the amount of borrowing costs to be capitalised was approx. 11%, whereas in 2015 it amounted to approx. 14%.

In 2016 and 2015, there were no significant impairment allowances of property, plant and equipment.

Depreciation of property, plant and equipment was charged to the following line items in the consolidated profit or loss statement:

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2016	01.01.-31.12.2015
Cost of sales	(207,767)	(198,318)
General and administrative expenses	(7,367)	(6,564)
Other operating expenses	(1,918)	(2,514)
TOTAL	**(217,052)**	**(207,396)**

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2016	31.12.2015
Owned	2,582,550	2,271,868
Finance lease agreements	41,110	33,137
TOTAL	**2,623,660**	**2,305,005**

In the reporting period the CIECH Group received compensation from third parties for impaired tangible fixed assets in the amount of PLN 1,362 thousand (PLN 458 thousand in the comparable period).

As at 31 December 2016, all tangible assets in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 174,220 thousand in 2016 (in the comparable period: PLN 139,877 thousand).

OFF-BALANCE SHEET PROPERTY, PLANT AND EQUIPMENT	31.12.2016	31.12.2015
Used under lease, tenancy and other agreements including:	**103,346**	**116,804**
Land in perpetual usufruct	51,836	51,858
Operating lease agreement	6,912	5,182
Renting agreement	754	598
Tenancy agreement	43,844	59,166

CIECH S.A. is a lessee of office space, the largest item (approx. 2 thousand m^2) is the office in Warsaw at Wspólna Street, where the company's registered seat is located. The term of the lease agreement expires in 2023. The company does not have a valuation report concerning the lease real property and is of the opinion that the cost of preparing such report would be higher than its informative value. The value of payments incurred in relation to the leased asset and the total amount of future minimum lease payments are disclosed in note 7.5 to these statements.

5.2. RIGHT OF PERPETUAL USUFRUCT OF LAND

Accounting policy

Purchased rights of perpetual usufruct of land are recognised as separate items in the statement of financial position. Perpetual usufruct rights obtained based on an administrative decision are recorded off-balance sheet (recognised as operating lease). Rights of perpetual usufruct of land are depreciated on a straight-line basis over the lease term.

The carrying amount of the right of perpetual usufruct purchased by the CIECH Group is presented in the table below.

RIGHT OF PERPETUAL USUFRUCT OF LAND	01.01.-31.12.2016	01.01.-31.12.2015
Gross value at the beginning of the period	**39,021**	**38,819**
Purchase	-	202
Sales	(44)	-
Gross value at the end of the period	**38,977**	**39,021**
Amortisation at the beginning of the period	**(7,612)**	**(6,462)**
Amortisation for the period	(1,148)	(1,150)
Sales	2	-
Amortisation at the end of the period	**(8,758)**	**(7,612)**
Impairment losses at the beginning of the period	**-**	**-**
Impairment losses at the end of the period	**-**	**-**
Net value as at the beginning of the period	**31,409**	**32,357**
Net value as at the end of the period	**30,219**	**31,409**

5.3. INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on a combination of two separate entities or businesses into one reporting entity. It specifically relates to the acquisitions of subsidiaries, associates, or jointly controlled entities. All business combinations of unrelated entities are recognised using the acquisition method.

The Group initially measures goodwill as the difference between the total value:

- ✓ the acquisition-date fair value of the consideration transferred,
- ✓ the amount of any non-controlling interest in the acquiree measured either at fair value or at their proportionate share in the fair value of the acquiree's net assets, and
- ✓ in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquire

and the net recognised amounts (fair value) of the identifiable assets acquired and liabilities assumed measured at the acquisition date.

Occasionally, a bargain purchase may occur, i.e. a business combination in which the net recognised amounts of the identifiable assets acquired and liabilities assumed measured at the acquisition date exceed the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest measured at fair value or at their proportionate share in the acquiree's net assets, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified and measured the amounts of assets acquired and liabilities assumed, non-controlling interest, consideration transferred, and in a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree. The purpose of the reassessment is to ensure that the measurements accurately consider all information available at the acquisition date. Any remaining gain from a bargain purchase after completing the reassessment is recognised in profit or loss at the acquisition date (as other operating income).

At the date of an acquisition, any goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit or a group of units to which the goodwill was allocated:

- ✓ is the lowest level within the Group at which goodwill is monitored for internal management purposes,
- ✓ is not larger than an operating segment as defined in IFRS 8 "Operating Segments".

Goodwill represents an asset with indefinite useful life and as such is subject to annual impairment tests. Goodwill is tested at a minimum at the operating segment level.

Goodwill related to investments in associates is reflected in their carrying amounts in the Group's consolidated financial statements. Consequently, any investments in associates and the related goodwill are analysed for impairment on a combined basis.

Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses. Any expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

The 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, registration fees and authorisation, are capitalised as intangible assets.

Subsequent costs

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Development costs	2-5 years
Patents and licences	2-10 years
Other	2-12 years

Depreciation periods and residual values are reviewed at each reporting date with any resulting adjustments made prospectively as a change in estimate.

Amortisation of intangible assets related to the costs incurred in respect of registration in the REACH system begins in the month following the month of proper registration of a given substance. The amortisation period is 12 years with amortisation charged to cost of sales.

Development costs

Research activities represent an innovative and scheduled search for solutions, undertaken with the prospect of gaining new scientific or technical knowledge. Development activities are understood as a practical application of discoveries or achievements of other knowledge in planning and designing the production of new or considerably improved materials, devices, products, technological processes, systems or services, taking place prior to starting mass production or prior to their application.

All expenditure on research activities is recognised in profit or loss as incurred. Whenever a clear distinction between research and development activities cannot be made, the Group treats the related expenditure as though it were incurred in the research phase only.

Development expenditure is capitalised as part of intangible assets only if the Group is able to prove:

- ✓ that the product or process is technically and commercially feasible (assessed from a technical perspective),
- ✓ its intent to complete development and to use or sell the asset,
- ✓ the ability to use or sell the asset,
- ✓ the manner in which the asset will bring future economic benefits (inter alia, the entity should prove the existence of a market for new products created by the asset or a market for the asset itself, or – if the asset is to be used by the Group – the usefulness of the intangible asset to the Group),
- ✓ the availability of appropriate technical, financial and other resources required to complete development activities and then use or sell the asset, and,
- ✓ its ability to reliably measure development costs attributable to the asset.

Internally generated trademarks, magazine titles, editorial titles, customer lists and other items of similar nature are not recognised in the financial statements.

The amortisation periods of capitalised development costs should reflect their estimated useful lives.

Judgements and estimates

Depreciation and amortisation rates. Amortisation rates are determined on the basis of the expected useful lives of intangible assets, and are subject to annual verification. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Impairment losses on non-financial assets — detailed principles of estimation of impairment losses are described in accounting policies, in note 3.4.

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01.01.-31.12.2016	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Intangible assets under development	Other Intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**15,246**	**475,352**	**100,247**	**15,687**	**133,884**	**740,416**
Purchase	-	-	1,068	68	-	2,136
Capital expenditures	-	-	2	16,537	-	16,539
Reclassifications	2,295	-	985	(4,515)	389	(846)
Exchange differences	-	16,713	108	-	3,395	20,216
Sales	-	-	(828)	-	-	(828)
Liquidation	-	-	(5,977)	-	-	(6,496)
Utilisation of CO_2 emission rights	-	-	-	-	(22,739)	(22,739)
Other	-	-	-	(2,207)	-	(2,207)
Gross value of intangible assets at the end of the period	**17,541**	**492,065**	**95,605**	**26,570**	**114,410**	**746,191**
Accumulated amortisation at the beginning of the period	(12,762)	-	(89,663)	-	(40,694)	**(143,119)**
Annual amortisation charge	(891)	-	(1,974)	-	(2,409)	(5,274)
Exchange differences	-	-	(80)	-	(1,442)	(1,522)
Sales	-	-	506	-	-	506
Liquidation	-	-	5,895	-	519	6,414
Accumulated amortisation at the end of the period	**(13,653)**	**-**	**(85,316)**	**-**	**(44,026)**	**(142,995)**
Impairment losses at the beginning of the period	**-**	**(412,974)**	**(2,454)**	**-**	**(40 994)**	**(456,422)**
Recognition	-	-	(911)	-	-	(911)
Exchange differences	-	(14,911)	-	-	(1,563)	(16,474)
Impairment losses at the end of the period	**-**	**(427,885)**	**(3,365)**	**-**	**(42,557)**	**(473,807)**
Net value of intangible assets at the beginning of the period	**2,484**	**62,378**	**8,130**	**15,687**	**52,196**	**140,875**
Net value of intangible assets at the end of the period	**3,888**	**64,180**	**6,924**	**26,570**	**27,827**	**129,389**

01.01.-31.12.2015	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Intangible assets under development	Other Intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**15,111**	**476,122**	**99,797**	**8,591**	**108,554**	**708,175**
Purchase	-	-	681	48,225	39,892	88,798
Reclassifications	135	-	195	(41,067)	170	(40,567)
Exchange differences	-	(770)	(13)	-	(18)	(801)
Sales	-	-	-	-	(355)	(355)
Liquidation	-	-	(414)	(71)	(1)	(486)
Utilisation of CO_2 emission rights	-	-	-	-	(14,360)	(14,360)
Other	-	-	1	9	2	12
Gross value of intangible assets at the end of the period	**15,246**	**475,352**	**100,247**	**15,687**	**133,884**	**740,416**
Accumulated amortisation at the beginning of the period	(11,596)	-	(84,790)	-	(38,082)	**(134,468)**
Annual amortisation charge	(1,166)	-	(5,343)	-	(2,667)	(9,176)
Exchange differences	-	-	5	-	(32)	(27)
Sales	-	-	-	-	89	89

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01.01.-31.12.2015	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Intangible assets under development	Other Intangible assets	TOTAL
Liquidation	-	-	410	-	-	410
Other	-	-	55	-	(2)	53
Accumulated amortisation at the end of the period	**(12,762)**	**-**	**(89,663)**	**-**	**(40,694)**	**(143,119)**
Impairment losses at the beginning of the period	**-**	**(413,735)**	**(2,454)**	**-**	**(41,002)**	**(457,191)**
Exchange differences	-	761	-	-	8	769
Impairment losses at the end of the period	**-**	**(412,974)**	**(2,454)**	**-**	**(40,994)**	**(456,422)**
Net value of intangible assets at the beginning of the period	**3,515**	**62,387**	**12,553**	**8,591**	**29,470**	**116,516**
Net value of intangible assets at the end of the period	**2,484**	**62,378**	**8,130**	**15,687**	**52,196**	**140,875**

An important component of "Other" intangible assets of the SDC Group is the client database in the amount of PLN 9,034 thousand (recognised upon acquisition of the company). The valuation was executed in relation to the most significant clients of the production of CIECH Soda Deutschland S.A., a member of the SDC Group – identified on the basis of an analysis of data for 2005-2007, who have a stable and long-term relationship with the company and will remain clients of CIECH Soda Deutschland S.A. also in the future. These are the relationships with the clients who are, to a large extent, dependent on CIECH Soda Deutschland S.A. as their main or secondary supplier of raw materials.

Other intangible assets of the CIECH Group include mainly IT systems, licences and patents, other software, development works and other intangible assets. All intangible assets belong to the CIECH Group.

Amortisation of intangible assets was included in the following line items of the consolidated statement of profit or loss:

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2016	01.01.-31.12.2015
Cost of sales	(2,848)	(5,639)
Selling costs	(2,232)	(2,134)
General and administrative expenses	(194)	(1,403)
TOTAL	**(5,274)**	**(9,176)**

As at 31 December 2016, all intangible assets in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

In the current period changes in accounting estimates did not have a material impact and it is not expected that they will have a material impact in future periods.

Apart from goodwill, the CIECH Group does not have other intangible assets with an indefinite useful life. Additional information about the goodwill is presented in note 5.4.

Development works

Development works carried out by the CIECH Group are aimed at increasing economic potential; and are related mainly to the modernisation of technological processes, reduction of manufacturing costs and optimisation of technical and technological parameters. The Group continues the development of the R&D area to support the development of products being a response to growing needs of the market.

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Internally generated intangible assets	01.01.-31.12.2016	01.01.-31.12.2015
Gross value as at the beginning of the period	23,782	17,514
Expenditure incurred	14,848	6,268
Write-off of intangible assets	(2,215)	-
Gross value as at the end of the period	**36,415**	**23,782**
Accumulated amortisation – as at the beginning of the period	11,159	10,252
Amortisation for the period	631	907
Accumulated amortisation as at the end of the period	**11,790**	**11,159**
Net value as at the end of the period	**24,625**	**12,623**

5.4. GOODWILL IMPAIRMENT TESTING

In preparing the consolidated financial statements of the CIECH Group, the goodwill recognised in the consolidated financial statements in relation to a subsidiary CIECH Sarzyna S.A. and German SDC Group was tested for impairment. The recoverable amount was calculated based on the value in use. The value in use was calculated on the basis of the Group's five-year plans. In 2016, no impairment of goodwill of the SDC Group or CIECH Sarzyna S.A. was identified.

The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for CIECH Sarzyna S.A. was: 10.2% – for cash flows in PLN, 7.9% – for cash flows in EUR and 10.4% – for cash flows in USD;
- the weighted average cost of capital for the SDC Group for cash flows in EUR was 6.9%;
- the assumed growth rate for the residual period was 2.0% for both the SDC Group and CIECH Sarzyna S.A.

According to the estimates of the Management Board:

- for CIECH Sarzyna S.A., decrease in the weighted average cost of capital of 0.6 p.p. for each currency without changing other factors would lead to an alignment of the recoverable value with the carrying amount.
- for SDC Group increase in the weighted average cost of capital to 7.3% without changing other factors would lead to an alignment of the recoverable value with the carrying value.

Goodwill is the most valuable component of intangible fixed assets and is presented at the level of the CIECH Group and on the lower tier group level – the SDC Group. Goodwill presented in consolidated financial statements was recognised as a result settlement of business combinations in 2006 and 2007. Goodwill presented in the consolidated financial statements as at 31 December 2016 amounted to PLN 64,180 thousand (soda segment PLN 49,071 thousand, silicates and glass segment – PLN 39 thousand and organic segment – PLN 15,070 thousand) and changed by PLN 1,802 thousand as compared to 2015. It is a result of an increase in goodwill recognised in the statements of the lower tier group, the SDC Group, which resulted from a change in the EUR exchange rate in 2016.

5.5. INVESTMENT PROPERTIES

Accounting policy

Investment property is held to earn rentals or for capital appreciation (or both). Investment property is remeasured at fair value. At initial recognition, investment property is accounted for in accordance with policies applicable for property, plant and equipment i.e. purchase price or cost. In subsequent reporting periods change in fair value of investment property is recognised in profit or loss in the period when change occurred and is presented in other operating expenses. Investment properties held under operating lease may be classified and accounted for as investment property if they meet the definition of investment property and the Group elects to do so.

Judgements and estimates

Investment property valuation. The CIECH Group presents investment property at fair value, recognising the fair value measurement in the statement of profit or loss. Investment property valuation is performed using:

- ✓ comparative method based on observable market data, including the price of comparable investment properties and adjusted with the specific factors such as the capability of the property, its location and condition, or
- ✓ income method (based on a discounted cash flow model) in the absence of comparable market data.

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INVESTMENT PROPERTIES	01.01.-31.12.2016	01.01.-31.12.2015
Carrying amount at the beginning of period	**34,308**	**42,567**
Purchase	-	706
Sales	(17,304)	(2,618)
Fair value valuation	14,347	(6,347)
Other	33	-
Gross value at the end of the period	**31,384**	**34,308**

The item "Investment property" presented by the CIECH Group includes land, buildings and structures that have been acquired only in order to achieve economic benefits from rents or for the increase of their value. The fair value of an investment property is determined with comparative and income method by an independent appraiser.

As at 31 December 2016, the CIECH Group had the following investment property:

- CIECH Nieruchomości S.A. – As at 31 December 2016, the investment property line item for CIECH Nieruchomości S.A. included land and investment expenditure related to the construction of a residential and office complex located in Warsaw in Krasińskiego Street, on the corner of Powązkowska Street. The company is also the owner of real property located in Bydgoszcz. The real property was acquired from Infrastruktura Kapuściska S.A w upadłości likwidacyjnej.
- CIECH Soda Polska S.A. – Buildings acquired by CIECH Soda Polska S.A. as a result of a merger with Soda Med. Sp. z o.o. These are buildings leased for medical outpatient, clinics, nursing and treatment rooms as well as private doctor's and dentist's consulting rooms.
- CIECH Sarzyna S.A. – 35 buildings and structures located on the premises of CIECH Sarzyna S.A. In the past, they were used by the company for its own needs, currently they are leased to generate rental income.
- CIECH Trading Sp. z o.o. – the company recognises land located in Bydgoszcz as investment property (acquired from Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej).

	01.01.-31.12.2016	01.01.-31.12.2015
Income from investment property rental	2,068	1,871
Operating costs related to investment property generating rental income in the given period	2,274	814

As at 31 December 2016, some of the investment property of CIECH Nieruchomości S.A. and all investment property of CIECH Soda Polska S.A. and CIECH Sarzyna S.A., who are guarantors of domestic bonds and term loan, constitute a collateral for financial liabilities.

5.6. LONG-TERM RECEIVABLES

Accounting policy

Construction contract – receivables in relation to caverns

In the case when an entity (contractor) incurs costs due to future activity related with the execution of a contract, such costs are recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

NON-CURRENT RECEIVABLES	31.12.2016	31.12.2015
Receivables in relation to caverns	99,106	89,453
Other	146	159
Net non-current receivables	**99,252**	**89,612**
Gross non-current receivables	**99,252**	**89,612**

5.7. LONG-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

NON-CURRENT FINANCIAL ASSETS	31.12.2016	31.12.2015
Shares	11,271	11,271
Derivatives	56,594	70,056
Embedded derivatives	22,182	-
Other	88	122
TOTAL	**90,135**	**81,449**

CHANGE IN IMPAIRMENT ALLOWANCES ON LONG-TERM ASSETS	01.01.-31.12.2016	01.01.-31.12.2015
Opening balance	**(1,343)**	**(23,131)**
Recognized	-	(1,011)
Reclassification from short-term financial assets*	-	19,500
Other	-	3,299
Closing balance	**(1,343)**	**(1,343)**

** Impairment loss on a borrowing granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej; in 2015, the borrowing was reclassified to short-term financial assets.*

5.8. SHARES IN JOINT VENTURES / INVESTMENTS IN ASSOCIATES

Accounting policy

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control and have rights to the net assets of the arrangement.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted associates and joint ventures from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Group also measures impairment of the share in the net assets of associates and joint ventures and creates appropriate allowance. When the Group's share of losses exceeds the carrying amount of its interest in an associate or a joint venture, such carrying amount is reduced to nil and the recognition of further losses is discontinued if the Group is not obliged to cover them.

The CIECH Group holds a 50% share in Kaverngesellschaft Stassfurt mbH. It is a jointly-controlled company measured under the equity method at the lower-tier group level – the SDC Group (50% direct share in Kaverngesellschaft Stassfurt mbH). This company is not listed on the stock market so the fair value of this investment is not published. Balance sheet days and reporting periods of Kaverngesellschaft Stassfurt mbH are the same as those adopted by the Group.

The following table presents the carrying amounts of investments in associates and jointly-controlled entities measured under the equity method:

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	31.12.2016	31.12.2015
Investments in associates and jointly-controlled entities	5,610	4,918
Share in net profit of associated entities measured under the equity method	674	163

The table below presents condensed information related to the investment in Kaverngesellschaft Stassfurt mbH:

Kaverngesellschaft Stassfurt mbH	31.12.2016	31.12.2015
Share in the equity	50.0%	50.0%
Non-current assets	278	367
Current assets	6,869	4,679
Equity	4,044	2,878
Short-term liabilities	3,103	2,168
Sales revenues	12,454	10,529
Profit before tax	1,858	464
Income tax	(474)	(139)
Net profit/loss	1,384	325

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

5.9. INVENTORIES

Accounting policy

Raw materials and goods are measured at cost being the purchase price increased by other costs incurred in bringing the asset to its present location and condition or place on the market but not higher than the selling price possible to achieve.

Finished goods and work in progress are measured at cost including direct manufacturing costs and reasonable portion of costs indirectly connected with the manufacturing process, but not higher than the selling price possible to achieve. The cost of inventory is based on the first-in first-out principle (FIFO).

Judgements and estimates

The CIECH Group companies recognise inventory impairment allowances for damaged and slow moving inventory. Inventory impairment allowances are also recognised for inventory with a carrying amount that exceeds the realisable net selling price. Reversal occurs as a result of the use or sales of inventory in the course of business activities while usage is the result of inventory being scrapped.

INVENTORY	31.12.2016	31.12.2015
Materials	129,085	144,097
Semi-finished products and work in progress	26,911	26,465
Finished products	113,406	95,314
Goods	29,863	27,755
TOTAL	**299,265**	**293,631**

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	01.01.-31.12.2016	01.01.-31.12.2015
Opening balance	**(38,215)**	**(44,393)**
Recognized	(4,323)	(4,840)
Reversed / released	4,601	5,939
Used	-	5,003
Exchange differences	(281)	76
Closing balance	**(38,218)**	**(38,215)**

As at 31 December 2016, all inventories in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

5.10. SHORT-TERM RECEIVABLES

Accounting policy

After initial recognition, current trade and other receivables are measured at the amortised cost using the effective interest method less any impairment losses.

Receivables denominated in foreign currencies are recognised at the average NBP exchange rate effective on the working day immediately preceding the date of the transaction, unless a different exchange rate was indicated in the customs declaration or another binding document.

At the reporting date, receivables denominated in foreign currencies are translated at the average exchange rate established for that date by the NBP except for prepayments made for deliveries, which are translated using sell exchange rate of the bank effective on the payment date.

Factoring

The Group companies use non-recourse factoring services. The factor transfers advance payments to the company's account in the full amount of invoices accepted for financing. The financing of receivables transferred is provided in various timeframes, therefore, as at the balance sheet date, there may be receivables which have not been financed yet and are reported as factoring receivables. Advance payments received are posted as factoring liabilities. In the statement of financial position, factoring receivables and liabilities are recognised on a net basis up to 90% of the value of advance payments received from the factor (the 90% limit results from the level of the receivables insurance). The remaining 10% of receivables value is reported as factoring receivables, and 10% of the value of advance payments received is reported as factoring liabilities.

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Judgements and estimates

Impairment allowances are recognised on interest receivable on late payments of receivables, in the full amount of interest accrued. These allowances are recognised upon accrual, as at the due date or balance sheet date, and charged to financial expenses. The value of receivables is adjusted considering the probability of repayment. Allowances are recognised in relation to receivables:

- ✓ from debtors in liquidation or bankruptcy, up to the amount not guaranteed or secured in another manner, as reported to a receiver or judge-commissioner during bankruptcy proceedings;
- ✓ from debtors where a bankruptcy petition has been dismissed, if the debtor's assets are not sufficient to cover the cost of bankruptcy proceedings – in full;
- ✓ contested by debtors (disputed receivables) and where payments due are delayed and either the debtor's financial standing makes the collection no longer probable – up to the amount of receivables not guaranteed or secured in another manner;
- ✓ receivables claimed in court.

Moreover, allowances in the full amount of receivables are recognised in relation to receivables that are more than 180 days past their maturity as at the balance sheet date. The amount established as a result of the abovementioned allowances 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.

TRADE AND OTHER RECEIVABLES	31.12.2016	31.12.2015
Trade receivables, including:	298,449	277,308
- up to 12 months	298,004	276,952
- prepayments for inventory	445	356
Prepayments for non-current assets	16,980	40,946
Escrow receivables	398	384
Receivables in relation to caverns	2,044	1,969
Public and legal receivables (excluding income tax)	87,305	88,074
Receivables from sales of energy	9,463	7,581
Insurance receivables	446	444
Purchase costs	3,721	3,488
External services	3,935	2,705
Factoring receivables	70,155	34,366
Other receivables	9,104	12,387
NET TRADE AND OTHER RECEIVABLES	**502,000**	**469,652**
Impairment allowances with respect to trade receivables including	(38,049)	(27,382)
- impairment allowance recognized in the current reporting period	(10,127)	(1,147)
Impairment allowances with respect to other current receivables including	(19,889)	(17,444)
- impairment allowance recognized in the current reporting period	(2,753)	(1,056)
GROSS TRADE AND OTHER RECEIVABLES	**559,938**	**514,478**

As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the maximum period of delay in payments. As at 31 December 2016, the asset from continuing involvement amounted to PLN 1,404 thousand (presented under other receivables). The value of receivables transferred to the factor and derecognised from the statement of financial position is PLN 279,721 thousand.

Fair value of trade receivables and other receivables does not differ significantly from their carrying value.

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2016	01.01.-31.12.2015
Opening balance	**(44,826)**	**(51,619)**
Recognized	(12,880)	(2,203)
Reversed	1,383	4,073
Used	2,133	6,666
Exchange differences	(3,221)	(1,688)
Other	(527)	(55)
Closing balance	**(57,938)**	**(44,826)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

Impairment allowance with respect to current receivables were recognised for those that are subject to compromise arrangements or in dispute, penalty interest, receivables, past due and doubtful receivables and for receivables from companies in bankruptcy. Reversal occurred as a result of settlement of the receivable while usage occurs when receivables are written-off due to ineffective enforcement and bankruptcy of companies on whose receivables an impairment was recognised.

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2016	31.12.2015
Up to 1 month	37,600	32,557
Between 1 and 3 months	3,389	8,460
3 to 6 months	9,268	5,264
6 months to 1 year	6,153	2,720
Above 1 year	30,227	21,036
Total (gross) past due trade receivables	**86,637**	**70,037**
Impairment allowances on past due trade receivables	(36,507)	(23,296)
Total (net) past due trade receivables	**50,130**	**46,741**

Terms of transactions with related entities have been presented in note 9.3.

Commercial contracts concluded by the CIECH Group include various terms of payment of trade receivables depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

As at 31 December 2016, all receivables (long- and short-term receivables) in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), who are guarantors of domestic bonds and the term loan, constitute a collateral for financial liabilities.

5.11. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

SHORT-TERM FINANCIAL ASSETS	31.12.2016	31.12.2015
Derivatives	19,198	16,781
Embedded derivatives	6,773	-
Loans granted	34,000	34,000
Total (net) short-term financial assets	**59,971**	**50,781**
Impairment of short-term financial assets	(24,601)	(24,601)
Total (gross) short-term financial assets	**84,572**	**75,382**

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM FINANCIAL ASSETS	01.01.-31.12.2016	01.01.-31.12.2015
Opening balance	**(24,601)**	**(6,807)**
Used	-	1,705
Reclassification from (to) short-term financial assets *	-	(19,500)
Other	-	1
Closing balance	**(24,601)**	**(24,601)**

** Impairment loss on a borrowing granted to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej; in 2015, the borrowing was reclassified from long-term financial assets.*

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

5.12. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include cash in hand and bank deposits repayable on demand. Current investments that are not subject to significant changes in value and that may be easily exchanged for a determinable amount of cash and that form an integral part of the Group cash management are recognised as cash and cash equivalents for the purposes of the statement of cash flows.

At the reporting date, any foreign currencies in bank accounts and on hand are measured at the average exchange rate for a given currency, established by the President of the NBP.

CASH AND CASH EQUIVALENTS	31.12.2016	31.12.2015
Bank accounts	376,259	94,927
Short-term deposits	38,044	107,417
Cash in hand	65	336
Other cash	1	255
Cash and cash equivalents – presented in the statement of financial position	**414,369**	**202,935**
Cash and cash equivalents – presented in the cash flow statement	**414,369**	**202,935**

The value of restricted cash

As at 31 December 2016, all cash and cash equivalents in Polish companies (CIECH S.A., JANIKOSODA S.A., CIECH Nieruchomości S.A., CIECH Soda Polska S.A., CIECH Transclean S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading S.A., CIECH Pianki Sp. z o.o., CIECH Cerium Sp. z o.o. SK, Cerium Finance Sp. z o.o.) and German companies (SDC GmbH, Sodawerk Holding Stassfurt GmbH, Sodawerk Stassfurt Verwaltungs-GmbH, CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), Romanian company CIECH Soda Romania S.A. and Swedish company Ciech Group Financing AB, who are guarantors of domestic bonds and the term loan, constituted a collateral for financial liabilities.

As at 31 December 2016, the balance of cash restricted due to a deposit placed for transactions concluded with the PGE Brokerage House (futures contracts for the purchase of CO_2 certificates) amounted to PLN 2,981 thousand (EUR 674 thousand).

As at 31 December 2015, there was no restricted cash and cash equivalents in the CIECH Group.

The effective interest rates of short-term bank deposits are similar to the nominal interest rates, and fair value of short-term bank deposits is not significantly different from carrying value. Interest rates are based on WIBOR, EURIBOR and LIBOR.

5.13. DISCONTINUED OPERATIONS, NON-CURRENT ASSETS AND LIABILITIES CONNECTED WITH NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In the reporting periods presented, there were no discontinued operations at the CIECH Group.

Assets and liabilities classified as held for sale

Accounting policy

Non-current assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through a sale transaction and when they are available for sale in their current condition with such transaction being highly probable.

As at 31 December 2016, the CIECH Group presented the following assets under the item "Non-current assets classified as held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Iłowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are included in the segment of silicates and glass;
- CIECH Trading S.A. presented an EPI installation acquired from Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej (total carrying value of PLN 2,315 thousand). These assets are presented in the "Other activities" segment.

- CIECH Transclean Sp. z o.o. presented a real property with the carrying amount of PLN 567 thousand, located in Bydgoszcz, containing an administrative building together with equipment. These assets are presented in the transport segment.

As at 31 December 2015, the CIECH Group presented the following assets under the item "Non-current assets classified as held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Iłowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are included in the segment of silicates and glass;
- CIECH Trading S.A. presented an EPI installation acquired from Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej (total carrying value of PLN 3,015 thousand). These assets are presented in the "Other activities" segment.

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

6 EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

The Group's capital structure consist of its debts, including bank loans and bonds presented in note 7.1, cash and cash equivalents and equity attributable to shareholders of the parent entity including shares issued, reserve capital and retained earnings.

The Group manages its capital in order to ensure that subsidiaries are able to continue their activity and at the same time maximise returns for stakeholders by optimising the debt to equity ratio.

In 2015-2016 there were no changes in aims, principles and processes of capital management.

The Group monitors the effectiveness and stability of capitals using the debt ratio calculated based on the net debt value in relation to EBITDA. The consolidated net debt of the Group calculated as the sum of non-current and current liabilities for credits, loans and other debt instruments (bonds + finance lease + liabilities for net loss on derivatives calculated separately for each instrument + reverse factoring liabilities + factoring liabilities) less cash.

EBITDA is calculated as operating profit plus amortisation and depreciation.

	31.12.2016	31.12.2015
Loans, borrowings and debt securities – bonds issued	1,506,818	1,514,584
Financial lease liabilities	23,693	26,883
Reverse factoring liabilities	-	18,998
Factoring liabilities	27,502	-
Net valuation of liabilities due to derivative instruments*	52,854	3,782
Gross debt	**1,610,867**	**1,564,247**
Cash and cash equivalents	414,369	202,935
Net debt	**1,196,498**	**1,361,312**
EBIT	660,320	489,816
Amortization	223,474	217,722
EBITDA	**883,794**	**707,538**
Debt ratio	**1.4**	**1.9**

* *Restated data – change in presentation of liabilities due to derivative instruments – previously, the entire amount of the liability was presented; at present, the net valuation calculated separately for each instrument is presented.*

As at 31 December 2016, the net debt ratio amounted to 1.4 which is defined as a safe level.

6.2. CONSOLIDATED EQUITY

Accounting policy

The total consolidated shareholders' equity includes equity attributable to shareholders of the parent company and non-controlling interest.

The Group's share capital is represented by the share capital of the parent company and is accounted for at its nominal value adjusted by the effects of hyperinflation in the years 1989–1996.

Post-acquisition changes in the equity of subsidiaries are recognised in the Group's equity to the extent of the parent company's interest in those subsidiaries. The remaining equity of the consolidated entities is recognised in non-controlling interest, described below.

When a foreign operation is disposed of, the relevant amounts in the currency translation differences are transferred to profit or loss.

When shares are repurchased by the parent company or a consolidated subsidiary, the amount of the consideration paid, which includes directly attributable costs, is recognised as a change in equity. The purchased shares are presented as a deduction from total equity.

A liability for a dividend payable is recognised when authorised.

Dividends payable from pre-acquisition profits do not reduce the acquisition price of the shares, however, they may provide evidence of impairment.

The consolidated net profit (loss) is presented in shareholders' equity within retained earnings and represents the sum of the net profit (loss) of the parent company, its share in net profit (loss) of equity accounted investees, net profit (loss) of consolidated subsidiaries and profit (loss) of non-controlling interest.

Non-controlling interest

Non-controlling interest represents interest in a subsidiary's equity which is not directly or indirectly attributable to the parent company.

Non-controlling interest is measured:

- ✓ at the amount of proportionate interest in subsidiary's net assets, or
- ✓ at fair value,

for each business combination separately at the time of initial recognition.

The carrying amount of non-controlling interest should correspond to the amount calculated by adding changes in the current period to the carrying amount of non-controlling interest at the end of the preceding period. These changes may result from:

- ✓ changes in the percentage share of interest held by non-controlling shareholders – e.g. purchase, sale, increase or decrease of share capital;
- ✓ changes in equity not related to the changes in the interest held – e.g. increase or decrease of equity with no effect on shareholding, additional equity contributions made by non-controlling shareholders, net result of the current year, transactions recognised directly in other comprehensive income, dividends paid.

Profit or loss as well as any component of other comprehensive income are attributable to the shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

As at 31 December 2016, the carrying amount of the share capital of the parent company CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment.

The shares of CIECH S.A. are listed on Warsaw Stock Exchange and on Frankfurt Stock Exchange. The share capital of CIECH S.A. amounts to PLN 263,500,965 and is divided into 52,699,909 shares with a nominal value of PLN 5 each, including:

- 20,816 A-series ordinary bearer shares,
- 19,775,200 B-series ordinary bearer shares,
- 8,203,984 C-series ordinary bearer shares,
- 23,000,000 D-series ordinary bearer shares,
- 1,699,909 E-series ordinary bearer shares.

The shares of all series are ordinary shares and do not carry any additional rights, preferences or restrictions as to dividend distribution or return of capital.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN ‘000)

Shareholder structure of CIECH S.A. as at the date of approval of the financial statements (according to the best knowledge of the Company)

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. with its registered office in Luxembourg*	**Ordinary bearer**	**26,952,052**	**26,952,052**	**51.14%**	**51.14%**
TFI PZU Funds**	Ordinary bearer	6,428,681	6,428,681	12.20%	12.20%
Nationale-Nederlanden Otwarty Fundusz Emerytalny***	Ordinary bearer	3,000,000	3,000,000	5.69%	5.69%
Other	Ordinary bearer	16,319,176	16,319,176	30.97%	30.97%

** in accordance with information dated 9 June 2014 provided by Shareholder under Article 77(7) and Article 69(1)(1) of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (CR 26/2014).*

*** in accordance with information dated 28 February 2017 provided by Shareholder under Article 70(1) of the Act on Public Offering (...) – purchase or disposal of a significant block of shares (CR 4/2017)*

**** On the basis of the list of shareholders holding at least 5% of votes at the Ordinary Meeting of Shareholders of CIECH S.A. on 16 June 2016, CR 22/2016 prepared and published pursuant to Article 70(3) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies.*

The percentage share of above-listed shareholders in the share capital of CIECH S.A. equals the percentage share in the number of votes at the General Shareholders Meeting of CIECH S.A.

Share premium

The share premium arose from the surplus in excess of nominal value achieved upon the issue of C, D and E series shares.

Other reserve capitals

The table below presents the balances of other reserve capital, consisting of the following items:

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2016	31.12.2015
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	57,669	57,669
Other	2,322	2,322
TOTAL	**78,521**	**78,521**

Cash flow hedge

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies.

Currency translation reserve (foreign companies)

The balance of this equity item is adjusted by exchange differences on the translation of the financial statements of foreign subsidiaries, i.e. CIECH Soda Romania S.A., SDC Group and Ciech Group Financing AB.
The balance of this item of equity also represents accumulated exchange differences on the measurement of net investments in a foreign entity and effective part of profit or losses from measurement of an instrument used for hedging shares in net assets of foreign companies.

Non-controlling interest

Profit or loss as well as any component of other comprehensive income are attributable to the equity of shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

6.3. DIVIDENDS PAID OR DECLARED

The Management Board of CIECH S.A. is not expecting the dividend payment from profits earned during the period of 2016. The Management Board proposes to transfer the profits generated in 2016 to supplementary capital.

On 16 June 2016, the Ordinary General Meeting of Shareholders of CIECH S.A. adopted a resolution regarding the distribution of the Company's net profit for 2015 in accordance with the recommendation of the Supervisory Board. The amount of PLN 150,195 thousand was allocated to dividends to shareholders, i.e. PLN 2.85 per share. The amount of PLN 181,384 thousand was allocated to the company's supplementary capital. Dividend date was set on 30 June 2016 and the dividend was paid on 16 August 2016.

6.4. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTEREST

Basis of consolidation

The subsidiaries' net equity in the amount as at the acquisition date, in the part corresponding to Group's share in the share capital, is compensated with acquisition value of the shares included in statement of financial position of the parent company at the date of acquisition. Consolidation adjustments, depending on their nature, are recorded against appropriate items of equity. Changes in the parent company's ownership interest that do not result in a loss of control of the subsidiary are accounted for as equity transactions.

Subsidiaries of the CIECH Group are fully consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date such control ends.

Balances, revenues and costs, unrealized profits or losses from transactions between the Group subsidiaries are eliminated in the process consolidation.

Establishment of new companies

1. On 24 June 2016 a company was established under the business name Gamma Finanse Sp. z o.o. (limited liability company registered by the Court on 12 July 2016) with the registered office in Warsaw (share capital of PLN 50 thousand, divided into 1,000 shares with nominal value of PLN 50 each). Shares in the share capital are taken up as follows:
   - 500 shares were taken up by CIECH S.A. in consideration for cash contribution,
   - 500 shares were taken up by CIECH Soda Polska S.A. in consideration for cash contribution.
2. On 4 July 2016, a partnership under the business name Beta Cerium Sp. z o.o. Spółka komandytowa, with its registered office of Warsaw (registered by the Court on 13 July 2016), was established. The partnership has the following partners:
   - Cerium Sp. z o.o. (cash contribution of PLN 50),
   - CIECH Soda Polska S.A. (cash contribution of PLN 4,200 thousand),
   - CIECH Sarzyna S.A. (non-cash contribution with the value of PLN 40 thousand),
   - CIECH Pianki Sp. z o.o. (non-cash contribution with the value of PLN 3,955 thousand).
3. On 5 October 2016, a company was established under the business name Vasco Polska Sp. z o.o. (limited liability company registered by the Court on 24 October 2016) with the registered office in Warsaw. The partnership has the following partners:
   - CIECH S.A. (900 shares with the total nominal value of PLN 45 thousand were taken up in consideration for cash contribution),
   - Individual shareholder (100 shares with the total nominal value of PLN 5 thousand were taken up in consideration for cash contribution).

Phasing out of businesses

1. In view of the change of the model of purchasing transport and forwarding services, CIECH S.A. (acting as the sole shareholder of the Company) decided to cease operating activities of CIECH Transclean Sp. z o.o. with its registered office in Bydgoszcz, and to phase out the company's business. Further decisions on possible change of the company's object or dissolution of the company will be taken at a later date.
2. On 30 November 2016, Polcommerce mbH (Polcommerce Handels- und Vertretungsgesellschaft m.b.H.) ceased its operating activities and on 31 December 2016, the Company's liquidation proceedings were opened. The liquidation of the Company is related to the planned changes in the Group's business model in the area of sales. Markets previously served by Polcommerce m.b.H. will be served directly by CIECH S.A.

Transformation of legal form of companies

In connection with the transformation plan prepared on 21 December 2015, reviewed by a registered auditor appointed by a decision of the registry court, the Extraordinary Partners' Meeting of Cerium Sp. z o.o. S.K.A., on 16 May 2016, adopted a resolution on the transformation of the partnership's legal form to a limited liability company. The business name of the transformed company is Cerium Finance Sp. z o.o. The share capital of the partnership subject to transformation amounts to PLN 1,439 thousand and is divided into 28,773 equal and indivisible shares with a nominal value of PLN 50 per share. The shares were allotted in the following manner:

- Cerium Sp. z o.o., the sole general partner of the partnership, was allotted 1 share with the nominal value of PLN 50,
- CIECH Soda Polska S.A., a shareholder of the company, was allotted 28,372 shares with the nominal value of PLN 50 per share, with the total nominal value of PLN 1,419 thousand,
- JANIKOSODA S.A., a shareholder of the company, was allotted 200 shares with the nominal value of PLN 50 per share, with the total nominal value of PLN 10 thousand,
- CIECH S.A., a shareholder of the company, was allotted 200 shares with the nominal value of PLN 50 per share, with the total nominal value of PLN 10 thousand.

Assets of the company subject to transformation became assets of the transformed company on 1 June 2016 (i.e. on the date of registration of the transformation by the registry court) and constituted the contribution of individual partners to the transformed company, as specified in the company's deed. The excess of value of the partners' contribution to the transformed company over the value of the company's share capital represents the supplementary capital of the transformed company. Furthermore, at the same Extraordinary Partners' Meeting, the partners submitted declaration on participation in the partnership after the transformation of its legal form into a limited liability company.

Moreover, transaction under common control were concluded within the CIECH Group, as described below. The effects of such transactions were eliminated in the process of consolidation.

Changes in the share capital of companies

1. On 24 June 2016, the Extraordinary Shareholders' Meeting of Cerium Finance Sp. z o.o. adopted resolutions on the following matters (the District Court registered the change on 7 July 2016):
    - Voluntary redemption without compensation of 200 shares in the company allotted to JANIKOSODA S.A. and the related reduction of the company's share capital. On 24 June 2016, JANIKOSODA S.A. ceased to be a shareholder of the company. Consequently, the Extraordinary Shareholders' Meeting reduced the company's share capital by way of redemption of 200 shares with the nominal value of PLN 50 each and with the total nominal value of PLN 10 thousand, i.e. from PLN 1,439 thousand to PLN 1,429 thousand.
    - The increase of the share capital from the amount of PLN 1,429 thousand to the amount of PLN 1,439 thousand by creating 200 new shares with the nominal value of PLN 50 each – total nominal value of PLN 10 thousand. All newly created shares in the increased share capital of the Company were to be taken up by CIECH S.A. in consideration for cash contribution in the amount of PLN 10 thousand.
    - The consent to sell by Cerium Sp. z o.o. of 1 share in the Company with nominal value of PLN 50 to the existing shareholder in CIECH Soda Polska S.A. As of 24 June 2016 Cerium Sp. z o.o. ceased to be the shareholder in Cerium Finance Sp. z o.o.

2. On 12 July 2016, shareholders of Cerium Finance Sp. z o.o. made a non-cash contribution to Gamma Finanse Sp. z o.o. in the form shares in Cerium Finance Sp. z o.o., in exchange for shares in the increased share capital of Gamma Finanse Sp. z o.o., i.e.:
   - CIECH Soda Polska S.A. contributed 28,083 shares in Cerium Finance Sp. z o.o., with the total nominal value of PLN 1,404 thousand (representing 97.60% of the share capital),
   - CIECH S.A. contributed 400 shares in Cerium Finance Sp. z o.o., with the total nominal value of PLN 20 thousand (representing 1.39% of the share capital).
3. As of 12 July 2016, CIECH S.A. ceased to be the shareholder in Cerium Finance Sp. z o.o. As of 29 July 2016, i.e as of the date of registration by the Court of the increase of the share capital of Gamma Finanse Sp. z o.o., Cerium Finance Sp. z o.o. has the following shareholders:
   - Gamma Finanse Sp. z o.o. (holding 28,483 shares, representing 98.99% of the share capital),
   - CIECH Soda Polska S.A. (holding 290 shares, representing 1.01% of the share capital).

Other changes

On 12 July 2016, the General Meeting of CIECH Cerium Sp. z o.o. Sp. k. adopted resolution in which it gave it consent to the disposal by partners of all rights and obligations of the limited partner to CIECH S.A. Therefore, on 12 July 2016, the current partners of CIECH Cerium Sp. z o.o. Sp. k. (CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o.) concluded an agreement with CIECH S.A. for the disposal of all rights and obligations of the limited partner. As a result of conclusion of all the agreements listed above, on 12 July 2016 CIECH S.A. became the sole limited partner of CIECH Cerium Sp. z o.o. Sp. k.

On 12 July 2016, the General Meeting of CIECH Cerium Sp. z o.o. Sp. k. adopted resolution on amendment to the Limited Partnership Deed, according to which the following contributions are assigned to individual partners:

- to the general partner: Cerium Sp. z o.o. — cash contribution in the amount of PLN 1, participating in the Company's profits and losses in the proportion 1/475,001,
- to the limited partner: CIECH S.A. — cash contribution in the amount of PLN 475 thousand, participating in the Company's profits and losses in the proportion 475,000/475,001.

Acquisition of shares in other companies

On 11 July 2016, CIECH S.A. sold 100% of shares in CIECH Nieruchomości S.A. to CIECH FINANCE Sp. z o.o., for the total amount of PLN 93 thousand.

On 23 December 2016, CIECH Trading S.A. sold 100% of shares in JANIKOSODA S.A. to CIECH Finance Sp. z o.o., for the total amount of PLN 1.

In 2016, the CIECH Group did not discontinue its activities in any significant area. After the reporting date, there were no changes in the Group's organisation.

6.5. SIGNIFICANT SUBSIDIARIES WITH NON-CONTROLLING INTEREST

In 2016 and 2015, there was no significant non-controlling interest in any of the significant subsidiaries of the CIECH Group.

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6.6. EARNINGS PER SHARE

Accounting policy

Basic earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares.

The table below presents profit and shares data used in the calculation of the basic and diluted earnings per share:

in PLN	01.01.-31.12.2016	01.01.-31.12.2015
Basic and diluted earnings per share (continuing operations)	11.26	6.51
Basic and diluted earnings per share (discontinuing operations)	-	-

	01.01.-31.12.2016	01.01.-31.12.2015
Net profit (loss) from continuing operations attributable to the shareholders of the parent	593,513	342,987
Net profit (loss) from discontinued operations attributable to the shareholders of the parent	-	-
Weighted average number of issued ordinary shares used in calculation of basic and diluted earnings per share	52,699,909	52,699,909

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7 LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES

Accounting policy

Financial liabilities are an entity's liabilities to deliver financial assets to another entity or to exchange a financial instrument with another entity under conditions that are unfavorable. When a financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Interest accrued is recognised under finance costs or, if it is subject to capitalisation, to property, plant and equipment or intangible assets.

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2016	31.12.2015
LONG-TERM	**1,345,973**	**1,494,775**
Loans and borrowings	1,345,973	1,335,349
Debt securities issued	-	159,426
SHORT-TERM	**160,845**	**19,809**
Loans and borrowings	436	19,508
Debt securities issued	160,382	301
TOTAL	**1,506,818**	**1,514,584**

Debt financing of the Group

Debt financing of the Group in the form of bonds and loans is composed of:

- Domestic bonds issued by CIECH S.A. – as at 31 December 2016 the nominal debt amounted to PLN 160,000 thousand,
- Loans are granted to CIECH S.A. pursuant to the loans agreement of 29 October 2015:
  - term loan in the amount of PLN 1,045,031 thousand and EUR 69,673 thousand (the total amount of the loan as at 31 December 2016 was PLN 1,353,264 thousand),
  - revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 31 December 2016 was PLN 0).

Detailed information about loan and bond liabilities is disclosed in the Directors' Report for the CIECH Group and CIECH S.A. for 2016, in section 4.6.

Interest:

The interest rate of the Loans is a floating rate and it is determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt index to EBITDA. The initial value of the margin was 1.5%. The current value of the margin is 1.25%.

Information about the financial covenants included in loan agreements

During the period covered by these financial statements, no loan agreement was called to maturity and there were no violations of payment terms for repayment of principal or interest due in relation to financial liabilities recognised in the balance sheet. Under the Loan Agreement dated 29 October 2015, CIECH S.A. and its selected subsidiaries were obliged to, among others, maintain a certain level of net leverage ratio for the Group specified in the Loan Agreement (the ratio of the CIECH Group's consolidated net debt to consolidated EBITDA of the CIECH Group calculated according to the guidelines in the amount of at least 4.0, measured at the end of a year and first six months of a year). As at the balance sheet date, i.e. 31 December 2016, this ratio was maintained and amounted to 1.3.

7.2. OTHER NON-CURRENT LIABILITIES

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

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OTHER NON-CURRENT LIABILITIES	31.12.2016	31.12.2015
Subsidies	54,983	50,945
PUT options	8,848	8,523
Derivatives	120,929	83,522
Liabilities from the initial recognition of the valuation of embedded derivatives	12,507	-
Other	471	12,189
TOTAL	**197,738**	**155,179**

7.3. CURRENT TRADE AND OTHER LIABILITIES

Accounting policy

Trade and other liabilities are classified as current or non-current based on the following principles:

- ✓ trade liabilities are reported as current liabilities, regardless of maturity,
- ✓ other liabilities due to be settled within 12 months of the balance sheet date are classified as current liabilities,
- ✓ other payables, which do not meet the current liability conditions, are classified as non-current liabilities.

Liabilities denominated in foreign currencies are recognised at the NBP's average exchange rate effective on the last working day before the date of transaction.

At the reporting date foreign currency denominated liabilities are translated at the average exchange rate announced for that day by the NBP except for received prepayments. (Realised) currency translation differences arising upon the repayment of a liability or its valuation (unrealised) are presented within financial income or expense. Prepayments for deliveries denominated in foreign currencies are recognised at the exchange rate applicable as at the transaction day.

Judgements and estimates

At the reporting date trade payables are measured at amortised cost (i.e. they are discounted using the effective interest method) and increased by any applicable late interest accrued.

Late interest is not accrued when a formal waiver is received from the counterparty. In all other cases such interest is accrued and recognised in accordance with the following principles:

- ✓ on an ongoing basis, based on interest notes received;
- ✓ in estimated amounts, with such estimates based on comparison of interest charged in the past by a counterparty to the related amounts owed.

CURRENT TRADE AND OTHER LIABILITIES	31.12.2016	31.12.2015
Trade liabilities and advances taken	368,937	273,332
- in up to 12 months	367,420	270,938
- prepayments received for supplies	1,517	2,394
Public-legal liabilities (excluding income tax))	24,854	22,835
Liabilities for purchase of property, plant and equipment	94,218	102,156
Financial instruments liabilities	6,006	2,468
Liabilities to employees	11,265	10,544
Payroll liabilities	35,873	25,835
Holiday leave accrual	7,360	6,621
Taxes and charges	42,600	25,535
Materials and energy consumption	25,270	24,973
Subsidies	37,352	39,902
External services	9,110	8,752
Environmental charges	28,016	26,310
Social security and other employee benefits	4,359	2,615
Warehouse maintenance expenses	-	3,081
Factoring liabilites	27,502	-
Liabilities from the initial recognition of the valuation of embedded derivatives	4,676	-
Other	16,081	10,260
TOTAL	**743,479**	**585,219**

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Terms of transactions with related entities have been presented in note 9.3.

Trade liabilities do not bear interest. Commercial contracts concluded by the CIECH Group include various terms of payment of trade liabilities depending on the type of transaction, market characteristics and trade conditions. The most common payment terms are: 14, 30, 60 and 90 days.

7.4. FINANCE LEASE

Accounting policy

Accounting policy concerning finance leases is described in note 5.1.

The CIECH Group uses property, plant and equipment (mainly means of transport and various types of machinery and equipment) pursuant to finance lease agreements. The agreements include the return option, extension of the agreement or the option to buy all or a part of the equipment after the lease period. In 2016, the carrying amount of leased property, plant and equipment amounted to PLN 41,110 thousand (as at 31 December 2015, it amounted to PLN 33,137 thousand). There were no contingent lease charges.

In 2016 and 2015, CIECH Cargo Sp. z o.o. signed finance lease agreements, under which the Company uses additional wagons to carry coal fines. In the agreements, purchase options are provided for after the end of lease. As at 31 December 2016, the carrying value of property, plant and equipment amounted to PLN 26,803 thousand (PLN 26,609 thousand as at 31 December 2015).

The nominal value and the present value of minimum lease payments are as follows:

FINANCE LEASE LIABILITIES	Nominal value of minimum lease payments	Future financial costs due to finance lease	Present value of minimum lease payments
31.12.2016			
Up to 1 year	5,414	700	4,714
Between 1 and 5 years	15,095	1,822	13,273
Over 5 years	5,792	86	5,706
TOTAL	**26,301**	**2,608**	**23,693**
31.12.2015			
Up to 1 year	5,769	770	4,999
Between 1 and 5 years	16,848	2,066	14,782
Over 5 years	7,373	271	7,102
TOTAL	**29,990**	**3,107**	**26,883**

7.5. OPERATING LEASE

Accounting policy

A financial lease is when all the risks and rewards incidental to ownership of the subject matter of the contract (including a lease contract) remain with the financing party — in such case the company does not recognise the asset as property, plant and equipment. Costs are recognised proportionally to the term of the agreement (on a straight line basis) unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Initial direct costs incurred before the conclusion of a lease contract, if substantial, are settled over time, proportionally to lease payments disclosed in financial statements, or are recognised as an expense in the statement of profit or loss in the period in which they are incurred.

All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

Group recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

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The largest item subject to operating lease in the CIECH Group, in accordance with the adopted accounting principles, is the right of perpetual usufruct of land obtained by administrative decision. Furthermore, the SDC Group recognises a long-term sewage system agreement effective until 2095 as an operating lease. Group companies also recognise lease agreements of property and low-value property, plant and equipment, e.g. cars. Operating lease is a renewable lease, making it possible to acquire an asset at its estimated market value at the end of its use. The companies are not obliged to purchase the leased assets. No conditions for 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 relation to land revaluation.

Total amounts of future minimum lease payments are presented in the table below:

TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	31.12.2016	31.12.2015
Up to 1 year	17,133	15,980
Between 1 and 5 years	27,094	25,617
Over 5 years	62,522	65,160
TOTAL	**106,749**	**106,757**

In 2016, the costs of lease payments amounted to PLN 7,268 thousand (PLN 6,464 thousand in the comparable period).

7.6. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Jubilee awards, retirement benefits pays and disability pay:

Based on the Group's remuneration plan, the employees of its companies are entitled to long-term jubilee awards and to retirement benefits. The Group's obligations in respect of the above benefits is the amount of benefit entitlement that employees have earned as a result of their service in the current and prior years.

Net defined benefit liabilities are calculated separately for each plan by estimation of future payments required to settle the obligation resulting from employee service in the current and prior periods (discounted to its present value and reduced by the fair value of plan assets). The discount rate is the rate of return for low-risk debt securities with similar maturity date as the Group's liabilities as at the end of the reporting period. An appropriate estimation is made by an authorised actuary with the application of forecast discounted unit right method.

The Company recognises in the statement of profit or loss:

- ✓ current service cost, which is the change in liability resulting from increase in value of the defined benefit obligation due to increase in the period of service and age of employees;
- ✓ past service cost connected with plan amendment during the current period;
- ✓ interest – change in liability resulting from unwinding of discount.

The Company recognises in other comprehensive income actuarial gains or losses – the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions and change in discount rate.

Judgements and estimates

The amount of the provision for employee benefits is determined based on actuarial valuations performed by independent professional firms. By actuarial valuation estimates are made regarding the rotation in employment, wage growth, discount rates and inflation.

PROVISIONS FOR EMPLOYEE BENEFITS	NON-CURRENT		CURRENT	
	01.01.-31.12.2016	01.01.-31.12.2015	01.01.-31.12.2016	01.01.-31.12.2015
Opening balance	**12,829**	**12,720**	**1,603**	**962**
Recognition	678	1,357	797	1,449
Use and reversal	(1,353)	(1,164)	(1,350)	(900)
Foreign exchange differences	212	(6)	-	-
Other	(1,614)	(78)	144	92
Closing balance	**10,752**	**12,829**	**1,194**	**1,603**

In 2016, a change in provision in the amount of PLN 685 thousand was recognised in equity (PLN 676 thousand in the comparable period).

Employee benefits are measured on the basis of actuarial valuations. A discount rate of 3.7% p.a. was applied in order to determine the current value of future liabilities due to employee benefits. The discount rate applied is established in nominal value. At the same time, future inflation in the amount of 1.5% per annum was taken into account. The estimated nominal growth rate of 1% was applied. The remuneration growth rate of 1% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Group estimations, a change in actuarial assumptions will not have a significant impact on financial results.

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7.7. OTHER PROVISIONS

Accounting policy

A provision is recognised if, as a result of a past event, the Group has a present obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for environmental protection

In accordance with the Group's published and currently enforced environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised. The provision is recognised in the amount of the expected future restoration costs discounted to present value.

Judgements and estimates

For measurement of the provisions, the Group is required to make estimates, assumptions regarding discount rates, expected costs and payment terms.

CHANGE IN OTHER LONG-TERM PROVISIONS	Provision for liabilities	Provision for environmental protection	TOTAL
01.01.-31.12.2016			
Opening balance	**6,547**	**68,157**	**74,704**
Foreign exchange differences	-	2,212	2,212
Change in discount rate	-	5,296	5,296
Other	-	2,072	2,072
Closing balance	**6,547**	**77,737**	**84,284**
01.01.-31.12.2015			
Opening balance	6,789	68,455	75,244
Recognition	-	383	383
Use and reversal	(242)	(2,603)	(2,845)
Foreign exchange differences	-	21	21
Change in discount rate	-	4,019	4,019
Other	-	(2,118)	(2,118)
Closing balance	**6,547**	**68,157**	**74,704**

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CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for compensation	Provision for liabilities	Provision for environmental protection	Provision for bonuses	Provision for expected losses	Other provisions	TOTAL
01.01.-31.12.2016							
Opening balance	**8,368**	**37,020**	**2,236**	**1,146**	**30,887**	**437**	**80,094**
Recognition	973	9,386	188	6,586	15,095	848	33,076
Use and reversal	(93)	(26,632)	(2,061)	(4,486)	-	(629)	(33,901)
Foreign exchange differences	89	1,149	-	25	525	13	1,801
Reclassification from liabilities	-	5,688	-	-	-	-	5,688
Other	-	(13)	2,028	390	-	(377)	2,028
Closing balance	**9,337**	**26,598**	**2,391**	**3,661**	**46,507**	**292**	**88,786**
01.01.-31.12.2015							
Opening balance	5,749	33,612	2,205	-	19,363	439	61,368
Recognition	3,125	17,387	123	4,095	11,325	44	36,099
Use and reversal	(708)	(13,780)	(2,210)	(2,949)	-	(39)	(19,686)
Foreign exchange differences	-	(200)	-	-	199	(4)	(5)
Other	202	1	2,118	-	-	(3)	2,318
Closing balance	**8,368**	**37,020**	**2,236**	**1,146**	**30,887**	**437**	**80,094**

The most significant provisions of the CIECH Group are:

Provisions for compensation

CIECH Soda Polska S.A. – short-term provision in the amount of PLN 6,937 thousand, related to the claim of the one of recipients due to a faulty delivery of a batch of products and losses incurred on this account.

Provisions for liabilities

CIECH Soda Polska S.A. – long-term provision in the amount of PLN 6,547 thousand for potential environmental fees resulting from exceeded emission limits.

CIECH Soda Romania S.A. – the company reversed the provision for a potential contractual penalties on account of dissolution of contract for steam delivery for amount of PLN 20,214 thousand (RON 20,734 thousand). A new agreement was signed at 18 November 2016.

Provisions for expected losses

CIECH S.A. – short-term provision for expected losses in the amount of PLN 28,066 thousand, related to potential claims (principal liability plus interest liabilities and litigation costs) resulting from litigation.

SDC Group – short-term provision of PLN 11,940 thousand (EUR 2,699 thousand) related to negative valuation of a contract between the SDC Group and EVZA, concerning supply of technological steam and electricity.

CIECH Cargo Sp. z o.o. – due to a damage to a leased locomotive, rail infrastructure, traction network and damage to property and load, a provision in the amount of PLN 6,500 thousand was recognised in connection with the repair of these damages and payment of contractual penalties.

Provisions for environmental protection

CIECH Soda Polska S.A. – provision for land reclamation costs, calculated in accordance with expenditure planned until 2042, in line with the expected inflation rate: 1.5% adjusted by a discount factor, calculated as the average of the discount factor at the beginning and end of every annual period. The annual expenditure arising therefrom will amount to approx. PLN 700 thousand until 2042. The amount of the respective provision recognised in the statements amounts to PLN 7,846 thousand, whereof the short-term provision amounts to PLN 708 thousand and the long-term provision amounts to PLN 7,138 thousand;

CIECH Sarzyna S.A. – provision for water and land reclamation costs in the amount of PLN 5,369 thousand, comprising a long-term provision of PLN 1,683 thousand and short-term provision of PLN 3,686 thousand. The provision was estimated based on a technical and financial project including a schedule of works for the years 2008-2020 of expenses to be incurred and the Marshal of Podkarpackie Province decision, discounted for a 1.5% inflation rate.

SDC Group – long-term provision for environmental protection in the amount of PLN 66,913 thousand (EUR 15,125 thousand) comprising, among others, reclamation of rainwater ponds in Unseburg, mine reclamation activities in the limestone, reclamation of remains of the old limestone outcrops and closing of caverns.

8 FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT AND IMPAIRMENT

8.1. FINANCIAL INSTRUMENTS

Accounting policy

Principles of measurement after initial recognition/at the end of reporting period and presentation of financial instruments in financial statements

Category of assets or liabilities	Measurement	Recognition
Assets at fair value through profit or loss	At fair value	Remeasurement changes recognised in the current period profit or loss under finance income or costs.
Liabilities at fair value through profit or loss	At fair value	Remeasurement changes recognised in the current period profit or loss under finance income or costs.
Other financial liabilities	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the liability and are recognised in current period profit or loss.
Loans and receivables	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Held-to-maturity financial assets	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Available-for-sale financial assets	At fair value	Changes from remeasurement at fair value are recognised in other comprehensive income. For debt instruments interest is recognised directly in profit or loss.

Accounting policy

Impairment of financial assets

At each reporting date the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets measured at amortised cost

If any objective evidence indicates that loans measured at amortised cost are impaired, the impairment loss is the amount of the difference between the carrying amount of the financial asset and the present value of estimated future cash flows. The amount of allowance decrease the carrying amount of financial asset and is recognised in profit or loss.

The Group first assesses whether there is any objective evidence of impairment of individually significant financial assets, and also whether any indications of impairment exist in respect of financial assets that are not individually significant. If the analysis does not reveal any objective evidence of impairment of an individually assessed financial asset, regardless of whether it is significant or not, the Group includes such an asset in a group of financial assets with similar credit risk and evaluates them collectively in terms of impairment. Assets that are individually assessed for impairment and for which an impairment loss was recognised or it was considered that the existing allowance should not change, are not taken into account when assessing the group of assets for impairment.

If in a subsequent period the amount of impairment loss decreases and the decrease can be objectively associated with an event occurring after the recognition of the impairment loss, the previously recognised impairment loss is reversed. The subsequent reversal of the impairment loss is recognised in profit or loss to the extent that the asset's carrying amount at the reversal date does not exceed its amortised cost.

In particular, in relation to trade receivables from entities in liquidation or bankruptcy, or not admitted to bankruptcy, or in relation to receivables that are contested by debtors (disputed receivables), or where payments due are delayed and either the debtor's financial standing makes the collection no longer probable or such delay exceeds 180 days, an impairment loss is recognised in the full amount due after taking into account the amounts of any existing security which the Board considers highly probable of execution.

Available-for-sale financial assets

If objective evidence indicates that available-for-sale financial assets are impaired, the amount of the difference between the asset's acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and reclassified into profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Financial assets measured at cost

If objective evidence indicates that impairment may exist in respect of an unquoted equity instrument that is not recognised at fair value due to the fact that its fair value cannot be reliably measured, or a derivative which is linked to or must be settled through delivery of such an unquoted equity instrument, the amount of impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of its estimated future cash flows discounted at the current market rate of return for similar financial assets.

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:

- ✓ the economic characteristics and risk of the embedded derivative are nor closely related to the economic characteristics and risk of the host contract,
- ✓ a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- ✓ it is possible to reliably establish the fair value of an embedded derivative,
- ✓ the hybrid (combined) instrument is not measured and recognised at fair value in financial statements.

The FIFO (first in – first out) method is applied to establish the costs due to the outflow of financial instruments.

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The main financial instruments disclosed in the statement of financial position of the CIECH Group as at 31 December 2016 include:

Financial assets:

- loans granted,
- financial instruments with positive valuation,
- embedded instruments with positive valuation,
- trade receivables and factoring receivables,
- cash and cash equivalents.

Financial liabilities:

- liabilities from debt securities – domestic bonds,
- term loan liabilities, revolving loan liabilities and overdraft liabilities,
- trade liabilities and factoring liabilities,
- reverse factoring liabilities,
- finance lease agreements,
- financial instruments with negative valuation.

Carrying amount of financial instruments

Classes of financial instruments	*note*	31.12.2016	31.12.2015	Categories of financial instruments
Cash and cash equivalents	*5.12*	414,369	202,935	Loans and receivables
Bank deposits	*5.7*	-	34	Loans and receivables
Loans granted	*5.11*	34,000	34,000	Loans and receivables
Trade receivables	*5.10*	298,004	276,952	Loans and receivables
Factoring receivables	*5.10*	70,155	34,366	Loans and receivables
Hedging derivatives with positive value	*5.7;5.11*	75,792	86,837	Hedging instruments
Embedded instruments	*5.7;5.11*	28,955	-	Hedging instruments
ASSETS		**921,275**	**635,124**	
Trade liabilities	*7.3*	(367,420)	(270,938)	Financial liabilities at amortised cost
Loans and borrowings	*7.1*	(1,346,436)	(1,354,857)	Financial liabilities at amortised cost
Debt securities – bonds issued	*7.1*	(160,382)	(159,727)	Financial liabilities at amortised cost
Factoring liabilities	*7.3*	(27,502)	-	Financial liabilities at amortised cost
Reverse factoring liabilities		-	(18,998)	Financial liabilities at amortised cost
Finance lease liabilities	*7.4*	(23,693)	(26,883)	Financial liabilities excluded from IAS 39
Hedging derivatives with negative value	*7.2;7.3*	(126,935)	(85,990)	Hedging instruments
LIABILITIES		**(2,052,368)**	**(1,917,393)**	

In the CIECH Group selected trade receivables are subject to factoring. This is factoring with the assumption of insolvency risk whereby the factor assumes the risk in the amount specified in the insurance policy.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

Revenues, costs, profit and loss recognised in the statement of profit or loss by the category of financial instruments.

Revenues, costs, profit and loss recognised in the statement of profit or loss	01.01.-31.12.2016	01.01.-31.12.2015	Categories of financial instruments
Interest income /(costs) including income / costs calculated using the effective interest rate method	**(35,301)**	**(198,334)**	
	2,039	385	*Loans and receivables*
	(36,453)	(197,935)	*Financial liabilities at amortised cost*
	(887)	(784)	*Financial liabilities excluded from IAS 39*
Foreign exchange gains/(losses)	**27,237**	**(4,355)**	
	27,280	(2,950)	*Financial liabilities at amortised cost*
	(43)	(1,405)	*Financial liabilities excluded from IAS 39*
Recognition of impairment losses	**(12,435)**	**(1,941)**	*Loans and receivables*
Reversal of impairment losses	**904**	**4,069**	*Loans and receivables*
Income / costs on account of use of derivatives	**22,623**	**7,412**	
	3,949	(1,862)	*Financial assets/liabilities at fair value through profit or loss*
	18,674	9,274	*Hedging instruments*
Gain / (loss) on the disposal of financial instruments	**(18)**	-	*Hedging instruments*
TOTAL	**3,010**	**(193,149)**	

8.2. FINANCIAL INSTRUMENTS DESIGNATED FOR HEDGE ACCOUNTING

Accounting policy

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

Derivatives such as options, forwards, swaps are held to hedge the fair value of assets or liabilities or expected future cash flows. For the aforesaid derivatives, the entity may apply hedge accounting if all the following conditions are met:

- ✓ at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. In this documentation, the Group shall include identification of the hedging instrument for the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk,
- ✓ the Group expects that the hedge will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- ✓ for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- ✓ the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured,
- ✓ the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

If the aforesaid conditions are not met, the derivative should be measured in accordance with the principles as for financial instruments held for trading.

Cash flow hedge:

A hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and that (ii) could affect profit or loss.

Cash flow hedge shall be accounted for as follows:

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2016 (in PLN '000)

- ✓ the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income and presented in equity; the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.
- ✓ if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income (effective hedge) shall be reclassified from other comprehensive income to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.
- ✓ for cash flow hedges other than those covered above, amounts that had been recognised in other comprehensive income shall be reclassified from equity (effective hedge) to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

Hedges of a net investment in a foreign operation:

Hedges of a net investments in a foreign operation shall be accounted for as follows:

- ✓ it is a hedge of a net investment in foreign operations with functional currency different than the one of the parent entity, by foreign currency liabilities.
- ✓ revaluation of foreign currency liabilities designated for hedge accounting is recognised in other comprehensive income and offset with the opposite revaluation of net investments in foreign operation in consolidated financial statements.

accumulated amount in other comprehensive income is transferred to the profit or loss statement in the case of partial or overall sale of shares in a foreign entity.

The table below presents a summary of specific groups of relationships existing in 2016, designated for hedge accounting:

Hedged risk	Type of hedge	Hedged item	Hedging instrument
Currency risk EUR/PLN	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR exchange rate	Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions; Currency forwards EUR/PLN
Currency risk USD/PLN	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the USD exchange rate	Currency forwards USD/PLN
Currency risk USD/RON	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the USD exchange rate	Currency forwards USD/RON
Interest rate risk (change of WIBOR 6M)	Cash flow hedge	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of PLN 1,045 million	Swap of WIBOR 6M to fixed interest rate (transaction isolated through the decomposition of CIRS transactions)
Interest rate risk (change of WIBOR 6M)	Cash flow hedge	Interest payments related to bonds issued by CIECH S.A. (Series 02) with the nominal value of PLN 80,000 thousand	Swap of WIBOR 6M to fixed interest rate
Interest rate risk (change of EURIBOR 6M)	Cash flow hedge	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of EUR 69,673 thousand	Swap of EURIBOR 6M to fixed interest rate
Raw material price risk	Hedge for the cost of purchase of CO_2 units	Cost of purchase of CO_2 units in 2017 and 2018	Futures contracts for the purchase of CO_2 units
Raw material price risk	Hedge for the costs of gas purchased in the period 2016-2020	Cost of gas purchased in the period 2016–2020	Acquired call options embedded in a gas supply contract
Currency risk EUR/PLN	Net investment hedge	The hedged position is the net investment in the subordinated entity	Bonds issued in EUR; term loan in EUR

Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2016	Amount transfered from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2016	Ineffective portion recognised in the statement of profit or loss	Forecast period of cash flow occurrence / Expected date of impact on the financial result
Currency risk					
CIECH S.A. – Bond liabilities	-	(18,197)	-	-	from 01.01.2020 to 31.12.2022
CIECH S.A. – Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions	(60,187)	(48,751)	14,407	1,862	from 30.06.2017 to 25.11.2020
CIECH S.A. – Currency forward EUR/PLN	1,616	1,309	2,706	-	from 01.01.2017 to 31.12.2018
CIECH S.A. – Currency forward USD/PLN	-	-	(112)	-	Closed designation
CIECH S.A. – Currency forward USD/RON	(3,861)	(3,245)	-	-	from 01.01.2017 to 30.11.2018
CIECH Vitrosilicon S.A. - forward EUR/PLN	94	76	-	-	from 01.01.2017 to 31.12.2017
Interest rate risk					
CIECH S.A. – Interest Rate Swap (IRS) PLN 80 million	(1,241)	(1,005)	(1,070)	-	from 05.06.2017 to 05.12.2017
CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	(2,691)	(2,180)	(806)	-	from 30.06.2017 to 25.11.2020
CIECH S.A. – Interest rate swap (transaction isolated through the decomposition of CIRS transactions)	15,127	12,253	271	-	from 30.06.2017 to 25.11.2020
Raw material price risk					
CIECH Soda Polska S.A. – Futures contracts for the purchase of CO_2 units	5,012	5,012	-	-	from 01.01.2018 to 31.12.2018
SDC Group – isolated option instruments embedded in a gas supply contract	11,772	9,422	2,087	-	from 01.01.2017 to 31.03.2020
Total cash flow hedge	**(34,359)**	**(45,306)**	**17,483**	**1,862**	
CIECH S.A. – Bond liabilities	-	(5,864)	-	-	Upon the sale of shares
CIECH S.A. – Term loan liabilities	(308,233)	(8,736)	-	-	Upon the sale of shares
Net investment hedge – currency risk	**(308,233)**	**(14,600)***	**-**		
TOTAL	**(342,592)**	**(59,906)**	**17,483**	**1,862**	

** Amount recognized in equity under "Currency translation reserve".*

Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2015	Amount transfered from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2015	Ineffective portion recognised in the statement of profit or loss	Forecast period of cash flow occurrence / Expected date of impact on the financial result
Currency risk					
CIECH S.A. – Bond liabilities	-	(18,197)	-	-	from 01.01.2020 to 31.12.2022
CIECH S.A. – Series of EUR/PLN forward transactions isolated through the decomposition of CIRS transactions	(4,997)	(2,539)	1,379	(1,862)	from 30.06.2016 to 25.11.2020
CIECH S.A. – Currency forward EUR/PLN; USD/PLN	(972)	(788)	(6,133)	-	from 01.01.2016 to 31.12.2018

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Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2015	Amount transfered from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2015	Ineffective portion recognised in the statement of profit or loss	Forecast period of cash flow occurrence / Expected date of impact on the financial result
Interest rate risk					
CIECH S.A. – Interest Rate Swap (IRS) PLN 80 million	(2,810)	(2,277)	(988)	-	from 05.06.2016 to 05.12.2017
CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	901	730	(55)	-	from 30.06.2016 to 25.11.2020
CIECH S.A. – Interest rate swap (transaction isolated through the decomposition of CIRS transactions)	8,724	7,067	43	-	from 30.06.2016 to 25.11.2020
Total cash flow hedge	**846**	**(16,004)**	**(5,754)**	**(1,862)**	
CIECH S.A. – Bond liabilities	-	(5,864)	-	-	Upon the sale of shares
CIECH S.A. – Term loan liabilities	(288,388)	435	-	-	Upon the sale of shares
Net investment hedge – currency risk	**(288,388)**	**(5,429)***	**-**	**-**	
TOTAL	**(287,542)**	**(21,433)**	**(5,754)**	**(1,862)**	**-**

** Amount recognized in equity under "Currency translation reserve".*

The aim of the Group when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate movements, exchange rates differences due to incurred liabilities, (e.g. loans, bonds) and the impact of changes in raw material prices (gas, CO_2 certificates) on the statement of profit or loss by reflecting their hedging nature in the financial statements.

The result of the settlement of the effective portion of hedging instruments is reclassified from equity to the statement of profit or loss upon the realisation of the hedged item and recognition of its effect in the statement of profit or loss.

In the reporting period, there were no instances of identifying the inability to realise a future transaction in respect of which the cash flow hedge accounting was applied.

Other relationships (not listed in the table above) were cancelled and settled in the previous reporting period in connection with the occurrence of the hedged position.

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Group’s long-term financial forecast. Additionally, to a large extent, these transactions are concluded with regular customers of the Group Companies, which supports the probability of their occurrence. The effect of the cash flow hedge accounting and the net investment hedges in foreign entities was presented in the consolidated statement of other comprehensive income of the CIECH Group.

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

The CIECH Group actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the companies’ market value.

The CIECH Group’s policy assumes natural hedging of imports and exports and hedging of up to 70% of net exposure to currencies exchange rate change by using derivatives and 100% exposure to interest rate risk.

In 2016 and 2015, the Group concluded futures contracts to hedge currency risk and interest rate risk (forward, IRS and CIRS transactions).

Cash management

The CIECH Group cooperates with bank service providers of high credit rating and with substantial experience in the cash management area. Allocation of financial resources to the Group companies is performed through the use of intra-group loans, dividends payout by subsidiaries, participation in a cash management system (cashpooling) and increase of share capital in the subsidiaries.

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Quantitative and qualitative information on financial risks

The CIECH Group manages financial risks based on, among others, the developed and adopted market risk hedging strategy. The aim of the financial risk management policy is to identify areas requiring risk analysis to determine methods to identify and measure it, to determine activities undertaken in relation to identified risk areas and to define organisational solutions in the risk management process.

In fulfilling its main goals, the Group aims to avoid excessive market risk. This goal is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of CIECH Group debt. When assessing risk, the Group takes into account the risk portfolio effect resulting from the variety of conducted business activities. Risk effects are materialised in the cash flow statement, statement of financial position and the statement of profit or loss.

Financial risk management covers processes of identifying, measuring and establishing the manner of responding to that risk, including processes related to currency exchange rates and interest rate fluctuations. The Group monitors risk areas which are most important for its activities.

Interest rate risk

The Group finances its activity mainly through term loans and bonds. The amount of the costs of interest-bearing debt held by the Group depends on the reference rate. This refers to term loans made available under a loan agreement dated 29 October 2015 in the amount of PLN 1,045 million and EUR 70 million, domestic bonds issued on 5 December 2012, with a total nominal value of PLN 320 million (current debt amounts to PLN 160 million), a revolving loan made available under a loan agreement dated 29 October 2015 in the amount of PLN 250 million (as at the end of 2016, the debt amounted to PLN 0), overdraft facilities and a part of lease and factoring contracts.

Therefore, the Group is exposed to risk of change in finance costs due to changing interest rates on existing debt. This may result in increased financial costs and, consequently, deterioration of the CIECH Group financial result. The risk is partially reduced by the assets owned by the CIECH Group (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions.

In 2016, the CIECH Group benefited from the following hedging transactions:

- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the bonds issued on 5 December 2012. The transaction hedges indebtedness of nominal value of PLN 80 million and was concluded in March 2013,
- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015. The transaction hedges indebtedness of nominal value of EUR 70 million and was concluded in November 2015, and
- currency and interest rate swap transactions to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015. The transaction hedges indebtedness of nominal value of PLN 1,045 million and was concluded in November 2015.

The table below presents the consolidated statement of financial position items (without derivative instruments) exposed to interest rate risk:

Total carrying amount	31.12.2016	31.12.2015
Fixed interest rate instruments	**-**	**-**
Financial assets	-	-
Financial liabilities	-	-
Floating interest rate instruments	**(1,116,142)**	**(1,338,498)**
Financial assets	414,369	202,969
Financial liabilities*	(1,530,511)	(1,541,467)

**including PLN 80 million hedged by IRS, EUR 70 million hedged by IRS, PLN 1,045 million hedged by CIRS – IRS transaction isolated as part of decomposition of CIRS.*

The table below shows the effects of a change in the interest rate by 100 basis points in relation to the floating interest rate instruments presented in the statement of financial position.

	Statement of profit or loss		Equity*	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31.12.2016				
Floating interest rate instruments	(11,161)	11,161	-	-
Interest rate swap transactions*	-	-	37,506	(39,426)
Cash flows sensitivity (net)	**(11,161)**	**11,161**	**37,506**	**(39,426)**
31.12.2015				
Floating interest rate instruments	(13,385)	13,385	-	-
Interest rate swap transactions*	-	-	50,449	(53,497)
Cash flows sensitivity (net)	**(13,385)**	**13,385**	**50,449**	**(53,497)**

** Do not include the impact of profit/loss on equity.*

Currency risk

Currency risk is an inevitable component of commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, the CIECH Group is subject to currency exposure related to the significant lead of export over import. Sources of currency risk which exposed companies within the Group in 2016 included: purchase of raw materials, product sales, loans taken out and cash in foreign currencies. Unfavorable changes in currency exchange rates may worsen the CIECH Group's financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. The SDC Group was excluded from the analysis since its functional currency is EUR and all reported operating cash flows of this company are performed in this currency.

In 2016, the CIECH Group used hedging contracts, such as forward options, to partially cover currency risk. The CIECH Group tries to naturally hedge the foreign currency exposure, including matching of currency flows arising from sales and purchases as well as strategic debt denominated in EUR, in order to fit it to the expected exposure to currency risk in operations.

The table below presents the estimated currency exposure of the CIECH Group in EUR (excluding figures concerning the SDC Group) and in USD as at 31 December 2016 and 2015 due to financial instruments:

Exposure to currency risk in EUR ('000)	31.12.2016	31.12.2015	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	49,726	52,795	x	
Trade and other receivables	18,290	15,674	x	
Cash including bank deposits	26,459	7,332	x	
Liabilities				
Trade and other liabilities	(18,874)	(12,933)	x	
Term loan liabilities	(69,773)	(69,773)		x
Hedging instruments: Forward	(60,400)	(19,500)		x
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(246,781)	(246,909)		x
Total exposure	**(301,353)**	**(273,314)**		

** Evaluation of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit or loss statement.*

Exposure to currency risk in USD ('000)	31.12.2016	31.12.2015	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Trade and other receivables	17,298	11,644	x	
Cash including bank deposits	3,065	367	x	
Liabilities				
Trade and other liabilities	(4,558)	(1,482)	x	
Hedging instruments: Forward	(33,800)	(1,600)		x
Total exposure	**(17,995)**	**8,929**		

** Evaluation of financial instruments designated for hedge accounting is referred to other comprehensive income while ineffectiveness is recognised in the profit or loss statement.*

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 31 December 2016.

Analysis of sensitivity to foreign exchange rate changes – EUR	('000 PLN)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2016			
Currency balance sheet items	58	756	(698)
Hedging instruments: Forward and CIRS	(3,072)	-	(3,072)
31.12.2015			
Currency balance sheet items	(69)	629	(698)
Hedging instruments: Forward	(2,664)	-	(2,664)

** Increase of EUR/PLN exchange rate by 1 grosz.*

Analysis of sensitivity to foreign exchange rate changes – USD	('000 PLN)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2016			
Currency balance sheet items	158	158	-
Hedging instruments: Forward	(338)	-	(338)
31.12.2015			
Currency balance sheet items	105	105	-
Hedging instruments: Forward	(16)	-	(16)

** Increase of USD/PLN exchange rate by 1 grosz.*

Raw material price risk

A significant portion of the CIECH Group's activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature related to 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, the falling prices are usually a symptom of a 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 CIECH Group. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation will have a negative influence on the activity related to trading in chemical raw materials by the CIECH Group.

The CIECH Group reduces price risk through concluding agreements with suppliers containing an appropriate price formula.

Credit risk

Credit risk means a threat of the counterparty not fulfilling the obligations stipulated in the agreement, exposing the lender to financial loss.

From the CIECH Group's point of view, credit risk is linked to:

- trade receivables from customers,
- cash and bank deposits.

The CIECH Group is exposed to credit risk connected with the credit rating of customers being parties to products and goods sales transactions. That risk is limited by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Group uses securities in the form of a letter of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring). Customers' creditworthiness 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 periodically at subsequent deliveries of goods in accordance with the binding procedures. The risk of the receivables portfolio is assessed on a weekly basis. On selected markets, where more risky payment deadlines are applied, the Group's companies make use of services provided by companies specialising in insuring receivables.

Credit risk connected with cash in bank and bank deposits is low as the CIECH Group enters into transactions with high-rating banks with stable market position.

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According to the CIECH Group's Companies, assets that are not overdue and not covered by a write-down are of high credit quality.

At the end of the reporting period, in the Group there was an external loan granted by CIECH Trading S.A. to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej in the amount of PLN 34,000 thousand. The carrying amount of the loan corresponds mainly to the value of the mortgage collateral held by the Company.

The table below presents the maximum exposure of financial assets to credit risk as at the end of reporting period.

	31.12.2016	31.12.2015
Cash and cash equivalents	414,369	202,935
Loans and receivables	402,159	345,352
Assets due to evaluation of derivatives	75,792	86,837
Embedded instruments	28,955	-
TOTAL	**921,275**	**635,124**

The CIECH Group has no material items which would be uncollectible as at the reporting date and not covered by an impairment allowance. The table below presents trade receivables by age from maturity date.

	31.12.2016		31.12.2015	
	Trade receivables and factoring receivables (gross)	Impairment loss	Trade receivables and factoring receivables (gross)	Impairment loss
Not overdue	319,398	(1,379)	266,428	(2,096)
Up to 1 month	37,610	(609)	32,866	(280)
1–3 months	3,390	(92)	8,430	(44)
3–6 months	9,268	(2,269)	5,245	(147)
6–12 months	6,152	(4,095)	2,716	(2,068)
Over 1 year	30,226	(29,441)	23,015	(22,747)
TOTAL	**406,044**	**(37,885)**	**338,700**	**(27,382)**

	Trade receivables and factoring receivables		Loans granted	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Soda segment	234,136	218,551	-	-
Organic segment	102,633	73,594	-	-
Silicates and Glass segment	29,184	18,104	-	-
Transport segment	17,126	17,329	-	-
Other operations segment	24,729	18,514	34,000	34,000
Consolidation adjustments	(39,649)	(34,774)	-	-
TOTAL	**368,159**	**311,318**	**34,000**	**34,000**

	31.12.2016		31.12.2015	
	Trade receivables and factoring receivables	Loans granted	Trade receivables and factoring receivables	Loans granted
Poland	132,198	34,000	138,209	34,000
European Union (excluding Poland)	157,353	-	123,686	-
Other European countries	23,326	-	20,858	-
North America	506	-	689	-
South America	1,374	-	167	-
Africa	2,852	-	8,628	-
Asia	50,550	-	19,081	-
TOTAL	**368,159**	**34,000**	**311,318**	**34,000**

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Liquidity risk

The CIECH Group is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due to bonds issued, revolving facility and lease agreements) in relation to operating results, the limited ability to obtain new financing due to the existing high level of indebtedness and the risk of losing the existing long-term financing as a result of violating covenants stipulated in the bond issue terms and loan agreements.

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of the CIECH Group's companies,
- monitoring and optimisation 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 settlement of liabilities under the loan agreements conditions.

The Group's debt financing is ensured by term loans and 5-year maturity bonds (Polish bonds) in 2017. In addition, a revolving loan in the amount of PLN 250 million has been made available to the Group, constituting an additional source of current liquidity and working capital financing (as at 31 December 2016, the loan was utilised in the amount of PLN 0).

The table below presents financial liabilities at face value grouped by maturity.

31.12.2016	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	**(1,901,740)**	**(2,039,902)**	**(417,013)**	**(182,843)**	**(469,286)**	**(970,760)**	**-**
Trade liabilities	(367,420)	(367,420)	(367,420)	-	-	-	-
Loans and borrowings	(1,346,436)	(1,475,144)	(17,549)	(17,549)	(469,286)	(970,760)	-
Bonds	(160,382)	(169,836)	(4,542)	(165,294)	-	-	-
Factoring	(27,502)	(27,502)	(27,502)	-	-	-	-
Finance lease liabilities	**(23,693)**	**(26,301)**	**(2,635)**	**(2,630)**	**(6,487)**	**(8,757)**	**(5,792)**
Derivatives recognised in financial liabilities designated as hedging instruments	**(126,935)**	**(136,184)**	**(2,888)**	**(2,674)**	**(14,119)**	**(116,503)**	**-**
TOTAL	**(2,052,368)**	**(2,202,387)**	**(422,536)**	**(188,147)**	**(489,892)**	**(1,096,020)**	**(5,792)**

31.12.2015	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities	**(1,804,520)**	**(1,989,611)**	**(333,924)**	**(22,925)**	**(205,702)**	**(1,427,060)**	**-**
Trade liabilities	(270,938)	(270,938)	(270,938)	-	-	-	-
Loans and borrowings	(1,354,857)	(1,518,938)	(39,370)	(17,542)	(34,966)	(1,427,060)	-
Bonds	(159,727)	(180,737)	(4,618)	(5,383)	(170,736)	-	-
Reverse factoring	(18,998)	(18,998)	(18,998)	-	-	-	-
Finance lease liabilities	**(26,883)**	**(29,990)**	**(2,896)**	**(2,873)**	**(5,901)**	**(10,947)**	**(7,373)**
Derivatives recognised in financial liabilities designated as hedging instruments	**(85,990)**	**(94,056)**	**(2,014)**	**(1,062)**	**(2,042)**	**(88,938)**	**-**
TOTAL	**(1,917,393)**	**(2,113,657)**	**(338,834)**	**(26,860)**	**(213,645)**	**(1,526,945)**	**(7,373)**

Detailed information concerning revenues and costs pertaining to financial instruments, recognised in the statement of profit or loss has been presented in note 8.1.

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8.4. DETERMINATION OF FAIR VALUES

The following list presents the fair value of financial instruments.

	31.12.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	414,369	414,369	202,935	202,935
Loans granted	34,000	34,000	34,000	34,000
Trade receivables	298,004	298,004	276,952	276,952
Assets due to evaluation of derivatives	75,792	75,792	86,837	86,837
Assets from the valuation of embedded instruments	28,955	28,955	-	-
Long-term deposits	-	-	34	34
Factoring receivables	70,155	70,155	34,366	34,366
ASSETS	**921,275**	**921,275**	**635,124**	**635,124**
Loans and borrowings	(1,346,436)	(1,353,264)	(1,354,857)	(1,362,879)
Debt securities	(160,382)	(160,000)	(159,727)	(160,000)
Trade liabilities	(367,420)	(367,420)	(270,938)	(270,938)
Liabilities due to evaluation of derivatives.	(126,935)	(126,935)	(85,990)	(85,990)
Finance lease liabilities	(23,693)	(23,693)	(26,883)	(26,883)
Reverse factoring liabilities	-	-	(18,998)	(18,998)
Factoring liabilities	(27,502)	(27,502)	-	-
LIABILITIES	**(2,052,368)**	**(2,058,814)**	**(1,917,393)**	**(1,925,688)**

The fair value of financial assets and liabilities corresponds with the amounts for which these instruments may be exchanged in a market transaction between well informed parties. The following assumptions were made in establishing the fair value:

- cash, trade receivables and liabilities are not measured at fair value – it is assumed that the carrying amount is the closest to fair value due to the short maturities of these instruments,
- fair value of financial assets and liabilities recognised in the statement of financial position at amortised cost for which no active market exists was established as the present value of future cash flows discounted at market interest rate.

Evaluation to fair value is grouped according to three-level hierarchy:

- Level 1 – fair value based on market listing stock exchange prices (unadjusted) offered for identical assets or liabilities on active markets.
- Level 2 – the CIECH Group measures derivatives at fair value by using measurement models for financial instruments and applying generally available interest rates, currency exchange rates etc.
- Level 3 – fair value estimated on the basis of various evaluation techniques which are not based on observable market inputs.

Assets and liabilities measured at fair value

	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS	**5,012**	**104,747**	**31,384**	**-**	**86,837**	**34,308**
Investment properties	-	-	31,384	-	-	34,308
Hedging instruments	-	75,792	-	-	86,837	-
Futures contracts	5,012	-	-	-	-	-
Embedded instruments	-	28,955	-	-	-	-
LIABILITIES	**-**	**126,935**	**-**	**-**	**85,990**	**-**
Hedging instruments	-	126,935	-	-	85,990	-
TOTAL	**5,012**	**231,682**	**31,384**	**-**	**172,827**	**34,308**

As at 31 December 2016, the CIECH Group held the following types of financial instruments measured at fair value:

- futures contracts for the purchase of CO_2 certificates concluded by CIECH Soda Polska S.A., hedging the cost of purchase of CO_2 units in 2017 and 2018 — Level 1, according to the fair value hierarchy,

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- concluded by the parent company, CIECH S.A.: interest rate swap contracts, currency forward EUR/PLN, CIRS (currency and interest rate swap) contract EUR/PLN — Level 2, according to the fair value hierarchy,
- currency forward EUR/PLN concluded by CIECH Vitrosilicon S.A. — Level 2, according to the fair value hierarchy,
- isolated option instruments (acquired call options) embedded in the gas supply contract concluded by CIECH Energy Deutschland GmbH on 1 August 2016, hedging the cost of gas purchased in 2016–2020 — Level 2, according to the fair value hierarchy,
- currency forward EUR/PLN, USD/RON concluded by CIECH S.A. - Level 2, according to the fair value hierarchy.

In 2016, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

The fair value of instruments concluded is determined in the following manner:

- the fair value of the interest rate swap contract is determined as a difference in the discounted interest rate cash flow (cash flow based on a floating rate, the 'floating leg', and a fixed rate, the 'fixed leg'). The input data for the method is the market data for interest rates provided by Reuters.
- the fair value of the CIRS contract is determined as a difference between discounted interest and capital cash flows. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters.
- the fair value of the currency forward is determined as a difference between the transaction rate and the forward rate at the valuation date multiplied by the nominal value of the contract in the foreign currency. Input data to the valuation are the market interest rate and spot exchange rate from Reuters, on the basis of which the forward rate is calculated.
- Futures contracts for the purchases of CO_2 certificates are settled on a daily basis according to quotations published on ICE and EEX's stock exchange,
- options (call) embedded to gas purchases contract, are valued according to Black-Scholes model, taking into account forward prices quoted on ICE and EEX's stock exchange and implied volatility of gas prices specified based on stock quotations for options for gas purchases.

Fair value of derivative instruments and embedded instruments	Cash and cash equivalents	Long-term financial assets	Short-term financial assets	Other non-current liabilities	Trade and other liabilities	TOTAL
31.12.2016						
IRS PLN	-	-	-	-	(1,241)	(1,241)
IRS EUR	-	58	-	(1,506)	(1,243)	(2,691)
CIRS	-	55,569	18,454	(119,083)	-	(45,060)
Forward EUR/PLN	-	967	743	-	-	1,710
Forward USD /RON	-	-	-	(340)	(3,521)	(3,861)
Embedded instruments	-	22,182	6,773	-	-	28,955
Futures contracts	5,012	-	-	-	-	5,012
TOTAL	**5,012**	**78,776**	**25,970**	**(120,929)**	**(6,005)**	**(17,176)**
31.12.2015						
IRS PLN	-	-	-	(1,380)	(1,430)	(2,810)
IRS EUR	-	2,362	-	(679)	(782)	901
CIRS	-	67,694	16,781	(80,747)	-	3,728
Forward EUR/PLN	-	-	-	-	(718)	(718)
Forward USD/PLN	-	-	-	-	(254)	(254)
TOTAL	**-**	**70,056**	**16,781**	**(82,806)**	**(3,184)**	**847**

Investment properties are also measured at the fair value in the financial statements. According to the fair value hierarchy, it is Level 3. Investment real estate portfolio is evaluated by an external, independent property appraiser. In measuring the fair value of land located in Warsaw, constituting the Group's property, and land under the perpetual usufruct in Bydgoszcz, a comparative method was applied. This approach means measuring the value through an analysis of recent sales or listings of comparable assets. These transactions or offers are adjusted in order to take into account differences of the valuated assets and comparable assets on the day of their sale, for example date of sale, location, area, technical status and other. According to the method of average price adjustments, estimating the property value that is the subject of valuation is based on the average price adjustment of similar properties, that form the base for the comparison creating adjustment coefficients corresponding to different characteristics of these properties. The calculations are based on comparative properties, described by attributes influencing the level of properties prices and transaction prices of these properties.

For the valuation of buildings in Bydgoszcz, an income method was used (investment approach) as the best method reflecting the nature of the property.

Valuation of tangible assets identified as technical infrastructure (including assets that are necessary to keep properties operational but which are not traded on the secondary market and – not being able to be separately leased – do not generate income) is synthetically included in the total value of investment property valuated under the income approach method. For accounting purposes, the value of this group of assets was determined primarily using the economic viability method (taking into account their characteristics, with the going concern assumption). Appropriate ratios for the loss of value in use and loss of economic value were applied. The values of assets determined in the above manner formed the basis for estimating the market value, where continued use (in accordance with the purpose of the real property) may be deemed justified. In the final balance sheet, the value of buildings was decreased by eliminating those that did not generate any added value, but only determined the standard and usefulness of the building; other assets increased the value of real property.

The measurement of the fair value of investment property does not include transaction costs, which the entity might additionally bear, future capital expenditures regarding development or improvement of the investment property, as well as future benefits regarding those expenditures.

The verification of the fair value of investment properties is conducted at least once a year at the balance sheet date ending the financial year.

Financial instruments not measured at fair value

The CIECH Group holds the issued domestic bonds whose book value, as at 31 December 2016, amounts to PLN 160,382 thousand, and whose fair value amounts to PLN 160,000 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the issued bonds does not differ significantly from their nominal value due to the fact that these bonds carry variable interest rates.

The CIECH Group has taken out term and revolving loans whose book value, as at 31 December 2016, amounts to PLN 1,346,436 thousand, and whose fair value amounts to PLN 1,353,264 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates.

In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash and cash equivalents, loans and receivables, financial liabilities measured at amortised cost other than loans and bonds and financial liabilities excluded from the scope of IAS 39), the fair value is close to the book value.

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9 OTHER NOTES

9.1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The tables below present the reasons for the differences between the changes of particular items of the consolidated statement of financial position and changes resulting from the consolidated cash flows statement:

	31.12.2016	31.12.2015
Inventory change presented in consolidated statement of financial position	**5,634**	**35,861**
Other	(1,761)	139
Inventory change in consolidated statement of cash flows	**(3,873)**	**(36,000)**

	31.12.2016	31.12.2015
Provision change presented in consolidated statement of financial position	**15,785**	**18,938**
Reclassification of provisions to /from liabilities	(6,837)	-
Other	(3,983)	355
Provisions change in consolidated statement of cash flows	**4,965**	**19,293**

	31.12.2016	31.12.2015
Receivables change presented in consolidated statement of financial position	**25,986**	**101,473**
Change in investment receivables	23,892	(42,593)
Change in income tax receivables	16,003	(4,436)
Change in receivables from caverns	(9,715)	(11,347)
Other	(17,796)	15,783
Receivables change presented in consolidated statement of cash flows	**(38,369)**	**(58,880)**

	31.12.2016	31.12.2015
Change of liabilities presented in consolidated statement of financial position	**159,713**	**384,435**
Change in investment liabilities	7,937	(34,052)
Change in financial liabilities	(42,799)	(341,323)
Change in income tax liabilities	11,151	(20,207)
Other	(1,531)	(10,319)
Liabilities change presented in consolidated statement of cash flows	**134,471**	**(21,467)**

9.2. INFORMATION ON CHANGES IN CONTINGENT ASSETS AND LIABILITIES AND OTHER MATTERS

Accounting policy

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Group. An example is a claim that the Group is pursuing through legal processes, where the outcome is uncertain. Contingent assets are not recognised in the statement of financial position since this could result in the recognition of income that may never be realised.

A contingent liability is a possible future obligation, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. These are also liabilities that arose from past events but were not recognised in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the statement of financial position.

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Significant disputed liabilities of the CIECH Group

As at 31 December 2016, the total value of significant disputed liabilities of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

Significant disputed receivables of the CIECH Group

As at 31 December 2016, the total value of significant disputed receivables of CIECH S.A. and subsidiaries of CIECH S.A., pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies represents less than 10% of CIECH S.A.'s equity.

Contingent assets and contingent liabilities including guarantees and sureties

	31.12.2016	31.12.2015
Contingent assets	**18,864**	**18,864**
Other contingent receivables*	18,864	18,864
Contingent liabilities	**632,527**	**634,322**
Guarantees and sureties granted**	533,056	528,601
Other***	99,471	105,721

**Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFORY" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFORY" Sp. z o.o. to CIECH S.A. about the condition of Agrochem Człuchów Sp. z o.o. with its registered office in Człuchów.*

*** Including:*

- *guarantee granted up to the amount of 155% of liabilities related to the issue of domestic bonds in the amount of PLN 160,000 thousand – contingent liability in the amount of PLN 88,000 thousand,*
- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,045,031 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 323,758 thousand,*
- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 69,673 thousand – contingent liability in the amount of PLN 77,058 thousand,*
- *guarantee for certain obligations and warranties made by Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej as a part of the agreement for sale and transfer of TDI assets on BASF – contingent liability in the amount of PLN 44,240 thousand (EUR 10,000 thousand). Guarantee expired on 12 March 2017.*

**** Including mainly:*

- *contingent liability in the SDC Group relating to environmental protection in the amount of PLN 16,112 thousand (EUR 3,642 thousand),*
- *contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees due to a boiler failure in the amount of PLN 30,974 thousand,*
- *contingent liabilities in CIECH Soda Polska S.A. resulting from blank promissory notes for the National Fund for Environmental Protection and Water Management relating to subsidies received in the event of a potential financial adjustment in the amount of PLN 33,483 thousand, in connection with the received subsidy to the project "Extension of the centre of decantation and filtration of distillation sludge in the Plant in Inowrocław" in the amount of PLN 10,930 thousand, in connection with the subsidy to the project "Reduction of dust emission in CHP Inowrocław – modernisation of electrofilters OP 110 No 2 and 4" in the amount of PLN 882 thousand, in connection with the subsidy to the project "Reduction of dust emission in CHP Inowrocław – modernisation of electrofilters OP 110 No 1 and 3" in the amount of PLN 98 thousand,*
- *potential liability in CIECH S.A. regarding employee claims in the amount of PLN 5,660 thousand.*

As at 31 December 2016, contingent liabilities amounted to PLN 632,527 thousand and decreased as compared to 31 December 2015 by PLN 1,795 thousand. The increase resulted mainly from the elimination of a liability related to a claim filed by employees of CIECH Soda Romania S.A. (PLN 20,374 thousand as at the end of 2015), receipt of two subsidies by CIECH Soda Polska S.A. in the total amount of PLN 11,910 thousand, increase in potential liabilities regarding employee claims in the amount of PLN 1,443 thousand and increase in other contingent liabilities on account of currency translation differences in the amount of PLN 5,047 thousand.

Sureties and guarantees granted as at 31 December 2016

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	currency	PLN		
CIECH S.A.				
Anwil S.A.	PLN 15,000 thousand	15,000 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability. 30.06.2017	CIECH Trading S.A. (subsidiary)
BASF Polska Sp. z o.o., BASF SE	10,000 EUR '000	44,240 thousand	Guarantee for certain liabilities and warranties made by Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej under the Agreement for Sale and Transfer of TDI assets to BASF; expired on 12.03.2017	Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej (unrelated company)
BZ WBK Faktor Sp. z o.o.	PLN 18,000 thousand	18,000 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Trading S.A. (subsidiary)
Spolana a.s.	1,500 EUR '000	6,636 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability. Liabilities incurred and outstanding by 31.12.2017	CIECH Trading S.A. (subsidiary)
Siemens Industrial Turbo- machinery s.r.o	1,753 EUR '000	7,755 thousand	Commission of 0.4% p.a. of the guaranteed liability, lease instalments outstanding by 30.04.2019	CIECH Energy Deutschalnd GmbH (subsidiary)
VITROBUDOWA Sp. z o.o.	PLN 67,035 thousand	67,035 thousand	Commission of 1.5% p.a. of the guaranteed liability; 90 calendar days from signing the final acceptance report	CIECH Vitrosilicon S.A. (subsidiary)
Total amount of guarantees and sureties granted				**PLN 158,666 thousand**
Selected subsidiaries in Poland, Germany and Romania				
Holders of Series 02 domestic bonds	PLN 248,000 thousand (guarantee granted up to the amount of 155% of liabilities related to the issue of domestic bonds in the amount of PLN 160,000 thousand)	248,000 thousand	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit; 05.12.2017	CIECH S.A. (parent company)
Banks: Bank Handlowy w Warszawie S.A., Bank Millennium S.A., BZWBK S.A., Bank PKO BP S.A., Credit Agricole Bank Polska S.a., HSBC Bank Polska S.A., ICBC (Europe) S.A. Branch in Poland	PLN 1,618,789 thousand(guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,045,031 thousand and revolving loan in the amount of PLN 250,000 thousand) EUR 87,091 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 69,673 thousand)	2,004,080 thousand	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit; 31.12.2023	CIECH S.A. (parent company)
Total amount of guarantees and sureties granted				**PLN 2,252,080 thousand**

In 2016, the CIECH Group companies did not receive any guarantees from third parties.

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Letters of support

As at 31 December 2016, CIECH S.A. was the obliged party in the letter of support (Patronatserklärung) regarding CIECH Soda Deutschland GmbH&Co. KG seated in Staßfurt (CSD) granted to RWE Gasspeicher GmbH ("RWE") relating to liabilities of CSD resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CSD received payments of EUR 34.8 million from RWE by 31 December 2016. In the letter of support, CIECH S.A. has committed, among other things, to ensure that CSD will have sufficient funds to fulfil its financial commitments against RWE resulting from the above-mentioned agreement.

Tax audits

As on the date of the financial statements, three CIECH Group companies were undergoing tax audits (in 2017 tax audits started in another two companies). The aim of the audits is to review the accuracy of the declared tax base and the correctness of calculations and payments of corporate income tax for the year 2015 or 2013. In the case of the three companies, the audit is in progress and as on the publication date of the financial statements the result of the audit is unknown. Two of the audited companies received the audit reports. In the reports, the auditors point out, among other things, that the companies underestimated their revenue with respect to the settlement of result on owned shares in a partnership for the total amount of PLN 69 mln. At the same time, the auditors point out in the summary of the reports that the companies underestimated their tax liabilities for 2015 by PLN 6.6 mln in total. The audit report does not prejudge the outcome of the case. However, should the Head of the Tax Office accept all the findings presented in the reports, it might be necessary for each of the companies to pay the tax liabilities in the total amount of PLN 6.6 mln as estimated by the auditors plus interest for delay from 1 April 2016. The Management Boards of the companies and their tax advisors do not agree with the majority of findings discussed in the audit reports. The companies have submitted or intend to submit objections to the audit reports or their parts.

9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

Transactions between the parent, CIECH S.A., and its subsidiaries were eliminated during consolidation and have not been presented in this note.

Detailed information about transactions between the CIECH Group and other related entities (i.e. companies controlled by the parent company at the highest level in relation to CIECH S.A. — Kulczyk Investments S.A. and non-consolidated companies of the CIECH Group) is presented below:

TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED ENTITIES	01.01.-31.12.2016	01.01.-31.12.2015
Revenues from sales of products and services	7,334	2,601
Revenues from sales of goods and materials	92,989	62,426
Other operating income	9	9
Financial income	951	528
Purchase of products, goods and materials	1,048	18,537
Kulczyk Holding S.A.	*698*	*1,184*
Purchase of services	38,715	37,985
Other operating expenses	532	5
Financial expenses	16	17
	31.12.2016	**31.12.2015**
Receivables, including:	15,691	7,561
Kulczyk Holding S.A.	*180*	*630*
Liabilities, including:	6,647	8,965
Kulczyk Holding S.A.	*858*	*1,425*

Terms of transactions with related entities

Material sales to and purchases from related entities are carried out on arm's length terms. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. No material non-standard or non-routine transactions were concluded with related entities in 2016. Receivables from related entities have not been secured by any guarantees granted or received besides those described in note 9.2.

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In the presented period, the key management personnel of CIECH S.A. did not conclude any material transactions with related parties.

9.3.2. SIGNIFICANT TRANSACTIONS CONCLUDED BY COMPANIES OR SUBSIDIARIES WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

In 2016, there were no transactions with related entities in the CIECH Group on other than market conditions.

9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES

On 4 July 2016, pursuant to a notarial deed, a partnership under the business name Beta Cerium Sp. z o.o. Spółka komandytowa was established. The Company's registered office is located in Warsaw. The general partner is a company under the business name Cerium sp. z o.o., and the partners who are liable for the Company's liabilities up to the amount of the commendam sum (Limited partners) are CIECH Sarzyna S.A., CIECH Pianki sp. z o.o. and CIECH Soda Polska S.A.

The partners made the following contributions to the Partnership:

1) Cerium Sp. z o.o. made a cash contribution of PLN 50,
2) CIECH Soda Polska S.A. made a cash contribution of PLN 4,200 thousand,
3) CIECH Sarzyna S. A. made a cash contribution of PLN 40 thousand,
4) CIECH Pianki sp. z o.o. made a cash contribution of PLN 3,955 thousand.

The Partners' shares in the Partnership capital correspond to the value of their contributions. The Partner authorised to represent the Partnership and manage its affairs is the General partner.

Other information about transactions with related parties is provided in note 6.4 to these financial statements.

9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL

Key managerial personnel comprises persons who are authorised to and are responsible for direct and indirect planning, managing and controlling the activities of CIECH S.A.

Remuneration of the Management Board of CIECH S.A.

The following table presents the amount of remuneration and additional benefits paid or payable to particular Members of the Management Board in 2016 and in the comparable period. In the years 2015-2016, members of the Management Board of CIECH S.A. did not receive any remuneration for holding a position in the Supervisory Boards or any other functions performed in the subsidiaries of the CIECH Group.

	2016	2015
Maciej Tybura	**3,701**	**1,987**
Artur Król	**1,375**	**245**
Artur Osuchowski	**2,805**	**2,750**
Dariusz Krawczyk	5,003	3,875
Andrzej Kopeć	-	246
TOTAL	**12,884**	**9,103**

Members of the Management Board are employed based on employment contracts. In accordance with a Resolution of the Supervisory Board of CIECH S.A., Members of the Management Board are entitled to:

- monthly remuneration determined in individual employment contracts;
- discretionary bonus in the amount determined by the Supervisory Board of CIECH S.A.;
- annual bonus determined in individual employment contracts.

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Remuneration of the Supervisory Board of CIECH S.A.

	Remuneration received from CIECH S.A. in 2016	Remuneration received from CIECH S.A. in 2015
Sebastian Kulczyk	**38***	**46**
Piotr Augustyniak	**102**	**98**
Dominik Libicki	**83**	**-**
Tomasz Mikołajczak	**128**	**123**
Mariusz Nowak	**102**	**98**
Artur Olech	**102**	98
Wojciech Stramski	19	98
TOTAL	**574**	**561**

**From 1 April 2016, Chairman of the Supervisory Board, Mr. Sebastian Kulczyk does not receive any remuneration due to the waiver of the claim for remuneration for the position of the Chairman of the Supervisory Board.*

In accordance with a Resolution of the Extraordinary General Shareholders' Meeting, Members of the Supervisory Board 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 the average monthly remuneration in the enterprise sector, including profit distribution in the month preceding the calculation.

9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE CIECH GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

The entity authorised to audit financial statements for the period from 1 January 2016 to 31 December 2016 was PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw. On 25 June 2015, CIECH S.A. signed an agreement with PricewaterhouseCoopers Sp. z o.o. on the review of semi-annual and audit of annual financial statements for the years 2015, 2016 and 2017.

In 2016, PricewaterhouseCoopers Sp. z o.o. and foreign companies from the network of member firms of PricewaterhouseCoopers were also the auditors of the most significant consolidated subsidiaries/subsidiary groups of CIECH S.A., including: CIECH Soda Polska S.A., SDC Group, CIECH Soda Romania S.A., CIECH Sarzyna Group, CIECH Vitrosilicon S.A., CIECH Pianki Sp. z o.o., Ciech Group Financing AB.

Value of agreements concluded with PricewaterhouseCoopers Sp. z o.o. and members of the PricewaterhouseCoopers network:

CIECH S.A.	2016*	2015*
Audit of the annual financial statements	97	106
Review of the semi-annual report	83	335
Other attestation services	1	537
Tax advisory services	328	720
Other services	3,269	6
TOTAL	**3,778**	**1,704**
Consolidated subsidiaries of the CIECH Group		
Audit of the annual financial statements	1,038	931
Review of the semi-annual report	82	76
Other attestation services	14	253
Tax advisory services	75	-
Other services	275	245
TOTAL	**1,484**	**1,505**

** The remuneration includes additional costs, such as travel, accommodation and nourishment costs.*

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9.5. COMPOSITION OF THE GROUP

Accounting policy – Basis of consolidation

Subsidiaries are entities controlled by the Parent Company. Control occurs when the Group has the power to govern either directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing the control, the influence of both existing and potential voting rights exercisable at the reporting date are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When selecting entities for consolidation, the Management Board was guided by the criteria of significance of their financial data (according to the concept assumptions of IFRS), for executing the obligation of an actual and reliable image of the material and financial situation, and the financial result of the Group.

A list of fully consolidated companies and companies accounted for under the equity method is provided below:

Company name	Registered office	Segment	Business	Share in equity as at 31.12.2016 / % of votes at the GMS	Share in equity as at 31.12.2015 / % of votes at the GMS
Parent company					
CIECH S.A.	Warsaw	Soda, organic, silicates and glass, transport, other	Sales of chemical products manufactured within the CIECH Group, sales chemical products purchased from third-party producers, holding activities, managing a portfolio of subsidiaries, provision of support services (in the area of sales, manufacturing, purchases, finance, IT, HR and in the legal area) for selected companies in the Group, financial activities in the form of direct lending to the companies in the Group.	-	-
Fully consolidated direct and indirect subsidiaries					
CIECH R&D Sp. z o.o.	Warsaw	Other	Granting licences to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta" for business activity purposes, research and developments activities.	100%	100%
CIECH Trading S.A.	Warsaw	Soda, other	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of feed additives and fodder, wholesale and distribution of acids, bases and other liquid chemicals.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, silicates and glass	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	98.74%	98.74%
CIECH Vitrosilicon S.A.*	Iłowa	Silicates And Glass	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.	100%	100%
CIECH Transclean Sp. z o.o.	Bydgoszcz	Transport	International transport of liquid chemicals.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Organic	Manufacture of organic and other inorganic chemicals.	100%	100%

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Company name	Registered office	Segment	Business	Share in equity as at 31.12.2016 / % of votes at the GMS	Share in equity as at 31.12.2015 / % of votes at the GMS
Ciech Group Financing AB	Stockholm, Sweden	Other	Financing activities.	100%	100%
Verbis ETA Sp. z o.o.	Warsaw	Other	General partner of Verbis ETA Sp. z o.o. SKA.	100%	100%
Verbis ETA Sp. z o.o. SKA	Warsaw	Other	Financing activities, direct lending to the CIECH Group companies	100%	100%
CIECH Cerium Sp. z o.o. SK	Warsaw	Other	Financing activities.	100%	100%
Beta Cerium Sp. z o.o. Sp. k.**	Warsaw	Other	Financing activities, leasing of non-current assets to the CIECH Group companies.	100%	-
Vasco Polska Sp. z o.o.	Inowrocław	Other	Utilisation of post-soda lime in the restoration of degraded land.	90%	-
CIECH FINANCE Group					
CIECH Finance Sp. z o.o.	Warsaw	Other	Implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies), carrying out purchases of selected raw materials.	100%	100%
Ciech Nieruchomości S.A.	Warsaw	Other	Real property agency, real property management.	100%	100%
JANIKOSODA S.A.	Warsaw	Other	Service activity related to office support, other 'out-of-school' forms of education.	100%	100%
CIECH Soda Polska Group					
CIECH Soda Polska S.A.	Inowrocław	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Cargo Sp. z o.o.	Inowrocław	Transport	Freight transport services.	100%	100%
Cerium Sp. z o.o.	Warsaw	Other	General partner of CIECH Cerium Sp. z o.o. SKA.	100%	100%
Gamma Finanse Sp. z o.o.***	Warsaw	Other	Financing activities.	100%	-
Cerium Finance Sp. z o.o.	Warsaw	Other	Conducting financial activities, in particular comprising direct granting of loans and leasing of non-current assets to the CIECH Group companies.	100%	100%
CIECH Sarzyna Group					
CIECH Sarzyna S.A.	Nowa Sarzyna	Organic	Manufacture of plastics, manufacture of pesticides and other chemical products.	100%	100%
Verbis KAPPA Sp. z o.o.	Nowa Sarzyna	Organic	General partner of Verbis KAPPA Sp. z o.o. SKA, other financial intermediation.	100%	100%
Verbis KAPPA Sp. z o.o. SKA	Nowa Sarzyna	Organic	Other financial intermediation.	100%	100%
Algete Sp. z o.o.	Nowa Sarzyna	Organic	Granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business.	100%	100%
SDC Group					
SDC GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda		100%	100%

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Company name	Registered office	Segment	Business	Share in equity as at 31.12.2016 / % of votes at the GMS	Share in equity as at 31.12.2015 / % of votes at the GMS
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda		100%	100%
Kaverngesellschaft Stassfurt GbmH****	Stassfurt, Germany	Soda		50%	50%

**Number of shares / votes at the GMS attributable directly to CIECH S.A. — 83.03%, indirect share through CIECH Soda Polska S.A. — the remaining 16.97%.*

***The limited partners of the company are: CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Soda Polska S.A.*

****Shares in the share capital acquired by CIECH S.A. – 1.4% and CIECH Soda Polska S.A. – 98.6%.*

*****Jointly-controlled company accounted for under the equity method.*

9.6. EVENTS AFTER THE BALANCE SHEET DATE

On 23 February 2017, the Extraordinary Shareholders' Meeting of Cerium Finance Sp. z o.o. adopted a resolution on voluntary redemption, effected against payment, of 28,483 shares in this Company held by Gamma Finanse Sp. z o.o., with the nominal value of PLN 50 each and the total nominal value of PLN 1,424 thousand, accounting for 98.99% of the share capital of Cerium Finance Sp. z o.o. The market value of all shares subject to redemption was determined based on a valuation prepared by an independent expert and amounted to PLN 206,757 thousand. Following the redemption, the share capital of Cerium Finance Sp. z o.o. decreased from PLN 1,439 thousand to PLN 15 thousand, i.e. by PLN 1,424 thousand.

STATEMENT OF THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group for the financial year ended 31 December 2016 were approved by the Company's Management Board in the Company's registered office on 20 March 2017.

Warsaw, 20 March 2017

(signed on the polish original)

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Maciej Tybura — President of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Artur Król – Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Artur Osuchowski – Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Katarzyna Rybacka –— Chief Accountant of CIECH Spółka Akcyjna