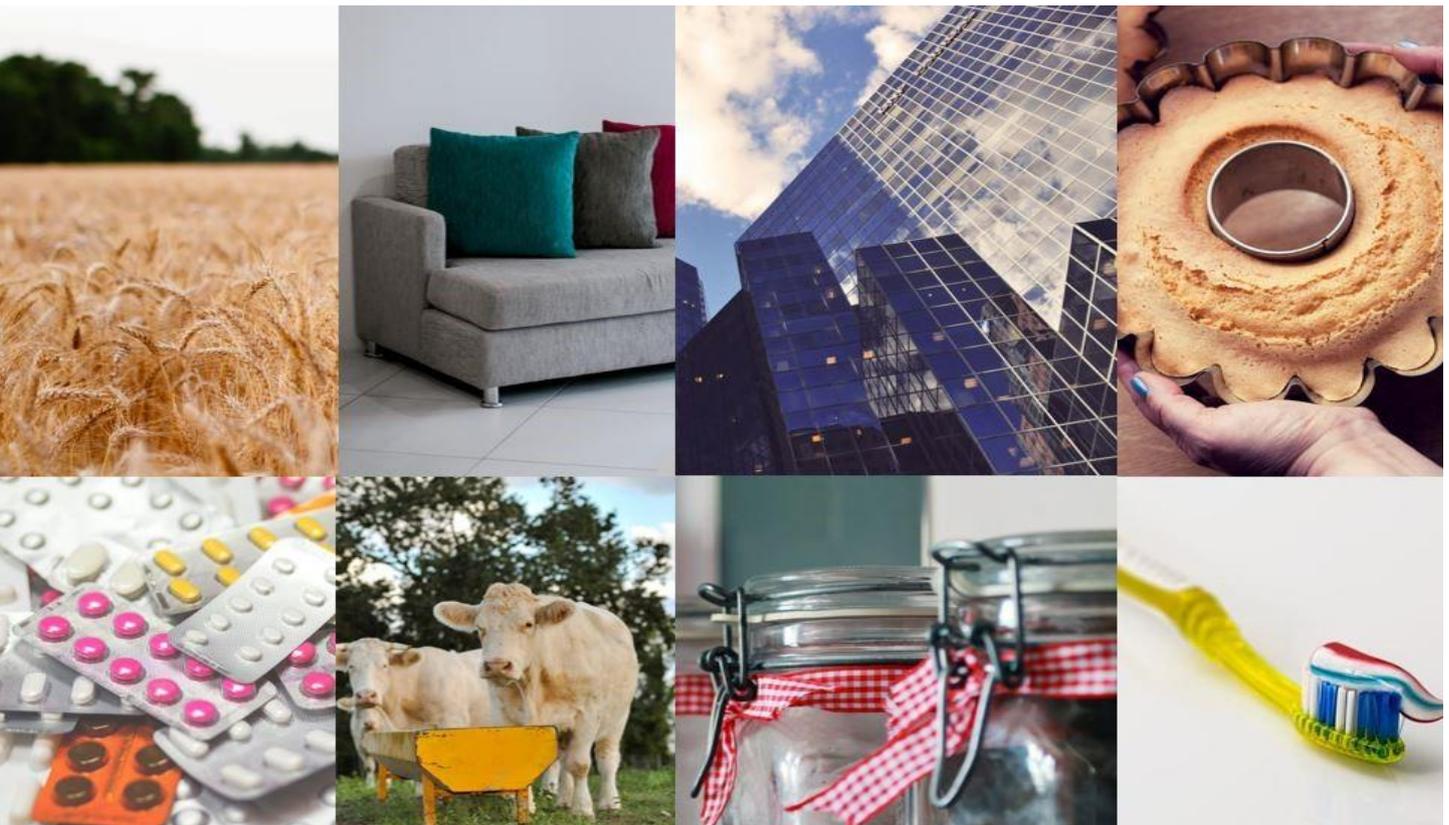


EXTENDED CONSOLIDATED REPORT

of the CIECH Group for the first half of 2019



We are providing a courtesy English translation of our reviewed financial statements which were originally written in Polish. We take no responsibility for the accuracy of our translation. For an accurate reading of our reviewed financial statements, please refer to the Polish language version of our reviewed financial statements.



CIECH GROUP — SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	6 months ended 30.06.2019	6 months ended 30.06.2018	6 months ended 30.06.2019	6 months ended 30.06.2018
Sales revenues	1,897,350	1,819,175	442,479	429,101
Operating profit/(loss)	144,626	226,277	33,728	53,374
Profit/(loss) before tax	114,035	223,081	26,594	52,620
Net profit / (loss) for the period	80,861	172,809	18,857	40,762
Net profit/(loss) attributable to shareholders of the parent company	81,130	172,492	18,920	40,687
Net profit/(loss) attributed to non-controlling interest	(269)	317	(63)	75
Other comprehensive income net of tax	(8,153)	(12,079)	(1,901)	(2,849)
Total comprehensive income	72,708	160,730	16,956	37,913
Cash flows from operating activities	106,907	211,818	24,932	49,963
Cash flows from investment activities	(157,132)	(209,597)	(36,645)	(49,439)
Cash flows from financial activities	37,859	(7,105)	8,829	(1,676)
Total net cash flows	(12,366)	(4,884)	(2,884)	(1,152)
Earnings (loss) per ordinary share (in PLN/EUR)	1.54	3.27	0.36	0.77
	as at 30.06.2019	as at 31.12.2018	as at 30.06.2019	as at 31.12.2018
Total assets	4,855,534	4,822,132	1,141,940	1,121,426
Non-current liabilities	1,961,721	1,636,755	461,364	380,641
Current liabilities	921,978	1,286,250	216,834	299,128
Total equity	1,971,835	1,899,127	463,742	441,657
Equity attributable to shareholders of the parent	1,971,816	1,898,839	463,738	441,590
Non-controlling interest	19	288	4	67
Share capital	287,614	287,614	67,642	66,887

CIECH S.A. – SELECTED SEPARATE FINANCIAL DATA

SELECTED FINANCIAL DATA	in PLN thousand		in EUR thousand	
	6 months ended 30.06.2019	6 months ended 30.06.2018	6 months ended 30.06.2019	6 months ended 30.06.2018
Sales revenues	1,243,124	1,208,028	289,908	284,946
Operating profit/(loss)	15,357	69,068	3,581	16,292
Profit/(loss) before tax	22,755	23,471	5,307	5,536
Net profit / (loss) for the period	13,434	17,535	3,133	4,136
Other comprehensive income net of tax	3,012	(4,018)	702	(948)
Total comprehensive income	16,446	13,517	3,835	3,188
Cash flows from operating activities	32,036	(32,396)	7,471	(7,641)
Cash flows from investment activities	(52,320)	14,274	(12,201)	3,367
Cash flows from financial activities	51,456	12,767	12,000	3,011
Total net cash flows	31,172	(5,355)	7,270	(1,263)
	as at 30.06.2019	as at 31.12.2018	as at 30.06.2019	as at 31.12.2018
Total assets	4,063,977	3,927,454	955,780	913,362
Non-current liabilities	1,664,270	1,393,685	391,409	324,113
Current liabilities	980,560	1,131,068	230,611	263,039
Total equity	1,419,147	1,402,701	333,760	326,210
Share capital	287,614	287,614	67,642	66,887

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 30.06.2019	as at 31.12.2018	6 months ended 30.06.2019	6 months ended 30.06.2018
EUR 1 = PLN 4.2520	EUR 1 = PLN 4.3000	EUR 1 = PLN 4.2880	EUR 1 = PLN 4.2395



**SEMI-ANNUAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OF THE CIECH GROUP FOR 6-MONTH PERIOD ENDED 30 JUNE 2019**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ENDORSED
BY THE EUROPEAN UNION**



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SEMI-ANNUAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ENDORSED BY THE EUROPEAN UNION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	01.01.-30.06.2019	01.01.-30.06.2018	01.04.-30.06.2019	01.04.-30.06.2018
			<i>Unaudited data</i>	
CONTINUING OPERATIONS				
Sales revenues	1,897,350	1,819,175	944,645	933,505
Cost of sales	(1,491,308)	(1,404,920)	(731,361)	(725,876)
Gross profit/(loss) on sales	406,042	414,255	213,284	207,629
Other operating income	39,805	47,145	24,179	35,828
Selling costs	(136,433)	(134,086)	(68,873)	(66,531)
General and administrative expenses	(103,892)	(79,349)	(57,594)	(42,202)
Other operating expenses	(60,896)	(21,688)	(49,745)	(10,530)
Operating profit/(loss)	144,626	226,277	61,251	124,194
Financial income	3,808	21,316	(1,454)	16,349
Financial expenses	(35,162)	(24,525)	(18,696)	(13,268)
Net financial income/(expenses)	(31,354)	(3,209)	(20,150)	3,081
Share of profit / (loss) of equity-accounted investees	763	13	441	17
Profit/(loss) before tax	114,035	223,081	41,542	127,292
Income tax	(33,174)	(50,272)	(22,511)	(28,533)
Net profit/(loss) on continuing operations	80,861	172,809	19,031	98,759
DISCONTINUED OPERATIONS				
Net profit/(loss) on discontinued operations	-	-	-	-
Net profit / (loss) for the period	80,861	172,809	19,031	98,759
including:				
Net profit/(loss) attributable to shareholders of the parent company	81,130	172,492	19,355	98,595
Net profit/(loss) attributed to non-controlling interest	(269)	317	(324)	164
Earnings per share (in PLN):				
Basic	1.54	3.27	0.37	1.87
Diluted	1.54	3.27	0.37	1.87
Earnings/(loss) per share (in PLN) from continuing operations:				
Basic	1.54	3.27	0.37	1.87
Diluted	1.54	3.27	0.37	1.87

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



CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	01.01.-30.06.2019	01.01.-30.06.2018	01.04.-30.06.2019	01.04.-30.06.2018
				<i>Unaudited data</i>
Net profit / (loss) for the period	80,861	172,809	19,031	98,759
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	(5,185)	(22,210)	21,749	(25,526)
Currency translation differences (foreign companies)	(11,057)	17,099	3,931	15,685
Cash flow hedge reserve	2,513	(38,494)	17,582	(41,451)
Costs of hedging reserve	3,359	(815)	236	238
Other components of other comprehensive income	-	-	-	2
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	-	-	-	-
Income tax attributable to other comprehensive income	(2,968)	10,131	(5,102)	10,321
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	(2,968)	10,131	(5,102)	10,321
Other comprehensive income net of tax	(8,153)	(12,079)	16,647	(15,205)
Comprehensive income including attributable to:	72,708	160,730	35,678	83,554
Shareholders of the parent company	72,977	160,211	36,006	83,285
Non-controlling interest	(269)	519	(328)	269

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



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	30.06.2019	31.12.2018
ASSETS		
Property, plant and equipment	2,764,990	2,857,199
Right of perpetual usufruct	-	29,646
Rights to use an asset	175,419	-
Intangible assets, including:	440,822	458,158
- <i>goodwill</i>	139,344	140,713
Investment property	37,352	37,766
Non-current receivables	57,877	64,603
Investments in associates and jointly-controlled entities measured under the equity method	5,616	5,556
Long-term financial assets	20,397	28,774
Deferred income tax assets	57,065	67,872
Total non-current assets	3,559,538	3,549,574
Inventory	421,780	438,518
Short-term financial assets	24,275	29,832
Income tax receivables	21,803	16,116
Trade and other receivables	649,517	595,163
Cash and cash equivalents	177,831	192,139
Non-current assets held for sale	790	790
Total current assets	1,295,996	1,272,558
Total assets	4,855,534	4,822,132
EQUITY AND LIABILITIES		
Share capital	287,614	287,614
Share premium	470,846	470,846
Cash flow hedge reserve	2,934	3,115
Costs of hedging reserve	(1,266)	(4,625)
Actuarial gains	119	119
Other reserve capitals	78,521	78,521
Currency translation reserve	(74,573)	(63,242)
Retained earnings	1,207,621	1,126,491
Equity attributable to shareholders of the parent	1,971,816	1,898,839
Non-controlling interest	19	288
Total equity	1,971,835	1,899,127
Loans, borrowings and other debt instruments	1,584,372	1,340,742
Lease liabilities	114,936	17,623
Other non-current liabilities	108,157	112,631
Employee benefits reserve	11,824	11,851
Other provisions	76,755	79,080
Deferred income tax liability	65,677	74,828
Total non-current liabilities	1,961,721	1,636,755
Loans, borrowings and other debt instruments	96,108	291,924
Lease liabilities	22,584	5,917
Trade and other liabilities	642,173	761,467
Income tax liabilities	49,128	53,041
Employee benefits reserve	831	877
Other provisions	111,154	173,024
Total current liabilities	921,978	1,286,250
Total liabilities	2,883,699	2,923,005
Total equity and liabilities	4,855,534	4,822,132

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



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	01.01.-30.06.2019	01.01.-30.06.2018
Cash flows from operating activities		
Net profit/(loss) for the period	80,861	172,809
Adjustments		
Amortisation/depreciation	153,832	127,368
Recognition of impairment allowances	36,408	1,789
Foreign exchange (profit) /loss	6,282	(3,932)
(Profit) / loss on investment activities	(143)	(14,281)
(Profit) / loss on disposal of property, plant and equipment	107	(91)
Dividends and interest	24,928	12,243
Interest from lease liabilities	1,250	-
Income tax	33,174	50,272
(Profit) / loss on the settlement of construction contracts (caverns)	(2,787)	(1,971)
Share of (profit) / loss on equity accounted investees	(763)	(13)
Change in liabilities due to loan arrangement fee	(226)	(3,032)
Valuation of derivatives	14,927	28,048
Ineffective portion of hedge accounting	483	577
Other adjustments	(926)	(1,175)
Cash from operating activities before changes in working capital and provisions	347,096	368,611
Change in receivables	(70,834)	(63,796)
Change in inventory	15,335	(10,324)
Change in current liabilities	(79,486)	(47,508)
Change in provisions and employee benefits	2,015	780
Cash generated from operating activities	214,126	247,763
Interest paid	(45,796)	(18,520)
(Profit) / loss on the settlement of construction contracts (caverns)	8,782	9,047
Income tax (paid)/returned	(68,810)	(22,130)
Expenses for reserch	(1,395)	(4,342)
Net cash from operating activities	106,907	211,818
Cash flows from investment activities		
Disposal of intangible assets and property, plant and equipment	1,055	2,531
Disposal of investment property	-	14,000
Dividends received	736	345
Interest received	1,726	1,927
Subsidies received	1,695	1,349
Acquisition of intangible assets and property, plant and equipment	(134,291)	(190,525)
Acquisition of financial assets	-	(120)
Development expenditures	-	(17,830)
Expenditure on the purchase of emission rights	(28,058)	(21,242)
Other outflows	-	(32)
Net cash from investment activities	(157,132)	(209,597)
Cash flows from financial activities		
Proceeds from loans and borrowings	301,667	167,488
Repayment of loans and borrowings	(252,328)	(171,465)
Payments of lease liabilities	(11,480)	(3,118)
Other financial outflows	-	(10)
Net cash from financial activities	37,859	(7,105)
Total net cash flows	(12,366)	(4,884)
Cash and cash equivalents as at the beginning of the period	192,139	489,754
<i>Impact of foreign exchange differences</i>	<i>(1,942)</i>	<i>(1,642)</i>
Cash and cash equivalents as at the end of the period	177,831	483,228

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



CONDENSED STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company							Retained earnings	Equity attributable to shareholders of the parent	Non-controlling interest	Total equity
	Share capital	Share premium	Cash flow hedge reserve	Costs of hedging reserve	Other reserve capitals	Actuarial gains	Currency translation reserve				
01.01.2019	287,614	470,846	3,115	(4,625)	78,521	119	(63,242)	1,126,491	1,898,839	288	1,899,127
Total comprehensive income for the period	-	-	(181)	3,359	-	-	(11,331)	81,130	72,977	(269)	72,708
Net profit / (loss) for the period	-	-	-	-	-	-	-	81,130	81,130	(269)	80,861
Other comprehensive income	-	-	(181)	3,359	-	-	(11,331)	-	(8,153)	-	(8,153)
30.06.2019	287,614	470,846	2,934	(1,266)	78,521	119	(74,573)	1,207,621	1,971,816	19	1,971,835
31.12.2017	287,614	470,846	10,021	-	78,521	311	(73,630)	1,413,913	2,187,596	(2,951)	2,184,645
Changes in accounting policies	-	-	2,408	(5,240)	-	-	-	(1,356)	(4,188)	-	(4,188)
01.01.2018	287,614	470,846	12,429	(5,240)	78,521	311	(73,630)	1,412,557	2,183,408	(2,951)	2,180,457
Transactions with the owners	-	-	-	-	-	-	-	(395,249)	(395,249)	-	(395,249)
Dividend	-	-	-	-	-	-	-	(395,249)	(395,249)	-	(395,249)
Total comprehensive income for the period	-	-	(29,657)	(815)	-	-	18,191	172,492	160,211	519	160,730
Net profit / (loss) for the period	-	-	-	-	-	-	-	172,492	172,492	317	172,809
Other comprehensive income	-	-	(29,657)	(815)	-	-	18,191	-	(12,281)	202	(12,079)
30.06.2018	287,614	470,846	(17,228)	(6,055)	78,521	311	(55,439)	1,189,800	1,948,370	(2,432)	1,945,938

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



EXPLANATORY NOTES TO THE SEMI-ANNUAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

2.1. BASIS FOR PREPARATION OF THE SEMI-ANNUAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

These semi-annual condensed consolidated financial statements were prepared in compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” as approved by the European Union and the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State (Journal of Laws 2018.757 of 2018). These financial statements present the financial position of the CIECH Group as at 30 June 2019 and as at 31 December 2018, results of the Group’s operations and cash flows for the period of 6 months ended 30 June 2019 and 30 June 2018, and were approved by the Management Board of CIECH S.A. on 10 September 2019.

These semi-annual condensed consolidated financial statements cover the financial statements of the parent company, CIECH S.A., and its significant subsidiaries, as well as interests in significant associates.

These semi-annual condensed 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 semi-annual condensed consolidated financial statements, no facts or circumstances are known that would indicate any threat to the Group continuing as a going concern.

The Management Board of CIECH S.A. represents that to the best of its knowledge these semi-annual 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 for the period of 6 months ended 30 June 2019 contains a true image of the Group’s developments, achievements, and condition, including the description of major risks and threats.

Preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”) requires the Management Board to make professional judgements, estimates and assumptions which affect the adopted principles and presented values of assets, equity and liabilities, income and expenses. The estimates and assumptions associated with them are based on historical accuracy and various other factors that are considered to be reasonable under the specific circumstances, and their results provide a basis for professional judgement about the value of assets and liabilities that are not directly apparent from other sources. Actual value may differ from the estimated value. The estimates and the underlying assumptions are reviewed on a continuous basis. Revisions of accounting estimates are recognised in the period in which the changes were made, only if it affects that period or the present and future in case they concern both the current and future periods. The Management Board’s professional judgements which have a significant impact on the consolidated financial statements, and the estimates bearing a risk of significant changes in future years have been presented in items 2.2.1, 2.6, 2.7, 2.8, 2.13 hereof. During the current semi-annual period there were no significant revisions to the estimates presented in previous reporting periods.

The Management Board of CIECH S.A. represents that PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. 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 to review the semi-annual condensed consolidated financial statements for the period from 1 January to 30 June 2019.

2.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH Group’s accounting principles are described in the Consolidated Financial Statements of the CIECH Group for the year 2018, published on 25 July 2019. The aforementioned Financial Statement include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data



presented, except for IFRS 16 *Leases* and change in the manner of accounting for the disposal of inventories – from the FIFO method to the weighted average method.

2.2.1. CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 1 January 2019, the CIECH Group adopted a new financial reporting standard, 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 CIECH Group had not elected to early adopt the standard and implemented the standard as of 1 January 2019. In accordance with the transitional provisions of IFRS 16, the new policies were adopted retrospectively: the cumulative impact of applying the new standard was accounted for as an adjustment to equity as at 1 January 2019. Accordingly, the comparative data for the financial year 2018 have not been restated (modified retrospective approach).

The standard has introduced a new definition of lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a given period if, throughout the period of use, the customer has the right to both direct the use of the identified asset and obtain substantially all of the economic benefits from directing the use of the identified asset. As a practical expedient, entities are not required to reassess whether a contract is a lease at the date of initial application of the standard. Instead, the new definition may not be applied to contracts that were previously assessed as to whether they classified as leases in accordance with IAS 17 and IFRIC 4. If entities choose to apply the aforementioned expedient for the identification of contracts as leases, the new lease definition would apply only to contracts executed after 1 January 2019.

For lessees, IFRS 16 departs from the classification of leases into operating and finance leases and introduces a single model of accounting treatment, broadly equivalent to the existing accounting model used for finance leases. The lessees is required to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and (b) amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss. IFRS 16’s approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance leases, with each of them subject to different accounting treatment.

After the application of the new standard at the CIECH Group, previous operating leases and other contracts that contain a lease in accordance with the definition contained in IFRS 16 were recognised in the statement of financial position, which resulted in an increase in the balance sheet total (by reporting the right-of-use assets under fixed assets in the statement of financial position (as a separate item) with corresponding lease liabilities) and changed the classification of expenses in the statement of profit or loss (where lease expenses were replaced by depreciation and interest expense). Right-of-use assets are depreciated using the straight-line method, while the lease liabilities are settled using the appropriate interest rate.

The Group recognises lease liabilities related to agreements previously classified as operating leases in accordance with the requirements of IAS 17 *Leases*. These liabilities have been measured at the present value of lease payments outstanding at the start of application of IFRS 16, discounted using the Group’s incremental borrowing rate as at 1 January 2019.

On initial recognition, lease payments included in the measurement of the lease liability include the following types of payments for the right to use the underlying asset during the lease term:

- fixed lease payments net of any lease incentives,
- variable lease payments that depend on market indices,
- amounts expected to be payable under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- lease termination penalties if the lessee is entitled to exercise the option to terminate the lease.

To calculate discount rates for the purposes of IFRS 16, the Group assumes that the discount rate should reflect the cost that it would have to pay to borrow the funds necessary to purchase the leased asset. The calculation of interest rates took account of credit risk (reflected in the margin assumed), economic conditions in which the transactions took place (country, currency of the contract) and the duration of the contract (preparation of calculations for the relevant periods within which the Group holds lease contracts). Interest rates range from 0.81% to 7.69% (for PLN 3.39%-5.74%; for EUR 0.81%-5.73% for USD 4.92%-7.12%; for RON 5.37%-7.69%). A single discount rate was applied to the entire contract portfolio.

In addition, the period of the lease payment projections applied referred previously only to the irrevocable lease term, whereas under IFRS 16, the lease term over which the lease liability is recognised also includes any periods resulting from



an extension or early termination if any of the above scenarios is sufficiently certain in the entity's judgement. In the case of contracts with an extension option, the lease liability would be respectively higher, while termination options resulted in a reduction in the liability amount.

Moreover, the Group companies recognised the land perpetual usufruct right received free of charge on the basis of an administrative decision as an operating lease. Under IFRS 16, land perpetual usufruct right was treated as a lease, and the recognition of the assets held by the Group on this account would had, first and foremost, a significant impact on total assets.

The Group applies the simplifications for short-term leases and low-value asset leases provided for in the standard. It is assumed that assets whose unit value does not exceed approximately PLN 15 thousand, which corresponds to approximately USD 5 thousand, are low-value assets. Short-term leases are those whose term is shorter than 12 months.

IFRS 16 – Estimates and judgements

Adoption of IFRS 16 entailed also the need to make estimates and judgments which are reflected in the measurement of lease liabilities and right-of-use assets, including:

- assessing whether a contract contains a lease in accordance with IFRS 16,
- determining the duration of contracts (including contracts with an indefinite term or with an extension option),
- assessing lease payments as either fixed or variable,
- determining the interest rate to be used in discounting future cash flows,
- determining depreciation and amortisation rates.

With respect to contracts for an indefinite term, the Group, when estimating the irrevocable lease term, assumed the period in which it intends to use the underlying assets.

The effect of the implementation of IFRS 16 on the CIECH Group's consolidated financial statements as at 1 January 2019 is as follows (the amounts relate to newly recognized assets):

CIECH Group	01.01.2019
Right-of-use assets recognised	119,089
Lease liabilities recognised	119,089

In addition, the value of right-of-use assets was increased as a result of reclassification of perpetual usufruct rights to land in the amount of PLN 29,646 thousand and property, plant and equipment used under finance lease contracts in the amount of PLN 34,192 thousand.

CIECH Group Right-of-use assets	Adjustment to opening balance	Reclassification of perpetual usufruct rights and property, plant and equipment
Land	32,919	29,646
Buildings, premises, civil and marine engineering structures	47,032	-
Machinery and equipment	-	869
Vehicles	38,574	32,984
Other fixed assets	564	339
Value as at the beginning of the period	119,089	63,838

The effect of the implementation of IFRS 16 on the CIECH S.A.'s separate financial statements as at 1 January 2019 is as follows (the amounts relate to newly recognized assets):

CIECH S.A.	01.01.2019
Right-of-use assets recognised	32,518
Lease liabilities recognised	32,518

CIECH S.A. Right-of-use assets	Adjustment to opening balance
Buildings, premises, civil and marine engineering structures	31,616
Vehicles	902
Value as at the beginning of the period	32,518



A reconciliation of operating lease liabilities presented as at 31 December 2018 to lease liabilities recognised as at 1 January 2019 is presented below.

CIECH Group

Operating lease liabilities as at 31 December 2018	246,554
Short-term leases	(2,040)
Low-value leases	(216)
Extension and termination options that are likely to be exercised by the Company	1,645
Buy-back option for long-term contracts	(235)
Change due to discount	(126,619)
Amount of adjustment to lease liabilities as at 1 January 2019, following the implementation of IFRS 16	119,089

CIECH S.A.

Operating lease liabilities as at 31 December 2018	38,491
Short-term leases	(47)
Low-value leases	(216)
Change due to discount	(5,710)
Amount of adjustment to lease liabilities as at 1 January 2019, following the implementation of IFRS 16	32,518

Lease periods used to estimate the value of lease liabilities, broken down by underlying asset classes, were as follows:

- land	up to 96 years
- buildings, premises, civil and marine engineering structures	1-77 years
- vehicles	1-6 years
- other fixed assets	1-3 years

The effects of the implementation of IFRS 16 *Leases* on the CIECH Group's net profit or loss for the first half of 2019 are presented below.

CIECH Group**01.01.–30.06.2019 IFRS 16**

Decrease in costs of taxes, charges and services	9,682
Increase in interest costs (unwinding of discount)	(1,940)
Increase in amortisation and depreciation costs	(8,275)

CIECH S.A.**01.01.–30.06.2019 IFRS 16**

Decrease in costs of taxes, charges and services	2,716
Increase in interest costs (unwinding of discount)	(578)
Increase in amortisation and depreciation costs	(2,322)

The following table presents lease costs not included in the calculation of carrying amounts in accordance with IFRS 16 for the period:

	01.01.-30.06.2019
Costs of short-term leases (concluded for a period of up to 12 months),	2,811
Costs of lease of low-value assets, including:	447
<i>CIECH S.A.</i>	375
Costs related to variable lease payments not included in the measurement of lease liabilities	3,399

The CIECH Group intends to adopt amendments to the IFRS that are published but not effective as at the date of publication of this report in accordance with their effective date. The estimated impact of amendments and impact of new IFRSs on the consolidated financial statements of the CIECH Group was presented in the Consolidated Financial Statements of the CIECH Group for the year 2018, published on 25 July 2019.



2.3. 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, Ciech Group Financing AB and Proplan Plant Protection Company S.L. – 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:

NBP exchange rate as at the end day of the reporting period	30.06.2019 ¹	31.12.2018 ²
EUR	4.2520	4.3000
RON	0.8976	0.9229
Average NBP rate for the reporting period	6 months ended 30.06.2019 ³	6 months ended 30.06.2018 ⁴
EUR	4.2880	4.2395
RON	0.9031	0.9104

¹ NBP's average foreign exchange rates table applicable as at 30 June 2019.

² NBP's average foreign exchange rates table applicable as at 31 December 2018.

³ According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2019 to 30 June 2019.

⁴ According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2018 to 30 June 2018.

2.4. SEASONALITY AND CYCLICALITY OF ACTIVITY OF THE CIECH GROUP

Seasonality associated with periodic demand and supply fluctuations has little impact on the CIECH Group general sales trends. Products clearly influenced by seasonality are crop protection chemicals. Most crop protection chemicals are used in the first half of the year, during the period of intensive plant growth. However, sales of these products take place mainly in the 4th quarter of the preceding year. For other products, the Group's revenues and financial results are not influenced by any significant seasonal fluctuations over the year.

2.5. CIECH GROUP'S 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. 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 is managed (including finance expenses and income with the exception of interest and exchange differences on trade receivables and liabilities) and income tax is calculated on the Group level and they 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 location.

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 adjusted 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 service debt. EBITDA and adjusted 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.



	01.01.-30.06.2019	01.01.-30.06.2018
Net profit/(loss) on continuing operations	80,861	172,809
Income tax	33,174	50,272
Share of profit / (loss) of equity-accounted investees	(763)	(13)
Financial expenses	35,162	24,525
Financial income	(3,808)	(21,316)
Amortisation/depreciation	153,832	127,368
EBITDA on continued operations	298,458	353,645

	01.01.-30.06.2019	01.01.-30.06.2018
EBITDA on continued operations	298,458	353,645
One-offs including:		
Impairment (a)	36,832	(13,929)
Cash items (b)	36,407	(284)
Non-cash items (without impairment) (c)	2,212	(14,901)
Adjusted EBITDA from continuing operations	(1,787)	1,256
	335,290	339,716

(a) Impairment losses are associated with the recognition/reversal of impairment losses on assets.

(b) Cash items include, among others, gain/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).

Additional information on adjustments has been presented under tables presenting the consolidated statement of profit or loss by operating segments.



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.-30.06.2019	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	1,241,364	473,375	123,785	5,810	53,016	-	-	1,897,350
Revenue from inter-segment transactions	32,044	180	133	64,618	19,861	-	(116,836)	-
Total sales revenues	1,273,408	473,555	123,918	70,428	72,877	-	(116,836)	1,897,350
Cost of sales	(957,196)	(383,614)	(92,369)	(65,154)	(56,073)	-	63,098	(1,491,308)
Gross profit /(loss) on sales	316,212	89,941	31,549	5,274	16,804	-	(53,738)	406,042
Selling costs	(120,695)	(45,933)	(16,643)	(2,272)	(5,863)	(406)	55,379	(136,433)
General and administrative expenses	(38,318)	(17,659)	(3,273)	(1,987)	(2,743)	(41,224)	1,312	(103,892)
Result on management of receivables	(165)	350	3	(6)	186	-	-	368
Result on other operating activities	(11,745)	(9,045)	262	(15)	2,939	(201)	(3,654)	(21,459)
Operating profit /(loss)	145,289	17,654	11,898	994	11,323	(41,831)	(701)	144,626
Exchange differences and interest on trade settlements	(5,976)	(248)	(71)	(52)	(194)	-	-	(6,541)
Group borrowing costs	-	-	-	-	-	(24,386)	-	(24,386)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(427)	-	(427)
Share of profit / (loss) of equity-accounted investees	763	-	-	-	-	-	-	763
Profit /(loss) before tax	140,076	17,406	11,827	942	11,129	(66,644)	(701)	114,035
Income tax	-	-	-	-	-	-	-	(33,174)
Net profit /(loss) for the period	-	-	-	-	-	-	-	80,861
Amortization/depreciation	109,857	20,778	10,488	7,486	784	4,439	-	153,832
EBITDA	255,146	38,432	22,386	8,480	12,107	(37,392)	(701)	298,458
Adjusted EBITDA*	292,254	38,578	22,547	8,458	10,432	(37,489)	510	335,290

*Adjusted EBITDA for the 6-month period ended 30 June 2019 is calculated as EBITDA adjusted for untypical one-off events: fortuitous events: PLN -1.9 million; change in provisions: PLN 1.8 million; impairment losses: PLN -36.4 million; other: PLN -0.3 million.



OPERATING SEGMENTS 01.01.-30.06.2018	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	1,189,306	425,334	120,207	6,931	77,397	-	-	1,819,175
Revenue from inter-segment transactions	26,985	1,446	81	65,491	11,415	-	(105,418)	-
Total sales revenues	1,216,291	426,780	120,288	72,422	88,812	-	(105,418)	1,819,175
Cost of sales	(875,573)	(356,670)	(91,914)	(64,167)	(73,132)	-	56,536	(1,404,920)
Gross profit /(loss) on sales	340,718	70,110	28,374	8,255	15,680	-	(48,882)	414,255
Selling costs	(125,107)	(35,224)	(15,843)	(2,096)	(2,704)	(970)	47,858	(134,086)
General and administrative expenses	(28,370)	(12,522)	(2,529)	(2,251)	(2,792)	(32,363)	1,478	(79,349)
Result on management of receivables	(36)	722	(4)	(226)	222	64	-	742
Result on other operating activities	14,776	(5,490)	(1,413)	(264)	15,636	1,759	(289)	24,715
Operating profit /(loss)	201,981	17,596	8,585	3,418	26,042	(31,510)	165	226,277
Exchange differences and interest on trade settlements	(41)	(11,990)	292	(216)	(955)	-	-	(12,910)
Group borrowing costs	-	-	-	-	-	(14,548)	-	(14,548)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	24,249	-	24,249
Share of profit / (loss) of equity-accounted investees	13	-	-	-	-	-	-	13
Profit /(loss) before tax	201,953	5,606	8,877	3,202	25,087	(21,809)	165	223,081
Income tax	-	-	-	-	-	-	-	(50,272)
Net profit /(loss) for the period	-	-	-	-	-	-	-	172,809
Amortization/depreciation	96,634	14,313	9,628	2,902	1,380	2,511	-	127,368
EBITDA	298,615	31,909	18,213	6,320	27,422	(28,999)	165	353,645
Adjusted EBITDA*	301,081	31,865	18,303	6,519	13,231	(31,448)	165	339,716

*Adjusted EBITDA for the 6-month period ended 30 June 2018 is calculated as EBITDA adjusted for untypical one-off events: disposal of non-financial assets – PLN 14.5 million; fines and compensations: PLN 2.5 million; fortuitous events: PLN -1.7 million; change in provisions: PLN -1.1 million; other: PLN -0.3 million.



ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Soda segment	2,917,167	2,952,682	208,589	279,805
Organic segment	960,495	906,909	108,394	145,097
Silicates and glass segment	154,172	154,512	24,070	25,211
Transport segment	111,741	69,314	10,813	12,319
Other operations segment	77,399	50,298	26,398	30,272
Corporate functions - reconciliation item	697,908	732,298	2,567,133	2,475,134
Eliminations (consolidation adjustments)	(63,348)	(43,881)	(61,698)	(44,833)
TOTAL	4,855,534	4,822,132	2,883,699	2,923,005

INFORMATION ON GEOGRAPHICAL AREAS

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
30.06.2019				
Poland	2,275,372	57,065	951,735	3,284,172
European Union (excluding Poland)	1,219,611	-	270,167	1,489,778
Other European countries	-	-	16,679	16,679
Africa	-	-	9,322	9,322
Asia	-	-	45,840	45,840
Other regions	-	-	9,743	9,743
TOTAL	3,494,983	57,065	1,303,486	4,855,534
31.12.2018				
Poland	2,221,115	67,872	829,814	3,118,801
European Union (excluding Poland)	1,244,721	-	338,863	1,583,584
Other European countries	-	-	44,549	44,549
Africa	-	-	12,699	12,699
Asia	-	-	62,142	62,142
Other regions	-	-	357	357
TOTAL	3,465,836	67,872	1,288,424	4,822,132

SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-30.06.2019	01.01.-30.06.2018	Dynamics 2019/2018
Poland	776,265	713,850	8.7%
European Union (excluding Poland)	857,612	785,938	9.1%
Germany	344,449	333,381	3.3%
Romania	80,086	67,467	18.7%
Czech Republic	78,771	71,881	9.6%
Italy	47,054	44,264	6.3%
The Netherlands	53,760	55,648	(3.4%)
Finland	29,524	34,078	(13.4%)
Sweden	22,647	40,721	(44.4%)
Belgium	14,367	15,368	(6.5%)
United Kingdom	24,187	24,341	(0.6%)
Denmark	20,130	11,941	68.6%
Spain	37,183	4,726	686.8%
Austria	18,878	12,856	46.8%
France	9,744	6,753	44.3%
Luxembourg	11,402	10,684	6.7%
Lithuania	8,034	8,387	(4.2%)



	01.01.-30.06.2019	01.01.-30.06.2018	Dynamics 2019/2018
Other EU countries	57,396	43,442	32.1%
Other European Countries	77,189	136,848	(43.6%)
Switzerland	8,723	66,017	(86.8%)
Norway	23,244	19,142	21.4%
Russia	3,073	8,589	(64.2%)
Other European countries	42,149	43,100	(2.2%)
Africa	50,820	30,843	64.8%
Asia	103,267	121,973	(15.3%)
India	51,157	67,646	(24.4%)
Singapore	106	7,854	(98.7%)
Bangladesh	19,202	7,726	148.5%
Hong Kong	12,234	7,715	58.6%
Turkey	9,600	12,908	(25.6%)
Other Asian countries	10,968	18,124	(39.5%)
Other regions	23,703	17,721	33.8%
Cash flow hedge adjustment	8,494	12,002	(29.2%)
TOTAL	1,897,350	1,819,175	4.3%

At the CIECH Group, sales revenues are recognized upon the provision of services or delivery of products or goods.

2.6. PROVISIONS AND IMPAIRMENT ALLOWANCES ON ASSETS

In the first half of 2019 and in the second quarter of 2019, the following changes in provisions and impairment allowances on assets were recognised in the consolidated financial statements of the CIECH Group.

PROVISIONS FOR EMPLOYEE BENEFITS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.-30.06.2019					
Long-term	11,851	139	(114)	(52)	11,824
Short-term	877	136	(160)	(22)	831
01.01.-30.06.2018	-	-	-	-	-
Long-term	10,789	217	(49)	199	11,156
Short-term	968	84	(382)	-	670
01.04.-30.06.2019					
Long-term	11,839	46	(15)	(46)	11,824
Short-term	748	115	(29)	(3)	831
01.04.-30.06.2018	-	-	-	-	-
Long-term	10,929	104	(37)	160	11,156
Short-term	717	48	(95)	-	670

In addition, other long-term liabilities also include the estimated value of the three-year Long-term Incentive Plan of the CIECH Group for 2019-2021 for the key management personnel of the CIECH Group. The intention of the Plan introduction is to harmonise activities of the key managers of the CIECH Group with the achievement of objectives contained in the CIECH Group Strategy for 2019–2021.

The main criterion for the Plan implementation will be the achievement of a value growth by the CIECH Group in 2019-2021 at a level of at least 11% of the reference year, i.e. 2018. The Generated Value will be calculated as the difference in value of the CIECH Group generated at the end of 2021, compared with the same value at the end of 2018. The CIECH Group Value will be measured using the so-called TSR (Total Shareholder Return) ratio, taking into account among others: adjusted EBITDA of the CIECH Group, assumed multiplier for the adjusted EBITDA of the CIECH Group, consolidated net debt of the CIECH Group, the value of dividends paid, and cash inflows from/outflows for the issue/cancellation of shares of the Company. The CIECH Group Value will be calculated on the basis of financial data disclosed in the audited consolidated



financial statements of the CIECH Group. If the Generated Value is at a minimum level of 11% of the reference year (2018), a bonus pool will be 12% of the Generated Value. The bonus pool will be paid out in 2022-2024, in equal parts each year.

As at 30 June 2019, 494 units were granted out of 1000 units issued, and the discounted value of the programme for the first half of 2019 amounted to PLN 9,856 thousand (including value attributable to CIECH S.A. that amounted to PLN 9,058 thousand). The liabilities were measured by the Group using a discount rate of 3.53%.

CHANGE IN OTHER LONG-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.-30.06.2019					
Provision for liabilities and expected losses	3,286	-	(2,013)	-	1,273
Provision for environmental protection	75,794	-	-	(312)	75,482
TOTAL	79,080	-	(2,013)	(312)	76,755
01.01.-30.06.2018					
Provision for liabilities and expected losses	1,047	-	-	6,500	7,547
Provision for environmental protection	70,765	-	(91)	3,180	73,854
TOTAL	71,812	-	(91)	9,680	81,401
01.04.-30.06.2019					
Provision for liabilities and expected losses	1,273	-	-	-	1,273
Provision for environmental protection	76,034	-	-	(552)	75,482
TOTAL	77,307	-	-	(552)	76,755
01.04.-30.06.2018					
Provision for liabilities and expected losses	7,547	-	-	-	7,547
Provision for environmental protection	71,375	-	(229)	2,708	73,854
TOTAL	78,922	-	(229)	2,708	81,401

CHANGE IN OTHER SHORT-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.-30.06.2019					
Provision for liabilities and expected losses	170,495	6,509	(68,000)	(124)	108,880
Provision for environmental protection	2,311	-	(832)	(3)	1,476
Provision for bonuses	-	-	-	-	-
Provision for restructuring	218	-	(33)	-	185
Other provisions	-	-	-	613	613
TOTAL	173,024	6,509	(68,865)	486	111,154
01.01.-30.06.2018					
Provision for liabilities and expected losses	76,307	2,415	(830)	(5,100)	72,792
Provision for environmental protection	951	116	(938)	3	132
Provision for bonuses	610	-	(335)	(5)	270
Other provisions	28	-	-	322	350
TOTAL	77,896	2,531	(2,103)	(4,780)	73,544
01.04.-30.06.2019					
Provision for liabilities and expected losses	173,168	3,656	(67,820)	(124)	108,880
Provision for environmental protection	2,062	-	(586)	-	1,476
Provision for bonuses	-	-	-	-	-
Provision for restructuring	218	-	(33)	-	185
Other provisions	-	-	-	613	613
TOTAL	175,448	3,656	(68,439)	489	111,154
01.04.-30.06.2018					
Provision for liabilities and expected losses	70,545	1,627	(507)	1,127	72,792
Provision for environmental protection	744	116	(731)	3	132
Provision for bonuses	611	-	(335)	(6)	270
Other provisions	30	-	-	320	350
TOTAL	71,930	1,743	(1,573)	1,444	73,544



The utilisation of the provision in the amount of PLN 67,820 thousand relates mainly to the payment of a tax liability together with overdue interest on CIT for 2012 in the amount of PLN 66,400 thousand (for more information on the tax audit, see Note 2.13 hereto).

CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.-30.06.2019						
Property, plant and equipment	3,390	-	36,707	-	(577)	39,520
Intangible assets, including:	460,216	-	-	-	(6,094)	454,122
<i>Goodwill</i>	414,383	-	-	-	(5,635)	408,748
Long-term receivables	1,441	-	-	(111)	(16)	1,314
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	40,695	-	4,236	(11,258)	(174)	33,499
Short-term financial assets	27,953	-	-	-	-	27,953
Trade and other receivables	58,991	-	1,787	(5,058)	573	56,293
Cash and cash equivalents	142	-	35	(28)	(9)	140
TOTAL	594,171	-	42,765	(16,455)	(6,297)	614,184
01.01.-30.06.2018						
Property, plant and equipment	6,981	-	2	-	(182)	6,801
Intangible assets, including:	445,791	-	-	-	19,515	465,306
<i>Goodwill</i>	402,416	-	-	-	17,679	420,095
Long-term receivables	-	1,531	-	(64)	68	1,535
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	37,987	-	1,633	(4,448)	935	36,107
Short-term financial assets	24,532	-	2,087	-	-	26,619
Trade and other receivables	44,613	5,143	16,303	(1,596)	1,001	65,464
Cash and cash equivalents	-	571	26	(328)	3	272
TOTAL	561,247	7,245	20,051	(6,436)	21,340	603,447
01.04.-30.06.2019						
Property, plant and equipment	3,251	-	36,655	-	(386)	39,520
Intangible assets, including:	458,753	-	-	-	(4,631)	454,122
<i>Goodwill</i>	412,906	-	-	-	(4,158)	408,748
Long-term receivables	1,329	-	-	1	(16)	1,314
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	37,633	-	2,652	(6,751)	(35)	33,499
Short-term financial assets	27,953	-	-	-	-	27,953
Trade and other receivables	56,525	-	815	(878)	(169)	56,293
Cash and cash equivalents	114	-	35	-	(9)	140
TOTAL	586,901	-	40,157	(7,628)	(5,246)	614,184
01.04.-30.06.2018						
Property, plant and equipment	6,870	-	-	-	(69)	6,801
Intangible assets, including:	449,644	-	-	-	15,662	465,306
<i>Intangible assets excluding goodwill</i>	43,739	-	-	-	1,472	45,211
<i>Goodwill</i>	405,905	-	-	-	14,190	420,095
Long-term receivables	1,610	-	(67)	(64)	56	1,535
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	37,259	-	1,340	(2,728)	236	36,107
Short-term financial assets	24,532	-	2,087	-	-	26,619



CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
Trade and other receivables	49,602	-	15,220	(482)	1,124	65,464
Cash and cash equivalents	248	-	24	-	-	272
TOTAL	571,108	-	18,604	(3,274)	17,009	603,447

*IFRS 9 implementation adjustment.

Detailed information on significant write-offs

In connection with the existing probability of production suspension by the subsidiary CIECH Soda Romania S.A., which is the result of the cessation of process steam supply by its supplier, S.C. CET Govora S.A., the CIECH Group has assessed the circumstances indicating impairment of assets. The analysis was based on possible scenarios:

1. Scenario 1 assuming an agreement between CIECH Soda Romania S.A. and S.C. CET Govora S.A. as for the price level of the steam - the probability of scenario implementation is 50%.
2. Scenario 2 assuming no agreement between CIECH Soda Romania S.A. and S.C. CET Govora S.A. as to the level of the steam price and thus the production suspension by the subsidiary - the scenario probability is 50%.

Estimates of recoverable value were made in accordance with IAS 36 "Impairment of assets", then write-offs on property, plant and equipment were recognized in the financial statements. The recoverable amount was estimated based on the probability of implementation of each of the scenarios described above, i.e.

- based on the value in use in Scenario 1 - value in use was calculated on the basis of five-year plans prepared by the Group for the subsidiary CIECH Soda Romania S.A. The model assumes the continuation of production and obtaining in negotiations with S.C. CET Govora S.A. the maximum process steam price accepted by CIECH Soda Romania S.A. allowing for economically profitable production. Weighted average cost of capital was 11.1% for cash flows in RON, 10.5% for cash flows in USD, and 9.2% for cash flows in EUR.
- on the basis of fair value less costs to sell, in the case of Scenario 2 - the basis was taken as income from the sale of assets or the net value of fixed assets owned by the Company as at the date of termination of operations. The value of property, plant and equipment was determined depending on the group of assets under consideration.

The following assumptions were used to measure value of individual groups of fixed assets:

- for land, the value from market valuations was adopted as the selling price,
- in the case of fixed assets and fixed assets under construction that could potentially be used in other companies of the CIECH Group and relocated there - the book value was adopted,
- in the case of means of transport and other fixed assets, it was assumed that the book value corresponds to the market value,
- in relation to other fixed assets not included above, the selling price was the scrap price minus dismantling costs.

The value of the write-off (impact on the operating result for the period from 1 January to 30 June 2019 recognized as other operating costs) based on the above assumptions was PLN 36, 655 thousand. If scenario 1 is implemented, there will be no impairment of fixed assets. In the case of implementation of scenario 2, the impairment loss would be higher by PLN 36,655 thousand.

The amount of the write-off was appropriately allocated to the results of operating segments in which CIECH Soda Romania S.A. conducts its operational activities. The impact on operating results of individual segments was:

1. Soda segment: PLN 35,407 thousand,
2. Silicates and glass segment: PLN 1, 248 thousand.



2.7. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-30.06.2019	01.01.-30.06.2018
Current income tax	(33,695)	(22,292)
Deferred tax	521	(27,980)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	(33,174)	(50,272)

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	30.06.2019			31.12.2018		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	1,742	155,026	(153,284)	1,664	151,728	(150,064)
Intangible assets	7,005	25,008	(18,003)	8,005	25,334	(17,329)
Right of perpetual usufruct	-	4,968	(4,968)	-	5,003	(5,003)
Investment property	1,043	1,558	(515)	1,043	1,555	(512)
Financial assets	557	8,809	(8,252)	646	13,899	(13,253)
Inventory	1,532	2,114	(582)	2,645	1,916	729
Trade and other receivables	4,670	3,350	1,320	4,869	23,445	(18,576)
Provisions for employee benefits	2,412	-	2,412	2,455	3	2,452
Other provisions	18,216	1,450	16,766	17,067	-	17,067
Tax losses carried forward	41,573	-	41,573	43,521	-	43,521
Foreign exchange differences	2,387	213	2,174	2,492	281	2,211
Liabilities	35,740	-	35,740	52,921	62	52,859
Special economic zone	112,988	-	112,988	131,278	-	131,278
Other	1,141	44	1,097	161	12,003	(11,842)
Cash and cash equivalents	102	-	102	103	-	103
Deferred tax assets/liability	231,108	202,540	28,568	268,870	235,229	33,641
Set - off of deferred tax assets/ liability	(136,863)	(136,863)	-	(160,401)	(160,401)	-
Unrecognized deferred tax assets	(37,180)	-	(37,180)	(40,597)	-	(40,597)
Deferred tax assets/liability recognised in the statement of financial position	57,065	65,677	(8,612)	67,872	74,828	(6,956)

In the light of provisions of the General Anti-Avoidance Rule ("GAAR"), applicable as of 15 July 2016 and aimed at preventing the origination and use of factitious legal structures designed to avoid payment of taxes in Poland, the Management Board of the Parent Company considered the impact of transactions which could potentially be subject to the GAAR regulations on the deferred tax, tax value of assets and deferred tax provisions. In the opinion of the Management Board, the analysis conducted did not demonstrate the need to adjust the reported current and deferred income tax items. However, in the opinion of the Management Board, there is an inherent uncertainty arising from GAAR that tax authorities will interpret these provisions differently, will change their approach to their interpretation or the rules themselves will change, which may affect the ability to utilise the deferred tax assets in future periods and the possible payment of an additional tax for past periods.



2.8. INFORMATION ON FAIR VALUE OF FINANCIAL INSTRUMENTS

2.8.1. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 June 2019, the CIECH Group held the following types of financial instruments measured at fair value:

- futures contracts for the purchase of CO₂ certificates concluded by CIECH Soda Polska S.A., hedging the cost of purchase of CO₂ units in 2019 — Level 1, according to the fair value hierarchy,
- concluded by the parent company, CIECH S.A.: interest rate swap contracts, CIRS (currency and interest rate swap) contract EUR/PLN — 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 forwards EUR/PLN, USD/RON and RON/PLN concluded by CIECH S.A. — Level 2, according to the fair value hierarchy.

In the first half of 2019, 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.

As compared to the previous reporting period, the CIECH Group has not made any changes in methods of measurement of financial instruments held. The descriptions of methods of measurement to fair value was presented in item 8.4 of the Consolidated Financial Statements of the CIECH Group for 2018, published on 25 July 2019.

In the consolidated financial statements, all financial instruments concluded – except for two currency forwards, EUR/PLN and RON/PLN (concluded in the first half of 2019), and one of the CIRS contracts – were designated for hedge accounting, and details of the designation were presented in item 8.2 of the Consolidated Financial Statements of the CIECH Group for 2018, published on 25 July 2019.

In the separate financial statements, all financial instruments, except for CIRS contracts and two currency forwards: EUR/PLN and RON/PLN (concluded in the first half of 2019), were designated for hedge accounting, and details of the designation were presented in item 8.2 of the CIECH S.A.'s Financial Statements for 2018, published on 26 March 2019.

Fair value of derivative instruments and embedded instruments

	Cash and cash equivalents	Long-term financial assets	Short-term financial assets	Other long-term liabilities	Trade and other liabilities	TOTAL
30.06.2019						
IRS EUR	-	26	-	(423)	(596)	(993)
IRS PLN	-	882	25	(549)	(20)	338
CIRS	-	6,581	14,837	(24,614)	(1,673)	(4,869)
Forward EUR/PLN	-	-	3,517	-	-	3,517
Forward USD /RON, RON/PLN	-	-	-	-	(579)	(579)
Embedded derivatives	-	-	4,095	-	-	4,095
Futures	22,225	-	-	-	-	22,225
TOTAL	22,225	7,489	22,474	(25,586)	(2,868)	23,734
31.12.2018						
IRS EUR	-	-	-	(282)	(474)	(756)
CIRS	-	11,859	15,517	(37,899)	(5,047)	(15,570)
Forward EUR/PLN	-	-	543	-	(218)	325
Forward USD /RON	-	-	-	-	(848)	(848)
Embedded derivatives	-	4,007	11,972	-	-	15,979
Futures	22,756	-	-	-	-	22,756
TOTAL	22,756	15,866	28,032	(38,181)	(6,587)	21,886



2.8.2. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The CIECH Group has taken out term and revolving credit facilities whose book value, as at 30 June 2019, was PLN 1,680,480 thousand, and whose fair value amounted to PLN 1,687,067 thousand (Level 2 of fair value hierarchy). The Group concluded 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 IFRS 9), the fair value is close to the book value.

2.9. INFORMATION ON PURCHASE AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

In the period from 1 January to 30 June 2019, the CIECH Group carried out the following transactions increasing and decreasing the gross value of property, plant and equipment:

01.01.-30.06.2019	Land	Buildings, premises, civil and marine engineering structures	Machinery and equipment	Vehicles	Other fixed assets	Property, plant and equipment under construction	TOTAL
Wartość brutto rzeczowych aktywów trwałych na początek okresu	82,164	1,258,088	3,131,875	115,384	53,975	400,455	5,041,941
Purchase	1,016	721	7,456	1,420	1,147	122,753	134,513
Reclassifications	-	17,110	32,212	(36,137)	666	(68,265)	(54,414)
Capitalised borrowing costs	-	-	-	-	-	4,194	4,194
Foreign exchange differences	(1,156)	(4,218)	(14,902)	(481)	(197)	(3,837)	(24,791)
Sale	-	-	(173)	(1,424)	(101)	-	(1,698)
Liquidation	-	(128)	(5,110)	(173)	(116)	-	(5,527)
Other	-	(2,305)	(3,054)	-	-	(38)	(5,397)
Gross value of property, plant and equipment at the end of the period	82,024	1,269,268	3,148,304	78,589	55,374	455,262	5,088,821
01.01.-30.06.2018							
Wartość brutto rzeczowych aktywów trwałych na początek okresu	79,737	1,154,203	2,919,663	107,552	46,055	342,673	4,649,883
Purchase	-	7,148	10,154	1,295	1,823	143,651	164,071
Reclassifications	-	42,097	38,182	(444)	3,430	(103,296)	(20,031)
Capitalised borrowing costs	-	-	-	-	-	3,015	3,015
Foreign exchange differences	3,586	10,708	42,557	826	506	5,869	64,052
Sale	-	-	(1,630)	(39)	-	-	(1,669)
Liquidation	-	(945)	(1,462)	(74)	(1,237)	-	(3,718)
Gross value of property, plant and equipment at the end of the period	83,323	1,213,211	3,007,464	109,116	50,577	391,912	4,855,603

Purchases of property, plant and equipment were made with own financial resources. As at 30 June 2019, commitments to purchase property, plant and equipment amounted to PLN 123,637 thousand (PLN 76,173 thousand as at 31 December 2018).

The increase in the value of property, plant and equipment is related to investment projects carried out in the CIECH Group, mainly in the production companies of the Group. The most significant item under "reclassifications" is the transfer of leased vehicles to the group of right-of-use assets in connection with the implementation of IFRS 16.



2.10. INFORMATION ON LOAN AGREEMENTS, INCLUDING OVERDUE DEBTS OR OTHER VIOLATIONS OF DEBT-RELATED 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 statement of financial position.

All information concerning the financing conditions, which results from the agreements and arrangements with the banks, has been presented in the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.

2.11. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

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 PARTIES	01.01.-30.06.2019	01.01.-30.06.2018
Revenues from sales of products and services	2,025	2,111
Revenues from sales of goods and materials	34,425	56,917
Other operating income	11	-
Financial income	24	232
Purchase of services, including:	17,588	20,947
<i>KI One S.A.</i>	45	425
Other operating expenses	1	343
Financial expenses	177	99
	30.06.2019	31.12.2018
Receivables	11,798	14,695
Impairment losses on receivables and loans	-	2
Liabilities, including:	2,552	5,370
<i>KI One S.A.</i>	-	1,071

Terms of transactions with related parties

CIECH Group's companies, to the best of their knowledge and belief, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions. Overdue liabilities and receivables are not secured and are settled in cash or by set-off.

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

2.12. ISSUE, REDEMPTION AND REPAYMENT OF DEBT SECURITIES AND EQUITY SECURITIES IN THE CIECH GROUP

In the presented period, the CIECH Group companies did not issue, redeem or repay any debt or equity securities.

**2.13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES INCLUDING GUARANTEES AND SURETIES**

	30.06.2019	31.12.2018
Contingent assets	37,746	22,060
Other contingent receivables*	37,746	22,060
Contingent liabilities	645,156	522,544
Guarantees and sureties granted**	545,422	421,130
Other***	99,734	101,414

* Including:

- Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFOR" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFOR" Sp. z o.o. to CIECH S.A. about the condition of Agrochem Człuchów Sp. z o.o. with its registered office in Człuchów.
- As at 30 June 2019, a contingent asset recognised by CIECH Soda Polska S.A. amounted to PLN 18,882 thousand – it is the value of energy efficiency certificates received from the President of the Energy Regulatory Office in 2017 and 2019 that have not been recorded yet in the account kept by the Polish Power Exchange.

** Including:

- guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 365,630 thousand,
- guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand – contingent liability in the amount of PLN 31,890 thousand,
- guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of PLN 50,000 thousand – contingent liability in the amount of PLN 12,500 thousand,
- guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of EUR 10,000 thousand – contingent liability in the amount of PLN 10,630 thousand.
- guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of EUR 25,000 thousand – contingent liability in the amount of PLN 26,575 thousand,
- guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 300,000 thousand – contingent liability in the amount of PLN 75,000 thousand.
- guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 92,788 thousand – contingent liability in the amount of PLN 23,197 thousand.

*** Including mainly:

- contingent liability in the SDC Group relating to environmental protection in the amount of PLN 15,486 thousand (EUR 3,642 thousand),
- contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 36,320 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 grants received in the amount of PLN 19,898 thousand,
- contingent liabilities in CIECH Sarzyna S.A. resulting from a grant received for developing and testing a group of agro-chemical preparations in the amount of PLN 14,645 thousand,
- contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for investment projects aimed at developing and optimising production processes in the amount of PLN 13,385 thousand.

As at 30 June 2019, contingent liabilities amounted to PLN 645,156 thousand and increased as compared to 31 December 2018 by PLN 122,612 thousand. The change resulted mainly from an increase in liabilities on account of loans covered by guarantees.

Other guarantees and sureties granted are described in item 9.2 of the Consolidated Financial Statements of the CIECH Group for 2018.

Audits of tax settlements at the CIECH Group

In 2019, tax authorities carried out tax audits or tax proceedings in the companies of the CIECH Group with respect to CIT and VAT settlements.

The CIECH Group companies were subject to CIT audits/proceedings concerning the following years:

- 2012 – at CIECH S.A.
- 2013 – at CIECH S.A.
- 2015 – at CIECH Soda Polska S.A.
 - at CIECH Pianki Sp. z o.o.
 - at CIECH Cargo Sp. z o.o.
 - at CIECH Sarzyna S.A.
 - at CIECH Vitrosilicon S.A.



d) 2016 – at CIECH Sarzyna S.A.

CIT audit for 2012 at CIECH S.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. CIECH S.A. received the outcome of the audit on 4 July 2018. The tax authority challenged the transaction concerning the capital increase in a subsidiary. In the opinion of the authority, making a cash contribution by means of a contractual set-off of mutual receivables gives rise to income on the part of the company for which, according to the auditors, the company cannot recognise a cost. The company's management board and its tax advisors do not agree with the findings made by the auditors.

In December 2018, the company received a decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority. The company contested the position and filed an appeal. In April 2019, the company received a decision of the second instance, upholding the decision of the first instance. The company paid up the outstanding tax along with interest in three tranches in the total amount of PLN 66.4 million (PLN 43.7 million of tax liability and PLN 22.7 million of interest due). CIECH S.A. appealed against the decision of the Second Instance to the Provincial Administrative Court in Cracow. The trial date before the Provincial Administrative Court was set for 25 September 2019.

CIT audit for 2013 at CIECH S.A. was initiated by the Tax Audit Office in Warsaw on 30 November 2016. The tax audit report was issued on 16 May 2017. The authority claims that the company has overestimated the tax deductible cost of interest on cash obtained as a result of the issue of bonds and allocated to the supplementary capital of CIECH Soda Deutschland GmbH & Co. KG. Moreover, the authority is of the opinion that the fee for the CIECH S.A. trademark should not be recognised by CIECH S.A. as a tax deductible cost.

The tax base challenged by the authority is PLN 9.4 million (after taking into account the tax loss incurred in the audited year), which translates into a tax of PLN 1.8 million.

The company and its advisors did not agree with the findings of the auditors and as a result of the tax proceedings, the decision of the First Instance was issued, against which the company filed an appeal in 2017. On 14 March 2018 CIECH S.A. received the decision of the Second Instance in which the auditors upheld their findings contained in the decision of the First Instance.

The company appealed to the Provincial Administrative Court against this decision. Despite this, the company decided to pay tax in the amount of PLN 1.8 million and interest (PLN 0.3 million) on 10 April 2018. The Provincial Administrative Court issued its judgement on 6 June 2019. It complied with the CIECH S.A. appeal, repealing the decision of the Second Instance. As regards trademark fees, the Court ruled that they should be treated as tax costs. As regards the costs of consulting and financing of CIECH Soda Deutschland, the Court adjudicated that said costs could not constitute tax costs. After receipt of a written justification, the company appealed to the Supreme Administrative Court in September 2019.

CIT audit for 2015 at CIECH Soda Polska S.A. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 10 October 2016. On 7 March 2017, the tax office issued the tax audit report. The irregularities found result primarily from the fact that the auditors challenged the company's right to settle the loss from participation in a partnership – as was the case for CIECH Pianki Sp. z o.o., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A.

The company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Soda Polska S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First Instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 3.9 million. The company appealed against said decision. On 9 September 2019 the company received a Second Instance decision issued by the Director of The Tax Administration Chamber in Bydgoszcz, in which the Director upheld the findings of the First Instance decision. The decision issued by the Second Instance is due. Therefore, the company is obliged to pay overdue tax in the amount of PLN 3.9 million (the tax base questioned by the authority is PLN 20.4 million) plus interest due. The company intends to appeal against the Second Instance decision to the Provincial Administrative Court.

CIT audit for 2015 at CIECH Pianki Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 22 November 2016. On 3 March 2017, the tax office issued the tax audit report. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership.

The company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Pianki S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First Instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 2.6 million. The company appealed against said decision. On 9 September 2019 the company received a Second Instance decision issued by the Director of The Tax Administration Chamber in Bydgoszcz, in which the Director upheld the findings of the First Instance decision. The decision issued by the Second Instance is due. Therefore, the company is obliged to pay overdue



tax in the amount of PLN 2.6 million (the tax base questioned by the authority is PLN 13.8 million) plus interest due. The company intends to appeal against the Second Instance decision to the Provincial Administrative Court.

CIT audit for 2015 at CIECH Cargo Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 23 January 2017. On 14 June 2017, the tax office issued the tax audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. The company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Cargo S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First Instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 1.7 million. The company appealed against said decision. On 9 September 2019 the company received a Second Instance decision issued by the Director of The Tax Administration Chamber in Bydgoszcz, in which the Director upheld the findings of the First Instance decision. The decision issued by the Second Instance is due. Therefore, the company is obliged to pay overdue tax in the amount of PLN 1.7 million (the tax base questioned by the authority is PLN 8.8 million) plus interest due. The company intends to appeal against the Second Instance decision to the Provincial Administrative Court.

CIT audit for 2015 at CIECH Vitrosilicon S.A. was initiated by the Head of the Lubuskie Province Customs and Tax Office in Gorzów Wielkopolski on 19 April 2018. The company received the outcome of the audit on 4 January 2019. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 2.7 million (the tax base challenged by the authority is PLN 14.4 million) plus interest due. Tax proceedings are currently underway.

CIT audit for 2015 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 6 February 2017. On 7 November 2017, the tax office issued the audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Cargo Sp. z o.o., the authority challenged the company's right to settle the loss from participation in a partnership. In addition, the authority challenged the company's right to include the fee for the trademark and interest on loans paid in advance in tax deductible costs.

If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 6.9 million (the tax base challenged by the authority is PLN 36.4 million) plus interest due. Tax proceedings are currently underway.

CIT audit for 2016 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 26 February 2018. On 11 January 2019, the tax office issued the audit report. According to the authority, the expenses incurred by the company in 2016 for the use of Chwastox trademarks cannot be classified as tax deductible costs. In addition, the company should have included interest on loans paid in advance in 2015 in its tax deductible costs in 2016. Additionally, the authority claims that the company may not offset the loss for 2015 in the annual return for 2016. In January 2019, the company submitted objections to the report. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 4.3 million (the tax base challenged by the authority is PLN 22.4 million) plus interest due. Tax proceedings are currently underway.

The Group estimated that the potential impact on income tax expense (in the form of additional tax liabilities or inability to recover a deferred income tax asset calculated for tax losses), in connection with the above events which are or may continue to be challenged, would amount to PLN 143.8 million if it were no longer probable that the Group would be able to uphold its tax interpretations before the tax authorities. From the above-mentioned amount of PLN 143.8 million, a provision was recognised for potential tax liabilities in the amount of PLN 90.2 million, and an impairment loss on deferred tax asset was recognised in the amount of PLN 26.7 million. Following the decisions of the second instance, regarding CIT (2012 and 2013) in CIECH S.A., despite the appeal to the Provincial Administrative Court, the amount of PLN 45.5 million was paid (from the amount of PLN 143.8 million).

The CIECH Group companies were subject to VAT audits/proceedings concerning the following years:

- a) Fourth quarter of 2013
 - at Verbis Kappa Sp. z o.o. S.K.A.
 - at Verbis ETA Sp. z o.o. S.K.A.
- b) December 2014 – at Cerium Finance Sp. z o.o.
- c) January–June 2018 – at CIECH Trading S.A.



VAT audit for the fourth quarter of 2013 at Verbis Kappa Sp. z o.o. S.K.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 6 April 2018. The company received the outcome of the audit on 11 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The company, however, recognised the market value of the in-kind contribution less the amount of VAT as the taxable amount. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 35.7 million which translates into a tax of PLN 8.2 million.

The company and the other party to the transaction, i.e. CIECH Sarzyna S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the position presented in the motion that the taxable amount of the in-kind contribution made in 2013 was the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, CIECH Sarzyna S.A. and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company did not make a VAT correction, considering that the tax treatment of the in-kind contribution made in 2013 was correct. On 7 August 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the company had no right to deduct VAT in the amount of PLN 8.2 million. The company and its advisors do not agree with the findings set forth in the decision and have appealed against it. However, if the unfavourable position of the authority is upheld by the second instance, an obligation may arise to pay VAT arrears in the amount of PLN 8.2 million plus interest due.

VAT audit for the fourth quarter of 2013 at Verbis ETA Sp. z o.o. S.K.A. initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 16 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The company, however, recognised the market value of the in-kind contribution less the amount of VAT as the taxable amount. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 133.5 million which translates into a tax of PLN 30.8 million.

The company and the other party to the transaction, i.e. CIECH S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the CIECH S.A.'s position that the company had determined the taxable amount in a correct manner, i.e. the taxable amount of the in-kind contribution made in 2013 should have been the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, the company and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company and, accordingly, the other party to the transaction complied with the ruling.

On 17 July 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the company had no right to deduct VAT in the amount of PLN 30.8 million. The company and its advisors do not agree with the findings set forth in the decision and have appealed against it. On 6 August 2019, the company received an order of the Head of the Third Tax Office for Warszawa-Śródmieście to make the decision of the Head of the Małopolskie Province Customs and Tax Office in Krakow, issued in connection with the tax proceedings conducted against the company, immediately enforceable. The company filed a complaint against said decision. Irrespective of the complaint, the company applied to the Head of the Third Tax Office for crediting the overpaid VAT in the amount of PLN 30.8 million resulting from the correction of the VAT settlement for July 2018 towards the arrears indicated in the decision of the Małopolskie Province Customs and Tax Office in Krakow, and repaid interest in the amount of PLN 12.4 million. In its decision, the Head of the Third Tax Office agreed to the company's request. Thus, no enforcement proceedings were initiated.

VAT audit for December 2014 at Cerium Finance Sp. z o.o. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 19 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The company, however, recognised the market value of the in-kind contribution less the amount of VAT as the taxable amount. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 110 million which translates into a tax of PLN 25.3 million.



Guided by the outcome of the audit, the other party to the in-kind contribution transaction, i.e. CIECH Soda Polska S.A., issued a correction to the invoice, specifying the taxable amount of the in-kind contribution as the nominal value of the shares acquired. Cerium Finance Sp. z o.o. included the correction of the invoice in the current tax return and paid the tax. CIECH Soda Polska S.A. received a refund of overpaid VAT.

The company and CIECH Soda Polska S.A. filed motions for tax rulings. The Director of the National Revenue Information agreed with the position of the companies with respect to the recognition of a possible VAT correction in the current period. In turn, CIECH Soda Polska S.A. received a reply that the taxable amount of the in-kind contribution made in 2013 was the nominal value of the shares acquired. Taking into account the ruling concerning the taxable amount and the regulations, as amended in 2014, according to which the taxable amount should be the value contributed to the share capital, the company is of the opinion that the correction made (included in the current period) is correct.

On 17 July 2019, CIECH Soda Polska S.A., as the legal successor of Cerium Finance Sp. z o.o., received the Accounting Books' Audit Report, in which the auditors upheld their position, that the company had no right to deduct VAT in the amount of PLN 25.3 million, without referring to the correction of VAT submitted by the company in the current period and payment of this tax. Tax proceedings are currently underway at the company.

VAT audit for the period from January to June 2018 at CIECH Trading S.A. is carried out by the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (for the period from January to April 2018) – commenced on 20 June 2018, and by the Head of the Śląskie Province Customs and Tax Office in Katowice (for the period from May to June 2018) – commenced on 19 September 2018. The audit is ongoing and the company has not yet received any audit findings.

If the authorities continue to challenge the VAT settlements in decisions issued in the future, despite the positive interpretations received and contrary to the principle of VAT neutrality, and taking into account the correction of VAT submitted, Cerium Finance Sp. z o.o., Verbis Kappa Sp. z o.o. S.K.A. and Verbis ETA Sp. z o.o. S.K.A. may be required to pay unduly, in the opinion of the tax auditors, deducted VAT, in the amount of PLN 39.0 million, of which PLN 30.8 million was practically paid in accordance with the decision of the Head of the Third Tax Office to credit the overpayment for July 2018 towards the liability specified in the decision issued for Verbis Eta Sp. z o.o. S.K.A. In addition, Verbis Kappa Sp. z o.o. S.K.A. and CIECH Soda Polska S.A., as a legal successor of Cerium Finance Sp. z o.o., may also be required to pay the interest if the ability to settle the correction of VAT in the current period is challenged (in August 2018, Verbis ETA Sp. z o.o. S.K.A. already repaid interest of PLN 12.4 million).

The CIT audit at the Ciech Group in Germany concerns CIT settlements. The CIT audit concerns the following companies: Sodawerk Staßfurt Verwaltungs GmbH, CIECH Soda Deutschland GmbH & Co. KG, Sodawerk Holding Staßfurt GmbH, SDC GmbH. The audits cover settlements for 2007-2009 and 2010-2015. The issues raised by the auditors concerning 2006 were definitively clarified by the auditors at the initial stage of the audit. In case of a different assessment of economic events by audit authorities, an obligation may arise to recalculate and potentially increase the tax liability and to pay interest on tax arrears. As at the balance sheet date, the outcome of the audit is not known – the companies did not receive any reports from the tax authorities.

2.14. INFORMATION ON DIVIDENDS PAID (OR DECLARED), IN TOTAL AND PER SHARE, BROKEN DOWN INTO ORDINARY SHARES AND PREFERENCE SHARES

On 22 August 2019, the Ordinary General Meeting resolved to distribute CIECH S.A.'s net profit for the financial year 2018, amounting to PLN 270,612 thousand, in the following manner:

- the amount of PLN 17,182 thousand was allocated to cover the loss recognized as an adjustment to the opening balance resulting from the application of IFRS 9 Financial Instruments,
- the amount of PLN 253,430 thousand was allocated to the supplementary capital of CIECH S.A.

On 22 June 2018, the Ordinary General Meeting adopted a resolution to allocate the following to the payout of dividend in the amount of PLN 395,249 thousand:

- the entire net profit earned by CIECH S.A. in 2017, amounting to PLN 243,907 thousand;
- a part of profits included in the supplementary capital, amounting to PLN 151,342 thousand.

The dividend record and payment dates were set respectively for 2 July 2018 and 31 August 2018.



2.15. INFORMATION ON POST-BALANCE-SHEET EVENTS

On 9 August 2019, the Board of Directors of a subsidiary – CIECH Soda Romania S.A. (“CSR”) based in Romania decided to begin preparations in the event of the need to suspend the production activities of CIECH Soda Romania S.A. due to the cessation of the supply of process steam by its sole steam supplier – S.C. CET Govora S.A. (“CET”). The Agreement for the supply of process steam was terminated on 18 June 2019 and, according to its provisions, the supply of process steam may cease after the expiry of the notice period, i.e. after 18 September 2019.

The aforementioned decision is the result of termination of the Agreement by CET, the assessment of the course of negotiations with CET to date on the determination of new terms of the Agreement, and the effect of an in-depth analysis of economic effects on CSR. If the price proposed by CET were accepted, the price of steam, including CO₂ certificates, would increase by approx. 135%, as compared to the price of steam with CO₂ certificates prevailing in 2018. CSR’s acceptance of the new steam price would result in permanent lack of profitability of production at the plant. CSR will take all necessary and adequate preventive measures in order to protect CSR’s interests in the event that CSR is not able to continue production, including among others:

1. renegotiating or terminating agreements which, due to a change in the economic situation, cannot be continued on the existing basis;
2. preparing the concept of optimising the organisational and personnel structure, including its adaptation to the CSR’s new economic situation;
3. preparing procedures and action plans related to the security of the technological process, production apparatus and equipment, as well as other CSR’s assets, after the cessation of production at the CSR plant;
4. review of issued decisions, permits and concessions in terms of making the necessary changes and notifications at the time of the cessation of production at the CSR plant.

CIECH S.A., in cooperation with CSR, is in the process of analysing all possible action scenarios, including hibernation of the Romanian plant. Work was commenced on the preparation of a comprehensive cover package for employees of CSR and the Romanian Branch of CIECH S.A., including in particular the voluntary redundancy programme, outplacement activities and possible relocation of a number of employees to other plants of the CIECH Group.

Bearing in mind the decision made by the Board of Directors of CSR, the Management Board of CIECH S.A. resolved to initiate adequate preventive measure at the Branch, in order to protect the interests of the Romanian Branch of CIECH S.A. – in the event that CSR is not able to continue its production activities.

In connection with the above, a write-down was made to the value of property, plant and equipment of CIECH Soda Romania S.A. in the amount of PLN 36,655 thousand. Details of the write-down have been described in section 2.6 of this report.



**SEMI-ANNUAL CONDENSED SEPARATE FINANCIAL STATEMENTS
OF CIECH S.A.
FOR 6-MONTH PERIOD ENDED 30 JUNE 2019**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ENDORSED BY THE EUROPEAN UNION**



3

SEMI-ANNUAL CONDENSED SEPARATE FINANCIAL STATEMENTS OF CIECH S.A PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ENDORSED BY THE EUROPEAN UNION

CONDENSED SEPARATE STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	01.01.-30.06.2019	01.01.-30.06.2018	01.04.-30.06.2019	01.04.-30.06.2018
			<i>Unaudited data</i>	
CONTINUING OPERATIONS				
Sales revenues	1,243,124	1,208,028	616,317	612,782
Cost of sales	(1,089,517)	(995,395)	(536,338)	(505,375)
Gross profit/(loss) on sales	153,607	212,633	79,979	107,407
Other operating income	3,661	6,995	2,312	5,699
Selling costs	(98,831)	(112,336)	(49,098)	(59,295)
General and administrative expenses	(41,919)	(33,698)	(24,901)	(18,306)
Other operating expenses	(1,161)	(4,526)	(555)	(3,491)
Operating profit/(loss)	15,357	69,068	7,737	32,014
Financial income	63,940	40,394	24,243	26,918
Financial expenses	(56,542)	(85,991)	(20,314)	(65,679)
Net financial income/(expenses)	7,398	(45,597)	3,929	(38,761)
Profit/(loss) before tax	22,755	23,471	11,666	(6,747)
Income tax	(9,321)	(5,936)	(4,780)	34
Net profit / (loss) for the period	13,434	17,535	6,886	(6,713)
Earnings/(loss) per share (in PLN):				
Basic	0.25	0.33	0.13	(0.13)
Diluted	0.25	0.33	0.13	(0.13)

The condensed separate statement of profit or loss of CIECH S.A. should be analysed together with the explanatory notes which constitute an integral part of the semi-annual condensed separate financial statements.



CONDENSED SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME OF CIECH S.A.

	01.01.-30.06.2019	01.01.-30.06.2018	01.04.-30.06.2019	01.04.-30.06.2018
			<i>Unaudited data</i>	
Net profit / (loss) for the period	13,434	17,535	6,886	(6,713)
Other comprehensive income before tax that may be reclassified to statement of profit or loss	3,707	(4,874)	7,750	(3,270)
Cash flow hedge	3,707	(4,874)	7,750	(3,270)
Income tax attributable to other comprehensive income	(695)	856	(1,321)	1,162
Income tax attributable to other comprehensive income that may be reclassified to statement of profit or loss	(695)	856	(1,321)	1,162
Other comprehensive income net of tax	3,012	(4,018)	6,429	(2,108)
TOTAL COMPREHENSIVE INCOME	16,446	13,517	13,315	(8,821)

The condensed separate statement of other comprehensive income of CIECH S.A. should be analysed together with the explanatory notes which constitute an integral part of the semi-annual condensed separate financial statements.



CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

	30.06.2019	31.12.2018
ASSETS		
Property, plant and equipment	14,198	13,551
Intangible assets	50,546	46,057
Long-term financial assets	2,411,942	2,339,188
Deferred income tax assets	16,676	25,514
Rights to use an asset	30,838	-
Total non-current assets	2,524,200	2,424,310
Inventory	17,648	41,019
Short-term financial assets	1,006,617	1,006,464
Income tax receivables	684	-
Trade and other receivables	430,610	400,673
Cash and cash equivalents	84,218	54,988
Total current assets	1,539,777	1,503,144
Total assets	4,063,977	3,927,454
EQUITY AND LIABILITIES		
Share capital	287,614	287,614
Share premium	470,846	470,846
Cash flow hedge reserve	1,860	(1,152)
Actuarial gains	11	11
Other reserve capitals	76,199	76,199
Retained earnings	582,617	569,183
Total equity	1,419,147	1,402,701
Loans, borrowings and other debt instruments	1,579,737	1,333,695
Lease liabilities	26,254	-
Other non-current liabilities	57,703	59,416
Employee benefits provisions	576	574
Total non-current liabilities	1,664,270	1,393,685
Loans, borrowings and other debt instruments	301,963	493,601
Trade and other liabilities	637,714	532,895
Income tax liabilities	-	867
Lease liabilities	4,982	-
Employee benefits provisions	371	421
Other provisions	35,530	103,284
Total current liabilities	980,560	1,131,068
Total liabilities	2,644,830	2,524,753
Total equity and liabilities	4,063,977	3,927,454

The condensed separate statement of financial position of CIECH S.A. should be analysed together with the explanatory notes which constitute an integral part of the semi-annual condensed separate financial statements.



CONDENSED SEPARATE STATEMENT OF CASH FLOWS OF CIECH S.A.

	01.01.-30.06.2019	01.01.-30.06.2018
Cash flows from operating activities		
Net profit /(loss) for the period	13,434	17,535
Amortisation/depreciation	6,772	4,149
Recognition of impairment allowances	1,073	10,428
Foreign exchange (profit) /loss	5,200	2,988
(Profit) / loss on disposal of property, plant and equipment	1	121
Dividends and interest	6,523	(7,757)
Income tax payable/(receivable)	9,321	5,936
Change in liabilities due to loan arrangement fee	(226)	(3,032)
Valuation of derivative instruments	(10,557)	51,303
Other adjustments	1,996	(490)
Cash from operating activities before changes in working capital and provisions	33,537	81,181
Change in receivables	(59,267)	(141,073)
Change in inventory	23,371	12,797
Change in current liabilities	118,792	24,097
Change in provisions and employee benefits	(1,405)	361
Cash generated from operating activities	115,028	(22,637)
Interest paid	(48,890)	(20,827)
Income tax paid/returned	(47,434)	(2,145)
Set-off receivables from interest on loans	13,332	13,213
Net cash from operating activities	32,036	(32,396)
Cash flows from investment activities		
Disposal of intangible assets and property, plant and equipment	21	30
Dividends received	227	203
Interest received	8,046	13,333
Proceeds from cash-pooling facility	30,732	-
Proceeds from repaid borrowings	-	56,768
Acquisition of intangible assets and property, plant and equipment	(13,643)	(16,520)
Expenditures on increase and extra contribution to capital	(171)	(150)
Borrowings paid out	(77,532)	(38,856)
Cash pooling expenditures	-	(534)
Net cash from investment activities	(52,320)	14,274
Cash flows from financial activities		
Proceeds from loans and borrowings	298,100	217,488
Proceeds from cash-pooling facility	5,109	-
Repayment of loans and borrowings	(250,000)	(171,465)
Cash pooling expenditures	-	(33,256)
Payments of lease liabilities	(1,753)	-
Net cash from financial activities	51,456	12,767
Total net cash flows	31,172	(5,355)
Cash and cash equivalents as at the beginning of the period	54,988	375,393
<i>Impact of foreign exchange differences</i>	<i>(1,942)</i>	<i>(1,642)</i>
Cash and cash equivalents as at the end of the period	84,218	368,396

The condensed separate statement of cash flows of CIECH S.A. should be analysed together with the explanatory notes which constitute an integral part of the semi-annual condensed separate financial statements.



CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

	Share capital	Share premium	Cash flow hedge reserve	Other reserve capitals	Actuarial gains	Retained earnings	Total equity
01.01.2019	287,614	470,846	(1,152)	76,199	11	569,183	1,402,701
Total comprehensive income	-	-	3,012	-	-	13,434	16,446
Net profit /(loss) for the period	-	-	-	-	-	13,434	13,434
Other comprehensive income	-	-	3,012	-	-	-	3,012
30.06.2019	287,614	470,846	1,860	76,199	11	582,617	1,419,147
31.12.2017	287,614	470,846	3,246	76,199	121	711,002	1,549,028
The accounting policies - implementation of MSSF 9	-	-	-	-	-	(17,182)	(17,182)
01.01.2018	287,614	470,846	3,246	76,199	121	693,820	1,531,846
Transactions with owners	-	-	-	-	-	(395,249)	(395,249)
Dividend	-	-	-	-	-	(395,249)	(395,249)
Total comprehensive income	-	-	(4,018)	-	-	17,535	13,517
Net profit /(loss) for the period	-	-	-	-	-	17,535	17,535
Other comprehensive income	-	-	(4,018)	-	-	-	(4,018)
30.06.2018	287,614	470,846	(772)	76,199	121	316,106	1,150,114

The condensed separate statement of changes in equity of CIECH S.A. should be analysed together with the explanatory notes which constitute an integral part of the semi-annual condensed separate financial statements.



EXPLANATORY NOTES TO THE SEMI-ANNUAL CONDENSED SEPARATE FINANCIAL STATEMENTS OF CIECH S.A.

4.1. BASIS OF PREPARATION OF THE SEMI-ANNUAL CONDENSED SEPARATE FINANCIAL STATEMENTS OF CIECH S.A.

On 31 January 2007, the Extraordinary General Meeting of Shareholders of CIECH S.A. adopted resolution No 4, concerning the preparation of separate financial statements in accordance with International Financial Reporting Standards as approved by the European Union. Due to the adopted resolution, since 2007 the reports of CIECH S.A. have been prepared in accordance with the IFRS using the valuation of assets and liabilities and the measurement of net result as defined in the accounting policy.

These semi-annual condensed separate financial statements were prepared in compliance with IAS 34 "Interim Financial Reporting" as approved by the European Union and the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State (Journal of Laws 2018.757 of 2018). These financial statements present the financial position of CIECH S.A. as at 30 June 2019 and as at 31 December 2018, results of the Company's operations and cash flows for the period of 6 months ended 30 June 2019 and 30 June 2018, and were approved by the Management Board of CIECH S.A. on 10 September 2019.

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

The Management Board of CIECH S.A. represents that to the best of its knowledge these semi-annual condensed separate 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 CIECH S.A.'s financial position and the results of operations.

Preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") requires the Management Board to make professional judgements, estimates and assumptions which affect the adopted principles and presented values of assets, equity and liabilities, income and expenses. The estimates and assumptions associated with them are based on historical accuracy and various other factors that are considered to be reasonable under the specific circumstances, and their results provide a basis for professional judgement about the value of assets and liabilities that are not directly apparent from other sources. Actual value may differ from the estimated value. The estimates and the underlying assumptions are reviewed on a continuous basis. Revisions of accounting estimates are recognised in the period in which the changes were made, only if it affects that period or the present and future in case they concern both the current and future periods. The Management Board's professional judgements which have a significant impact on the separate financial statements, and the estimates bearing a risk of significant changes in future years have been presented in items 4.2.1, 4.6, 4.7, 4.8 and 4.13 hereof. During the current semi-annual period there were no significant revisions to the estimates presented in previous reporting periods.

The Management Board of CIECH S.A. represents that PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. 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 to review the semi-annual separate consolidated financial statements for the period from 1 January to 30 June 2019.

4.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH S.A.'s accounting principles are described in the Financial Statements of CIECH S.A. for 2018, published on 26 March 2019. The aforementioned Financial Statement include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data presented, except for



IFRS 16 *Leases* and change in the manner of accounting for the disposal of inventories – from the FIFO method to the weighted average method.

4.2.1. CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

The information is provided in item 2.2.1 hereof.

4.3. 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 financial statements. Unless stated otherwise, all financial data in these financial statements have been presented in thousands of Polish zlotys (PLN '000).

CIECH S.A. has Branches (in Romania and Germany) whose accounting records are kept in local currencies (RON and EUR). For the purpose of preparing the financial statements of CIECH S.A., accounting records of the Branch in Romania are translated using the transaction exchange rates and the accounting records of the Branch in Germany – at the average NBP rate for a given period. Due to an insignificant value of transactions, translation at this exchange rate does not result in a material distortion of results.

4.4. SEASONALITY AND CYCLICALITY OF ACTIVITY OF CIECH S.A.

Seasonality associated with periodic demand and supply fluctuations has little impact on CIECH S.A.'s general sales trends. In the soda segment, a seasonal relationship between the sales volume of some products and the course of winter is observable. For calcium chloride and other products (anti-ice salt and chloride mix, waste salt) a mild winter is a reason for decrease of sales, while the influence on the sales of salt is indirect. For other products, CIECH S.A.'s revenues and financial results are not influenced by any significant seasonal fluctuations over the year.

4.5. CIECH S.A.'S SEGMENT REPORTING

CIECH S.A.'s operating segments are designated on the basis of internal reports prepared in the Company and regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

The data concerning individual segments also includes support services provided by CIECH S.A. to the CIECH Group companies, such as accounting, controlling, legal, administrative and IT services.

The financing is managed (including finance expenses and incomes with the exception of interest and exchange differences on trade receivables and liabilities) and income tax is calculated on the Company level. The data concerning these areas is not allocated to particular segments.

Information on the Company's geographical areas is established based on the location of its assets.

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 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 adjusted 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 service debt. EBITDA and adjusted 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 CIECH S.A. when determining these measures are presented below.



	01.01.-30.06.2019	01.01.-30.06.2018
Net profit/(loss) on continuing operations	13,434	17,535
Income tax	9,321	5,936
Financial expenses	56,542	85,991
Financial income	(63,940)	(40,394)
Amortisation/depreciation	6,772	4,149
EBITDA from continuing operations	22,129	73,217

	01.01.-30.06.2019	01.01.-30.06.2018
EBITDA from continuing operations	22,129	73,217
One-offs including:	(2,815)	(2,504)
Cash items (a)	(97)	(2,556)
Non-cash items (without impairment) (b)	(2,718)	52
Adjusted EBITDA from continuing operations	19,314	70,713

(a) Cash items include, among others, gain/loss of the sale of property, plant and equipment, as well as fees and compensations received.

(b) Non-cash items include: fair value provisions for liabilities and compensation and other items.



CIECH S.A. — OPERATING SEGMENTS

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

OPERATING SEGMENTS 01.01.-30.06.2019	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	TOTAL
Sales revenues	940,265	271,113	5,699	24,678	1,369	-	1,243,124
Cost of sales	(796,853)	(261,497)	(5,083)	(24,977)	(1,107)	-	(1,089,517)
Gross profit /(loss) on sales	143,412	9,616	616	(299)	262	-	153,607
Selling costs	(92,972)	(2,771)	(410)	(2,272)	-	(406)	(98,831)
General and administrative expenses	(1,421)	-	(12)	-	(7)	(40,479)	(41,919)
Result on management of receivables	(37)	(9)	2	(1)	10	(1)	(36)
Result on other operating activities	1,564	-	-	(1)	1,111	(138)	2,536
Operating profit /(loss)	50,546	6,836	196	(2,573)	1,376	(41,024)	15,357
Exchange differences and interest on trade settlements	(5,653)	2,321	-	88	(49)	-	(3,293)
Borrowing costs	-	-	-	-	-	(5,091)	(5,091)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	15,782	15,782
Profit /(loss) before tax	44,893	9,157	196	(2,485)	1,327	(30,333)	22,755
Income tax	-	-	-	-	-	-	(9,321)
Net profit /(loss) for the period	-	-	-	-	-	-	13,434
Amortization/depreciation	1,800	26	3	110	340	4,493	6,772
EBITDA	52,346	6,862	199	(2,463)	1,716	(36,531)	22,129
Adjusted EBITDA*	50,741	6,862	199	(2,462)	603	(36,629)	19,314

* Adjusted EBITDA for the 6-month period ended 30 June 2019 is calculated as EBITDA adjusted for untypical one-off events: change in provisions: PLN 2.7 million; other: PLN 0.1 million.



OPERATING SEGMENTS 01.01.-30.06.2018	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	TOTAL
Sales revenues	908,516	268,670	8,430	21,062	1,350	-	1,208,028
Cost of sales	(705,022)	(260,883)	(7,314)	(20,976)	(1,200)	-	(995,395)
Gross profit /(loss) on sales	203,494	7,787	1,116	86	150	-	212,633
Selling costs	(107,415)	(1,171)	(664)	(2,096)	(20)	(970)	(112,336)
General and administrative expenses	(853)	(417)	(23)	(42)	-	(32,363)	(33,698)
Result on management of receivables	466	(25)	(1)	1	2	(157)	286
Result on other operating activities	576	(3)	-	-	(1)	1,611	2,183
Operating profit /(loss)	96,268	6,171	428	(2,051)	131	(31,879)	69,068
Exchange differences and interest on trade settlements	122	(11,270)	(13)	(1)	(749)	-	(11,911)
Borrowing costs	-	-	-	-	-	2,661	2,661
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(36,347)	(36,347)
Profit /(loss) before tax	96,390	(5,099)	415	(2,052)	(618)	(65,565)	23,471
Income tax	-	-	-	-	-	-	(5,936)
Net profit /(loss) for the period	-	-	-	-	-	-	17,535
Amortization/depreciation	1,638	-	-	-	-	2,511	4,149
EBITDA	97,906	6,171	428	(2,051)	131	(29,368)	73,217
Adjusted EBITDA*	97,700	6,172	428	(2,051)	132	(31,668)	70,713

*Adjusted EBITDA for the 6-month period ended 30 June 2018 is calculated as EBITDA adjusted for untypical one-off events: fines and compensations received: PLN 2.5 million; change in provisions: PLN 0.1 million; loss on disposal of non-financial assets: PLN -0.1 million.



CIECH S.A. — ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Soda segment	209,897	202,832	510,722	373,640
Organic segment	128,453	112,887	56,803	84,483
Silicates and glass segment	139	4,695	-	2,208
Transport segment	14,532	10,859	5,713	6,760
Other operations segment	7,202	1,009	11,087	9,590
Corporate functions	3,703,754	3,595,172	2,060,505	2,048,072
TOTAL	4,063,977	3,927,454	2,644,830	2,524,753

CIECH S.A. — SALES REVENUES BY BUSINESS SEGMENTS

	01.01.-30.06.2019	01.01.-30.06.2018	Change 2019/2018
Soda segment, including:	940,265	908,516	3.5%
Dense soda ash	518,440	503,289	3.0%
Light soda ash	238,556	235,949	1.1%
Salt	98,482	86,576	13.8%
Sodium bicarbonate	48,891	49,170	(0.6%)
Calcium chloride	12,593	12,761	(1.3%)
Other goods and services	23,303	20,771	12.2%
Organic segment, including:	271,113	268,670	0.9%
Raw materials for production of crop protection products	85,039	62,811	35.4%
Raw materials for production of resins	109,110	127,805	(14.6%)
Raw materials for the production of polyurethane foams	72,135	72,605	(0.6%)
Other goods and services	4,829	5,449	(11.4%)
Silicates and Glass segment, including:	5,699	8,430	(32.4%)
Soda silicates	4,977	7,547	(34.1%)
Other goods and services	722	883	(18.2%)
Transport segment, including:	24,678	21,062	17.2%
Transport services	24,678	21,062	17.2%
Other segment, including:	1,369	1,350	1.4%
Other goods and services	1,369	1,350	1.4%
TOTAL	1,243,124	1,208,028	2.9%

At CIECH S.A., sales revenues are recognized upon the provision of services or delivery of products or goods.

CIECH S.A. — INFORMATION ON GEOGRAPHICAL AREAS

Information on CIECH S.A.'s geographical areas is established based on the location of its assets.

	ASSETS		Sales revenues	
	30.06.2019	31.12.2018	01.01.-30.06.2019	01.01.-30.06.2018
Poland	2,458,593	2,276,979	703,159	595,028
European Union (excluding Poland)	1,558,615	1,551,440	338,910	356,268
Other European countries	5,787	39,838	58,235	107,952
Africa	4,602	9,745	45,220	30,828
Asia	36,380	49,452	93,514	111,514
Other regions	-	-	1,222	3,118
Cash flow hedge adjustment	-	-	2,864	3,320
TOTAL	4,063,977	3,927,454	1,243,124	1,208,028



The Company's non-current assets are located in Poland and the European Union. They include shares in Polish subsidiaries and subsidiaries having their registered offices primarily in Romania and Germany. Trade and other receivables constitute the main component of current assets presented in individual geographical areas.

4.6. PROVISIONS AND IMPAIRMENT ALLOWANCES ON ASSETS

PROVISIONS FOR EMPLOYEE BENEFITS	Opening balance	Recognition	Use and reversal	Closing balance
01.01.-30.06.2019				
Long-term	574	2	-	576
Short-term	421	-	(50)	371
01.01.-30.06.2018				
Long-term	436	17	-	453
Short-term	400	-	(84)	316
01.04.-30.06.2019				
Long-term	573	2	1	576
Short-term	359	-	12	371
01.04.-30.06.2018				
Long-term	442	11	-	453
Short-term	316	-	-	316

In addition, other long-term liabilities also include the estimated value of the three-year long-term incentive plan of the CIECH Group for 2019-2021 for the key management personnel of the CIECH Group (see item 2.6 hereof for more information on the programme).

CHANGE IN OTHER SHORT-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Closing balance
01.01.-30.06.2019				
Provision for liabilities and expected losses	103,284	1,595	(69,349)	35,530
TOTAL	103,284	1,595	(69,349)	35,530
01.01.-30.06.2018				
Provision for liabilities and expected losses	35,566	745	(317)	35,994
Provision for bonuses	507	-	-	507
TOTAL	36,073	745	(317)	36,501
01.04.-30.06.2019				
Provision for liabilities and expected losses	104,550	329	(69,349)	35,530
TOTAL	104,550	329	(69,349)	35,530
01.04.-30.06.2018				
Provision for liabilities and expected losses	35,395	745	(146)	35,994
Provision for bonuses	507	-	-	507
TOTAL	35,902	745	(146)	36,501

Item use and reversal of the provision for PLN 69,349 thousand relates mainly to the payment of a tax liability together with overdue CIT interest for 2012 in the amount of PLN 66,400 thousand (more information on tax control is presented in Note 2.13 of this report).

CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.-30.06.2019						
Intangible assets	210	-	-	-	-	210
Long-term financial assets	143,061	-	1,117	-	-	144,178
Short-term financial assets	18,126	-	-	(45)	-	18,081
Trade and other receivables	31,491	-	172	(1,979)	(109)	29,575



CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
Cash and cash equivalents	37	-	34	-	-	71
TOTAL	192,925	-	1,323	(2,024)	(109)	192,115
01.01.-30.06.2018						
Property, plant and equipment	1	-	-	-	-	1
Long-term financial assets	404,955	1,740	9,459	-	-	416,154
Short-term financial assets	49,345	14,542	1,486	(519)	-	64,854
Trade and other receivables	28,865	620	18,098	(81)	843	48,345
Cash and cash equivalents	-	490	-	(311)	-	179
TOTAL	483,166	17,392	29,043	(911)	843	529,533
01.04.-30.06.2019						
Intangible assets	210	-	-	-	-	210
Long-term financial assets	143,958	-	220	-	-	144,178
Short-term financial assets	18,117	-	-	(36)	-	18,081
Trade and other receivables	30,013	-	9	(71)	(376)	29,575
Cash and cash equivalents	32	-	34	5	-	71
TOTAL	192,330	-	263	(102)	(376)	192,115
01.04.-30.06.2018						
Property, plant and equipment	1	-	-	-	-	1
Long-term financial assets	406,695	-	9,459	-	-	416,154
Short-term financial assets	64,724	-	519	(389)	-	64,854
Trade and other receivables	29,704	-	17,095	567	979	48,345
Cash and cash equivalents	198	-	292	(311)	-	179
TOTAL	501,322	-	27,365	(133)	979	529,533

*IFRS 9 implementation adjustment.

4.7. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-30.06.2019	01.01.-30.06.2018
Current income tax	(1,178)	1,833
Deferred tax	(8,143)	(7,769)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	(9,321)	(5,936)

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	30.06.2019			31.12.2018		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	40	74	(34)	40	74	(34)
Financial assets	557	8,913	(8,356)	646	9,746	(9,100)
Inventory	-	48	(48)	-	203	(203)
Trade and other receivables	117	692	(575)	118	152	(34)
Provisions for employee benefits	99	-	99	106	3	103
Other provisions	-	1,450	(1,450)	-	-	-
Tax losses carried forward	18,337	-	18,337	15,916	-	15,916
Foreign exchange differences	2,463	48	2,415	2,511	-	2,511



DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	30.06.2019			31.12.2018		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Liabilities	6,195	-	6,195	16,324	62	16,262
Cash and cash equivalents	93	-	93	93	-	93
Deferred tax assets/liability	27,901	11,225	16,676	35,754	10,240	25,514
Set - off of deferred tax assets / (liability)	(11,225)	(11,225)	-	(10,240)	(10,240)	-
Deferred tax assets/liability recognised in the statement of financial position	16,676	-	16,676	25,514	-	25,514

In the light of provisions of the General Anti-Avoidance Rule ("GAAR"), applicable as of 15 July 2016 and aimed at preventing the origination and use of factitious legal structures designed to avoid payment of taxes in Poland, the Management Board of the Parent Company considered the impact of transactions which could potentially be subject to the GAAR regulations on the deferred tax, tax value of assets and deferred tax provisions. In the opinion of the Management Board, the analysis conducted did not demonstrate the need to adjust the reported current and deferred income tax items. However, in the opinion of the Management Board, there is an inherent uncertainty arising from GAAR that tax authorities will interpret these provisions differently, will change their approach to their interpretation or the rules themselves will change, which may affect the ability to utilise the deferred tax assets in future periods and the possible payment of an additional tax for past periods.

4.8. INFORMATION ON FAIR VALUE OF FINANCIAL INSTRUMENTS

The information is provided in item 2.8 hereof.

4.9. INFORMATION ON PURCHASE AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

In the period from 1 January to 30 June 2019, CIECH S.A. carried out the following transactions increasing and decreasing the gross value of property, plant and equipment:

01.01.-30.06.2019	Buildings, premises, civil and marine engineering structures	Machinery and equipment	Vehicles	Other fixed assets	Fixed assets under construction	TOTAL
Purchase	-	254	93	-	2,560	2,907
Disposal	-	(122)	-	(3)	-	(125)
01.01.-30.06.2018						
Purchase	15	1,396	-	37	827	2,275
Disposal	-	(93)	-	(4)	-	(97)

Purchases in the first half of 2019 were made with own financial resources of the Company. As at 30 June 2019, commitments to purchase property, plant and equipment amounted to PLN 94 thousand (PLN 63 thousand as at 31 December 2018).

4.10. INFORMATION ON LOAN AGREEMENTS, INCLUDING OVERDUE DEBTS OR OTHER VIOLATIONS OF DEBT-RELATED AGREEMENTS

The information is provided in item 2.10 hereof.

4.11. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

Detailed information about transactions between CIECH S.A. 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. as well as subsidiaries and associates of CIECH S.A.) is presented below:



TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED ENTITIES	01.01-30.06.2019	01.01-30.06.2018
Revenues from sales of products and services	394,663	409,409
Purchase of goods, materials and services, including:	792,237	712,963
<i>KI One S.A.</i>	45	425
Financial income	41,627	43,512
Financial expenses	27,764	26,908
	30.06.2019	31.12.2018
Receivables	262,970	195,647
Loans granted	1,137,842	1,133,265
Liabilities, including:	569,238	434,234
<i>KI One S.A.</i>	-	1,071
Loans received	131,912	132,444

Terms of transactions with related parties

Material sales to and purchases from related entities are carried out on terms which do not differ from 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 the first half of 2019, except for transactions described in item 5.3 hereof.

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

4.12. ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES AT CIECH S.A.

In the presented period, CIECH S.A. did not issue, redeem or repay any debt or equity securities.

4.13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES INCLUDING GUARANTEES AND SURETIES

	30.06.2019	31.12.2018
Contingent assets	18,864	18,864
Other contingent receivables*	18,864	18,864
Contingent liabilities	706,093	586,262
Guarantees and sureties granted**	706,093	586,262

* *Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFORNY" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFORNY" 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 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 365,630 thousand,*
- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand – contingent liability in the amount of PLN 31,890 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of PLN 50,000 thousand – contingent liability in the amount of PLN 12,500 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of EUR 10,000 thousand – contingent liability in the amount of PLN 10,630 thousand.*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of EUR 25,000 thousand – contingent liability in the amount of PLN 26,575 thousand,*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 300,000 thousand – contingent liability in the amount of PLN 75,000 thousand.*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 92,788 thousand – contingent liability in the amount of PLN 23,197 thousand.*



As at 30 June 2019, contingent liabilities amounted to PLN 706,093 thousand and increased as compared to 31 December 2018 by PLN 119,831 thousand. The change was primarily attributable to a change in the value of guarantees related to loans.

Other guarantees and sureties granted are described in item 9.2 of the Financial Statements of CIECH S.A. for 2018 published on 26 March 2019.

Audits of tax settlements at CIECH S.A.

The information is provided in item 2.13 hereof.

4.14. INFORMATION ON DIVIDENDS PAID (OR DECLARED), IN TOTAL AND PER SHARE, BROKEN DOWN INTO ORDINARY SHARES AND PREFERENCE SHARES

The information is provided in item 2.14 hereof.

4.15. INFORMATION ON POST-BALANCE-SHEET EVENTS

No events occurred that would affect the financial data presented in the condensed interim financial statement of CIECH S.A.



MANAGEMENT BOARD REPORT ON THE CIECH GROUP'S ACTIVITIES



5.

MANAGEMENT BOARD REPORT ON THE CIECH GROUP'S ACTIVITIES

5.1. DESCRIPTION OF THE CIECH GROUP'S ORGANISATION

The CIECH Group consists of domestic and foreign manufacturing, distribution and trade companies operating in the chemical industry. The CIECH Group comprises CIECH S.A. as the parent company, and related companies located, inter alia, in Poland, Germany, Romania and Spain.

Parent company	CIECH Spółka Akcyjna
Registered office	Warsaw
Address	ul. Wspólna 62, 00-684 Warsaw
KRS (National Court Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 12 th Commercial Division of the National Court Register)
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
BDO Registry Number	000015168
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)

As at 30 June 2019, the CIECH Group comprised 37 business entities, including:

- the parent company,
- 30 subsidiaries, of which:
 - 21 domestic subsidiaries,
 - 9 foreign subsidiaries,
- 3 domestic affiliates,
- 1 foreign affiliate,
- 1 jointly controlled domestic entity,
- 1 jointly controlled foreign entity.

The parent company of CIECH S.A. has a branch in Romania, a branch in Germany, and operates through its offices in Inowrocław and Nowa Sarzyna. CIECH Trading S.A. subsidiary has a branch in Bydgoszcz.

The trading activity is carried out mostly by CIECH S.A., domestic and foreign trading subsidiaries of CIECH S.A., as well as selected manufacturing companies (CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., SDC Group, CIECH Pianki Sp. z o.o.) while the manufacturing activity is carried out by production companies, subsidiaries of CIECH S.A. The production is located in 8 plants, with four largest production plants (two in Poland, one in Germany and one in Romania) operate in the soda segment and manufacture soda ash and soda derived products (in the case of CIECH Soda Romania S.A., the plant also manufactures products in the silicates and glass segment, the soda plant in Janikowo also manufactures salt products and the plant in Germany produces electric energy sold to third parties). The other 4 plants are dedicated to the organic segment, and to silicates and glass segment, and are located in Poland. In 2018, a Spanish company, Proplan Plant Protection Company, S.L., engaged in the production and sale of crop protection chemicals, became a member of the CIECH Group. The company specialises in registering, manufacturing and distributing fungicides, herbicides, insecticides, growth regulators. It operates in the European market, mostly in Spain, and on other continents – mainly in Australia and Africa.

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 30.06.2019 / % of votes at the GMS	Share in equity as at 30.06.2018 / % 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 of 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 Trading S.A.	Warsaw	Soda, Other operations	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.*	Itowa	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	Other	Since 2017, the Company has been dormant.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Organic	Manufacture of organic and other inorganic chemicals.	100%	100%
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%
Vasco Polska Sp. z o.o. (presently CIECH Żywice Sp. z o.o.)	Nowa Sarzyna	Other	Utilisation of post-soda lime in the restoration of degraded land.	90%	90%
CIECH Cerium Sp. z o.o. SK	Warsaw	Other	Financing activities. The company was liquidated in the fourth quarter of 2018.	-	100%
Beta Cerium Sp. z o.o.	Warsaw	Other	Financing activities, leasing of non-current assets to the CIECH Group companies. The company was merged with CIECH Soda Polska S.A. and Cerium Finance Sp. z o.o. in the fourth quarter of 2018.	-	100%
Bosten S.A.	Warsaw	Other	Research and developments activities.	100%	100%
CIECH Nieruchomości S.A.**	Warsaw	Other	Real property agency, real property management.	100%	100%
Proplan Plant Protection Company S.L.	Madrid, Spain	Organic	Production of crop protection chemicals	100%	-



Company name	Registered office	Segment	Business	Share in equity as at 30.06.2019 / % of votes at the GMS	Share in equity as at 30.06.2018 / % of votes at the GMS
CIECH R&D Group					
CIECH R&D Sp. z o.o.	Warsaw	Other	Research and developments activities, granting licenses to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta".	100%	100%
Smart Fluid Sp. z o.o.	Warsaw	Other	Research & Development	52.83%	-
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%
JANIKOSODA S.A.	Warsaw	Other	Since March 2017, the Company has been dormant.	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	Dormant.	100%	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. The company was merged with CIECH Soda Polska S.A. and Beta Cerium Sp. z o.o. in the fourth quarter of 2018.	-	100%
Gamma Finanse Sp. z o.o.***	Warsaw	Other	Financing activities.	100%	100%
CIECH Sarzyna Group					
CIECH Sarzyna S.A.	Nowa Sarzyna	Organic	Manufacture of resins, 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		100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
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%.

**Shares in the share capital acquired by CIECH S.A. — 99.18% and CIECH Soda Polska S.A. — 0.82%.

***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.



5.2. INFORMATION ON NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATES

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.

The total share of data of subsidiaries not covered by consolidation under the full method, due to their irrelevance, in relation to the total values of the CIECH Group for the period from 1 January 2019 to 30 June 2019 does not exceed 1% of total consolidated assets of the Group and 2% of consolidated net revenues from sales of goods and products and financial operations.

Aggregated data of associates and jointly-controlled which were not measured under the equity method for the period from 1 January 2019 to 30 June 2019 did not exceed 2% of the total consolidated equity of the CIECH Group.

5.3. SIGNIFICANT EFFECTS OF CHANGES TO THE ORGANISATIONAL STRUCTURE OF THE CIECH GROUP IN THE FIRST HALF OF 2019

CIECH R&D Sp. z o.o.

On 22 November 2018, the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. increased the Company's share capital by PLN 2 thousand, i.e. from PLN 40,005 thousand to PLN 40,007 thousand through creation of new, equal and indivisible shares with a value of PLN 50 per share. The right to acquire 40 new shares with a total nominal value of PLN 2 thousand was granted to CIECH S.A. in exchange for a cash contribution of PLN 2,200 thousand, where the amount of PLN 2,198 thousand represented the share premium allocated to the supplementary capital. The court registered the share capital increase on 23 January 2019.

Vasco Polska Sp. z o.o. (presently CIECH Żywiec Sp. z o.o.)

On 14 November 2018, the Extraordinary Shareholders' Meeting of Vasco Polska Sp. z o.o. increased the Company's share capital by PLN 500, i.e. from PLN 50 thousand to PLN 50.5 thousand through creation of 10 new, equal and indivisible shares with a nominal value of PLN 50 per share. The pre-emptive right of existing shareholders to acquire new shares in the increased share capital pro rata to their respective holdings in the share capital was waived. The right to acquire the new shares was granted to CIECH S.A. in exchange for a cash contribution of PLN 130 thousand, where the amount of PLN 129.5 thousand represents the share premium and was allocated to the supplementary capital. By way of a representation of 15 November 2018, CIECH S.A. acquired the new shares. The Court registered the increase of the Company's share capital on 11 January 2019.

On 15 November 2018, CIECH S.A. and a minority shareholder signed an agreement on the sale of 100 shares in Vasco Polska sp. z o.o. with a nominal value of PLN 50 per share, representing 10% of the Company's share capital in total. Following the aforementioned operations, CIECH S.A. was registered by the Court as the sole shareholder of the Company on 11 January 2019.

On 8 July 2019, the Extraordinary Shareholders' Meeting of Vasco Polska sp. z o.o. resolved to increase the Company's share capital by PLN 5 thousand, i.e. from PLN 50.5 thousand to PLN 55.5 thousand through creation of 100 new, equal and indivisible shares with a nominal value of PLN 50 per share. The new shares were acquired by the current shareholder of the company, CIECH S.A., in exchange for a cash contribution of PLN 755 thousand, where the amount of PLN 750 thousand will be credited to the supplementary capital as the share premium. On 8 July 2019, the Extraordinary Shareholders' Meeting of Vasco Polska sp. z o.o. also resolved to change the Company's name to CIECH Żywiec S.A. and to change the Company's registered office from Inowrocław to Nowa Sarzyna. On 31 July 2019, the Court registered the increase in the Company's share capital and its new registered office and on 13 August registered change of the Company's name.

Bosten S.A.

On 29 April 2019, the Extraordinary Shareholders' Meeting of BOSTEN S.A. increased the Company's share capital by PLN 100, i.e. from PLN 100 thousand to PLN 100.1 thousand. The share capital was increased through the issue of 10 new, equal and indivisible series C bearer shares numbered from 001 to 010, with a nominal value of PLN 10 each and a total nominal value of PLN 100. The issue price of series C shares was PLN 17.1 per share. The series C shares of the new issue were acquired by CIECH SA, the sole shareholder of the Company, in exchange for a cash contribution of PLN 171 thousand. The share premium was transferred to the Company's supplementary capital. Until the publication of this report, the court has not registered the described increase of the share capital.



5.4. THE MOST IMPORTANT EVENTS IN THE CIECH GROUP IN THE FIRST HALF OF 2019

Appointment of a Supervisory Board Member

On 28 January 2019, the Extraordinary Shareholders' Meeting of CIECH S.A. appointed Mr Marek Kośnik to the Supervisory Board.

Review of the Group's structure

On 19 March 2019, the Management Board of CIECH S.A. adopted a resolution to initiate a detailed review of the following options:

- changes to the corporate and organisational structure of the CIECH Group, with particular emphasis on the target model in the form of a holding company with a division of competences between individual business areas and the headquarters;
- changes to the asset structure of the CIECH Group.

This review is aimed at achieving the key objective under the Strategy, i.e. creating an effective and fully diversified chemical holding company that generates positive value for shareholders in the long term. This goal is also to be achieved by building value through changes in the asset portfolio and focusing on areas of key importance for the CIECH Group's operations.

As part of the review, CIECH S.A. will carry out a detailed analysis of the corporate and organisational model of the CIECH Group, and possible measures aimed at its optimisation in order to adjust the CIECH Group's structure to the challenges arising from the Strategy. Measures considered may include, among others, transfer of individual assets within the Company's group, as well as acquisition and divestment of selected assets. The analyses conducted by CIECH S.A. will be combined with the research of the mergers and acquisitions market in various areas.

Pursuant to the decision of the Management Board of CIECH S.A., the review of the options of changes in the asset structure will primarily concern the following companies: CIECH Pianki Sp. z o.o. and CIECH Trading S.A.

The Management Board of CIECH S.A. stipulates that no decision has been made in relation to the selection of any particular option of specific changes to the corporate and organisational structure of the CIECH Group, or the structure of its assets. Thus, it is not certain whether or not, and if so – when, such decisions will be taken in the future.

Collective redundancy procedure

On 20 March 2019, CIECH Soda Romania S.A. made a decision to initiate the procedure of collective redundancies. The reason for the planned collective redundancies is the need to restructure fixed costs by reducing the level and the costs of employment in the company. For details, see current report No 9/2019.

New financing

On 18 April 2019, the CIECH S.A. as the borrower and its subsidiaries – CIECH Soda Polska S.A., CIECH Sarzyna S.A., CIECH Soda Romania S.A., Ciech Energy Deutschland GmbH and CIECH Soda Deutschland GmbH & Co. KG as the guarantors ("Guarantors") entered into three revolving credit facilities agreements. The Credit Facilities Agreements were concluded

by and between the Company and the Guarantors, and the following banks: (i) Bank Polska Kasa Opieki S.A. – up to the amount of PLN 300,000 thousand, (ii) BNP Paribas Bank Polska S.A. – up to the amount of PLN 92,788 thousand, and (iii) Banco de Sabadell S.A., London Branch – up to the amount of EUR 25,000 thousand. For details, see current report No 13/2019.

Termination of agreement for the supply of process steam

On 18 June 2019, a subsidiary of CIECH S.A. – CIECH Soda Romania S.A. – received a notice of termination of the agreement of 1 April 2019 for the supply of process steam by the main supplier of process steam, S.C. CET Govora S.A. in composition bankruptcy based in Romania ("CET"). The notice period of the Agreement is three months. The reason for termination of the agreement is the inability of CET to deliver process steam on the terms specified in the Agreement, which in the opinion of CIECH Soda Romania S.A. is related to an accident which occurred in the CET coal mine. At the same time, CET emphasised in its letter the willingness to continue cooperation with CIECH Soda Romania S.A. and invited the company to immediately commence discussions related to the determination of the new terms and conditions for the supply of process steam that will apply after the notice period. Other information concerning the termination is provided in item 2.15 hereof.

Decision to launch the preparatory phase of significant investment projects in the energy sector

On 28 May 2019, the Management Board of the CIECH S.A. decided to launch the preparatory phase of significant investment projects in the energy sector. The investment projects planned will be implemented by a subsidiary of CIECH S.A. – CIECH Soda Polska S.A., in its two locations: Janikowo and Inowrocław. As part of the Project, the construction of new production sources powered by gaseous fuel is being considered.

The purpose of the planned investment in CIECH Soda Polska S.A. is to increase the efficiency and availability of the energy area which will translate, among others, into an increase in the volume of soda production by limiting production losses and generating production reserves of steam. At the same time, the implementation of the energy mix will contribute to reducing CO₂ emissions.

The preparatory phase of the investment projects involves, among others, tender proceedings related to the selection of the designer, preparation of project documentation, verification of the market conditions for the planned Project, and obtaining relevant administrative decisions.

The value of the aforementioned investment projects is estimated at approx. PLN 250 – 300 million. The approximate time of implementation of these projects is about 3 years. The effects of the implemented project will have a positive impact on the consolidated financial performance of the CIECH Group. The final decision on the implementation of the investment project will be made within the next few quarters and will depend on, among other factors, market conditions and obtaining relevant administrative decisions.



5.5. REVIEW OF KEY ECONOMIC AND FINANCIAL FIGURES CONCERNING THE CIECH GROUP

5.5.1. BASIC FINANCIAL DATA

During the first half of 2019, the CIECH Group earned net profit from continuing operations of PLN 80,861 thousand, net cash decreased by PLN 12,366 thousand and the balance sheet total as at the end of the first half of 2019 amounted to PLN 4,855,534 thousand. The table below presents selected financial data and basic financial ratios for the first half of 2019 and 2018.

Selected financial data

	01.01.-30.06.2019	01.01.-30.06.2018	Change 2019/2018
CONTINUING OPERATIONS			
Sales revenues	1,897,350	1,819,175	4.3%
Cost of sales	(1,491,308)	(1,404,920)	(6.1%)
Gross profit/(loss) on sales	406,042	414,255	(2.0%)
Selling costs	(136,433)	(134,086)	(1.8%)
General and administrative expenses	(103,892)	(79,349)	(30.9%)
Other operating income/expense	(21,091)	25,457	-
Operating profit/(loss)	144,626	226,277	(36.1%)
Net financial income/expenses	(31,354)	(3,209)	(877.1%)
Share of profit of equity-accounted investees	763	13	5769.2%
Income tax	(33,174)	(50,272)	34.0%
Net profit/(loss) on continuing operations	80,861	172,809	(53.2%)
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	-	-	-
Net profit / (loss) for the period	80,861	172,809	(53.2%)
including:			
Net profit/(loss) attributed to non-controlling interest	(269)	317	-
Net profit/(loss) attributable to shareholders of the parent company	81,130	172,492	(53.0%)
EBITDA from continuing operations	298,458	353,645	(15.6%)
Adjusted EBITDA from continuing operations*	335,290	339,716	(1.3%)

* Principles of calculating EBITDA and adjusted EBITDA have been described in section "Ratio calculation methodology". EBITDA and adjusted EBITDA are presented in other sections, and are taken into account when calculating selected financial ratios.

5.5.2. SALES REVENUES

Consolidated net sales revenues from continued operations of the CIECH Group for the first half of 2019 amounted to PLN 1,897,350 thousand. Compared to the corresponding period of the previous year, revenues increased by PLN 78,175 thousand.

This increase was driven both by market factors such as an increase in the prices of soda on both the European and the so-called overseas markets (USD prices), an increase in salt prices, as well as by internal factors such as higher sales of silicate as a result of conversion of one of the furnaces for production of packaging into a furnace for production of silicates in 2018. The increase in sales as compared to the first half of 2018 was also driven by the consolidation of figures reported by Proplan, a company acquired in the third quarter of 2018.

In the first half of 2019, the CIECH Group's activities were focused on four business segments: soda, organic, silicates and glass, and on the transport segment. These segments generate in total more than 90% of the Group's sales revenues. The



structure of sales revenues, by business segment, has not changed significantly in comparison with 2018. Invariably, the largest share in revenues was attributed to the sales of soda segment products, i.e. 66.9%.

Sales revenues — business segments

	01.01.-30.06.2019	01.01.-30.06.2018	Change 2019/2018	Change %
Soda segment, including:	1,273,408	1,216,291	57,117	4.7%
Dense soda ash	691,304	647,477	43,827	6.8%
Light soda ash	258,342	252,190	6,152	2.4%
Salt	98,649	86,868	11,781	13.6%
Sodium bicarbonate	83,972	79,732	4,240	5.3%
Energy	77,058	76,018	1,040	1.4%
Gas*	-	2,171	(2,171)	-
Calcium chloride	12,701	12,830	(129)	(1.0%)
Other products	19,338	32,020	(12,682)	(39.6%)
Revenues from inter-segment transactions	32,044	26,985	5,059	18.7%
Organic segment, including:	473,555	426,780	46,775	11.0%
Resins	161,792	169,612	(7,820)	(4.6%)
Polyurethane foams	137,615	164,026	(26,411)	(16.1%)
Crop protection chemicals	168,691	79,943	88,748	111.0%
Other	5,277	11,753	(6,476)	(55.1%)
Revenues from inter-segment transactions	180	1,446	(1,266)	(87.6%)
Silicates and Glass segment, including:	123,918	120,288	3,630	3.0%
Sodium silicates	84,393	77,485	6,908	8.9%
Potassium silicates	3,338	2,192	1,146	52.3%
Container glass	35,680	39,563	(3,883)	(9.8%)
Other	374	967	(593)	(61.3%)
Revenues from inter-segment transactions	133	81	52	64.2%
Transport segment, including:	70,428	72,422	(1,994)	(2.8%)
Transport services	5,810	6,931	(1,121)	(16.2%)
Revenues from inter-segment transactions	64,618	65,491	(873)	(1.3%)
Other segment, including:	72,877	88,812	(15,935)	(17.9%)
Revenues from third parties	53,016	77,397	(24,381)	(31.5%)
Revenues from inter-segment transactions	19,861	11,415	8,446	74.0%
Consolidation adjustments	(116,836)	(105,418)	(11,418)	(10.8%)
TOTAL	1,897,350	1,819,175	78,175	4.3%

* Resale of surpluses of the gas purchased.

5.5.3. PROFIT/(LOSS) ON SALES AND OPERATING PROFIT/(LOSS)

After the first half of 2019, gross profit on sales amounted to PLN 406,042 thousand, whereas in the same period of the previous year it amounted to PLN 414,255 thousand. The operating profit amounted to PLN 144,626 thousand, in the comparable period it amounted to PLN 226,277 thousand.



The following had a **positive** impact on the presented results:

- Favourable economic situation in the domestic economy and chemical industry confirmed by an increase in industrial output sold by 5.1% in the first half of 2019 (in constant prices as compared to the corresponding period of the previous year).
- Strong increase in domestic sales of construction and assembly production by 6.6% during the first six months of 2019 in comparison to the same period of the previous year (the chemical industry produces many raw materials and semi-finished products used in this production).
- Stable demand on the European market.
- A few percent increase in the prices of sodium carbonate on European markets.
- Increase in soda prices on the so-called overseas markets (USD prices).
- Increase in salt prices.
- Inclusion of Proplan, a company acquired in the third quarter of 2018, in consolidation.
- Lower gas prices.
- Slightly lower crude oil prices on the global markets (by a few percent in the first half of 2019 compared to the corresponding period of the previous year) and, consequently, lower prices of some raw materials for the organic industry – favourable for operations in the organic segment of the CIECH Group.
- Higher sales of silicates resulting from the conversion of one of the furnaces for production of packaging into a furnace for production of silicates, and increase in silicate prices on the European market in 2018.

The following had a **negative** impact on the presented results:

- Continuing high prices of CO₂ units, as well as prices of energy raw materials purchased by the Group.
- A downward trend in prices of epoxy resins in Europe in the first half of 2019, to levels that are significantly lower than those of the corresponding period of the previous year – as a result of significant oversupply of Asian resins in Europe and, consequently, price pressure from competitors and decline in margins.
- Lower demand for PUR foams from the furniture and mattress sectors – lower exports of furniture and mattresses to the German market.
- Increase in fixed costs related to wage pressure and costs related to the implementation of the maintenance programme.
- Increase in costs related to the recognition of a provision for a long-term incentive scheme for the key management personnel of the CIECH Group.
- Creation of write-offs of tangible fixed assets in the subsidiary CIECH Soda Romania S.A. in connection with the potential suspension of production in the company - details are described in sections 2.6 and 2.15 of this report.

The EBIT margin for the first half of 2019 amounted to 7.6% (12.4% in the prior year), and the EBITDA margin amounted to 15.7% (19.4% in the prior year). The EBIT margin (excluding one-off events) for first half of 2019 amounted to 9.6% (11.7% in the prior year), and the EBITDA margin (excluding one-off events) amounted to 17.7% (18.7% in the prior year).

5.5.4. FINANCING ACTIVITIES AND NET PROFIT/LOSS

Financial income for the first half of 2019 amounted to PLN 3,808 thousand and decreased compared to the corresponding period of the previous year, when it amounted to PLN 21,316 thousand.

Financial expenses for the first half of 2019 amounted to PLN 35,162 thousand and increased compared to the corresponding period of the previous year, when it amounted to PLN 24,525 thousand. The area of financing activities was mainly affected by higher interest on loans and interest on newly identified leases, in accordance with IFRS 16.

The consolidated net profit for the first half of 2019 amounted to PLN 80,861 thousand (of which PLN 81,130 thousand was a net profit attributable to the shareholders of the parent company and PLN -269 thousand as the loss of non-controlling shares). The decrease in net profit as compared to the corresponding period of 2018 results from lower results from primary activities and write-offs of tangible fixed assets created in CIECH Soda Romania S.A.



5.5.5. ASSET POSITION OF THE CIECH GROUP

Basic consolidated balance sheet data

	30.06.2019	31.12.2018	Change 2019/2018
Total assets	4,855,534	4,822,132	0.7%
Total non-current assets	3,559,538	3,549,574	0.3%
Total current assets	1,295,996	1,272,558	1.8%
Inventory	421,780	438,518	(3.8%)
Current receivables	671,320	611,279	9.8%
Cash and cash equivalents	177,831	192,139	(7.4%)
Short-term financial assets	24,275	29,832	(18.6%)
Non-current assets held for sale	790	790	0.0%
Total equity	1,971,835	1,899,127	3.8%
Equity attributable to shareholders of the parent	1,971,816	1,898,839	3.8%
Non-controlling interest	19	288	(93.4%)
Total non-current liabilities	1,961,721	1,636,755	19.9%
Total current liabilities	921,978	1,286,250	(28.3%)

Assets

As at the end of the first half of 2019, the Group's non-current assets amounted to PLN 3,559,538 thousand. As compared to the balance as at 31 December 2018, the value of non-current assets increased by PLN 9,964 thousand.

This change is attributable to the introduction of measurement of rights to use an asset to the financial statements, in accordance with IFRS 16 *Leases*. As at 30 June 2019, the total effect on the Group's non-current assets was PLN 113,367 thousand.

Additionally, at CIECH Soda Romania S.A. write-offs revaluating tangible fixed assets in relation to the potential suspension of production were created - details are presented in sections 2.6 and 2.15 of this report.

The Group's current assets amounted to PLN 1,295,996 thousand as at 30 June 2019. The largest components of current assets included: short-term receivables accounting for 51.8%, inventory accounting for 32.5% as well as cash and cash equivalents accounting for 13.7% of total current assets. Compared to the end of December 2018, the value of current assets increased by PLN 23,438 thousand. This change resulted from, among other factors:

- lower balance of cash accumulated in companies,
- higher balance of trade receivables and factoring receivables which have not been settled as at the balance sheet date.

Capital resources

The sources of liquidity include cash flows generated from operating activities, cash from the sale of assets, cash from EU grants for capital expenditure, cash available due to the consortium facilities agreement, revolving credit facility agreement and overdraft. The Group also uses factoring agreements.

Liabilities

As at 30 June 2019, the CIECH Group's liabilities (total non-current and current) amounted to PLN 2,883,699 thousand, which is a decrease compared to the end of December 2018 by PLN 39,306 thousand (i.e. by 1.3%).

The debt ratio amounted to 59.4% as at 30 June 2019 (at the end of December 2018 to 60.6%). The consolidated net debt of the Group amounted to PLN 1,673,411 thousand as at 30 June 2019 and increased in comparison to the balance as at the end of December 2018 by PLN 171,643 thousand.

Debt instruments currently used

The Group's sources of debt financing include: term loan, revolving credit, overdrafts as well as lease liabilities. Additional information about the management of financial resources is provided in item 4.6. of the Management Board Report on Activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.



5.5.6. CASH POSITION OF THE CIECH GROUP

	01.01.-30.06.2019	01.01.-30.06.2018	Change 2019/2018
Net cash from operating activities	106,907	211,818	(49.5%)
Net cash from investment activities	(157,132)	(209,597)	25.0%
Net cash from financial activities	37,859	(7,105)	-
Total net cash flows	(12,366)	(4,884)	(153.2%)
Free cash flow	(50,225)	2,221	-

Total net cash flows in the first half of 2019 was negative and amounted to PLN 12,366 thousand. Compared to the same period of the previous year, the cash flows generated by the Group were lower by PLN 7,482 thousand. Cash flows from operating activities were positive and amounted to PLN 106,907 thousand. They decreased as compared to the same period in 2018 by PLN 104,911 thousand.

During the first half of 2019, the net cash flows from investing activities were negative, which was mainly the result of expenses for an investment programme implemented by the Group. The net cash from financing activities was positive and amounted to PLN 37,859 thousand, as inflows were higher than cash spent on the repayment of credit facilities.

	01.01.-30.06.2019	01.01.-30.06.2018
Financial surplus ((net profit/(loss) on continuing operations + depreciation)	234,693	300,177
Other adjustments to net profit/(loss) on continuing operations	7,199	33,269
Adjusted financial surplus (1+2)	241,892	333,446
Change in working capital	(134,985)	(121,628)
Net cash from operating activities (3+4)	106,907	211,818
Net cash from investing activities	(157,132)	(209,597)
Free cash flow (5+6)	(50,225)	2,221

During the first half of 2019, the CIECH Group generated negative free cash flows i.e. it was unable to finance its capital expenditure with cash flows from operating activities.

5.5.7. WORKING CAPITAL AND SELECTED FINANCIAL RATIOS OF THE CIECH GROUP

Liquidity of the CIECH Group

Liquidity ratios as at 30 June 2019 increased as compared to their level as at 31 December 2018. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.41 as at 30 June 2019, while the quick liquidity ratio amounted to 0.95.

	30.06.2019	31.12.2018
Current ratio	1.41	0.99
Quick ratio	0.95	0.65

Working capital of the CIECH Group

As at the end of the first half of 2019, working capital, defined as the difference between current assets and short-term liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) was positive and amounted to PLN 319,705 thousand, which is an increase by PLN 230,631 thousand compared to the end of 2018.

	30.06.2019	31.12.2018
1. Current assets, including:	1,295,996	1,272,558
Inventory	421,780	438,518
Trade receivables and services and advances for deliveries	423,085	377,072
2. Cash and cash equivalents and short-term investments	202,106	221,971
3. Adjusted current assets (1-2)	1,093,890	1,050,587



	30.06.2019	31.12.2018
4. Current liabilities, including:	921,978	1,286,250
Trade liabilities and advances taken	316,567	447,871
5. Short-term credits and other current financial liabilities*	147,793	324,737
6. Adjusted current liabilities (4-5)	774,185	961,513
7. Working capital including short-term credits(1-4)	374,018	(13,692)
8. Working capital (3-6)	319,705	89,074

* Other short-term financial liabilities include current lease liabilities + current derivative liabilities + factoring liabilities.

The CIECH Group's profitability ratios

During the first half of 2019, profitability ratios of the CIECH Group in respect of the continuing operations were at a lower level than in the first half of 2018.

THE CIECH GROUP'S PROFITABILITY RATIOS

	01.01.-30.06.2019	01.01.-30.06.2018	Change 2019/2018
CONTINUING OPERATIONS			
Gross return on sales	21.4%	22.8%	(1.4) p.p.
Return on sales	8.7%	11.0%	(2.3) p.p.
EBIT margin	7.6%	12.4%	(4.8) p.p.
EBITDA margin	15.7%	19.4%	(3.7) p.p.
Adjusted EBIT margin	9.6%	11.7%	(2.1) p.p.
Adjusted EBITDA margin	17.7%	18.7%	(1.0) p.p.
Net return on sales (ROS)	4.3%	9.5%	(5.2) p.p.
Return on assets (ROA)	1.7%	3.6%	(1.9) p.p.
Return on equity (ROE)	4.1%	8.9%	(4.8) p.p.
Earnings/(loss) per share (in PLN) from continuing operations	1.54	3.27	(1.73)

PROFITABILITY LEVELS OF THE CIECH GROUP



EBITDA (A) – adjusted EBITDA – excluding one-off events reported in particular quarters.

Source: CIECH S.A.

Indebtedness

The debt ratio decreased slightly in comparison to December 2018 and amounts to 59.4%. On the other hand, the relative level of net debt (net financial liabilities in relation to EBITDA) increased as compared to the end of 2018. The increase in debt results from:

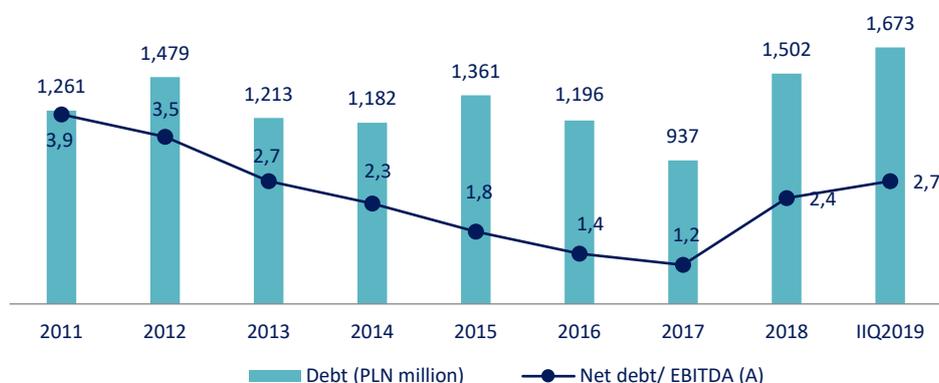
- utilisation of available credit limits by CIECH S.A.,
- measurement of lease liabilities in accordance with the guidelines of the new IFRS 16 Leases.



	30.06.2019	31.12.2018
Loans, borrowings and other debt instruments	1,680,480	1,632,666
Lease liabilities	137,519	23,540
Factoring liabilities	26,233	20,309
Negative net valuation of derivatives	7,010	17,392
Gross debt	1,851,242	1,693,907
Cash and cash equivalents	177,831	192,139
Net debt	1,673,411	1,501,768

The CIECH Group's debt ratios

	30.06.2019	31.12.2018	Change 2019/2018
Debt ratio	59.4%	60.6%	(1.2) p.p.
Long term debt ratio	40.4%	33.9%	6.5 p.p.
Debt to equity ratio	146.2%	153.9%	(7.7) p.p.
Equity to assets ratio	40.6%	39.4%	1.2 p.p.
Gross debt	1,851,242	1,693,907	9.3%
Net debt	1,673,411	1,501,768	11.4%
EBITDA annualised	599,217	654,403	(8.4%)
Adjusted EBITDA (annualised)	629,067	633,493	(0.7%)
Net debt / EBITDA annualised	2.8	2.3	17.4%
Net debt / Adjusted EBITDA (annualised)	2.7	2.4	12.5%
Gross debt / EBITDA annualised	3.1	2.6	11.5%
Gross debt / Adjusted EBITDA (annualised)	2.9	2.7	11.1%



Debt financing of the Group

The Group's debt financing is secured mainly through loans made available to CIECH S.A. under:

1. The Facilities Agreement dated 9 January 2018:

- term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 30 June 2019 was PLN 1,340,080 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 30 June 2019 was PLN 140,000 thousand),

2. overdraft facilities up to PLN 100,000 thousand and EUR 10,000 thousand under agreements dated 28 and 29 August 2018 (as at 30 June 2019, the amount used was PLN 84,309 thousand),

3. revolving credit facilities up to PLN 300,000 thousand, PLN 92,788 thousand and EUR 25,000 thousand, under three agreements dated 18 April 2019 (as at 30 June 2019, the amount used was PLN 106,300 thousand).

Detailed information about loan liabilities is disclosed in item 4.6.1 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.

**Factors and events that may affect future performance**

In the opinion of the Management Board of CIECH S.A. in further months of 2019 the trends observed in the past few months will continue. Pursuant to the Strategy, the CIECH Group will focus on the following actions conducive to further development:

- further development of the soda business, including through a focus on the development of specialist products;
- further development of other business lines, both in the soda segment and in other segments, in particular increasing the efficiency of the Agro area in CIECH Sarzyna S.A., actions aimed at registering new products;
- further actions aimed at optimising the utilisation level of capacity in all production companies of the Group;
- continuous process of improving business and operational processes in all companies of the CIECH Group.
- further analysis of the corporate and organisational model of the CIECH Group, and possible measures aimed at its optimisation in order to adjust the CIECH Group's structure to the challenges arising from the Strategy. Measures considered may include, among others, transfer of individual assets within the CIECH Group, as well as acquisition and divestment of selected assets (for details, see page 56 hereof).

However, one should keep in mind that the financial performance of the CIECH Group is affected by both the situation on main markets of the Group's operations and the global macroeconomic situation.

5.6. SIGNIFICANT RISK FACTORS

In connection with its operations, the CIECH Group is exposed to a number of risks, including financial risks. The most important risk factors are presented in details in item 3.4 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2018, published on 25 July 2019.

During the first half of 2019, no new risks occurred, and the previously identified factors have not changed significantly, except for the risk related to the availability of raw materials in connection with the termination of the contract for the supply of process steam on 18 June 2019. The risk related to the supply of process steam was estimated as high and the details are provided in item 2.15 hereof. There were no significant changes in relation to the Group's risk management policy.

Exposure to currency risk

The table below presents the estimated currency exposure of the CIECH Group in EUR and USD as at 30 June 2019 due to financial instruments (for EUR – excluding figures of the SDC Group, Ciech Group Financing AB and Proplan Plant Protection Company, S.L, because EUR is their functional currency):

Exposure to currency risk	EUR ('000)	USD ('000)	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Loans granted sensitive to FX rate changes	94,100	-	x	
Trade and other receivables	26,696	18,771	x	
Cash including bank deposits	18,939	5,172	x	
Liabilities				
Trade and other liabilities	(10,990)	(6,881)	x	
Term loan liabilities	(30,000)	-		x
Working capital facility liabilities	(25,000)	-	x	
Other liabilities in respect of credits and loans	(12,269)	-	x	
Hedging instruments: Forward	(40,479)	(36,700)		x
Forward (not designated to hedge accounting)	(2,700)	-	x	
CIRS (not designated to hedge accounting)	(8,000)	-	x	
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(209,715)	-		x
Total exposure	(199,418)	(19,638)		

* Measurement 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 30 June 2019.



Analysis of sensitivity to currency risk – EUR	(PLN '000)*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
EUR			
Foreign-currency balance sheet items	508	808	(300)
Hedging instruments: Forward and CIRS	(2,502)	-	(2,502)
USD			
Foreign-currency balance sheet items	171	171	-
Hedging instruments: Forward	(367)	-	(367)

Increase of EUR/PLN or USD/PLN exchange rate by 1 grosz.

The CIECH Group applies hedge accounting.

5.7. FULFILMENT OF PROFIT FORECASTS PREVIOUSLY PUBLISHED FOR A GIVEN YEAR IN THE LIGHT OF THE RESULTS DISCLOSED IN THE REPORT AGAINST THE FORECAST RESULTS

The CIECH Group did not publish any forecasts for 2019.

5.8. FACTORS AFFECTING THE CIECH GROUP'S RESULTS WITH PARTICULAR FOCUS ON THE NEXT SIX MONTHS

The CIECH Group business is largely based on the production and sales of chemical products used as raw materials and semi-finished goods in a wide range of industries, including the glass, detergent, furniture, automotive, construction, food, agricultural, pharmaceutical, chemical and consumer goods industries. The demand for the CIECH Group customers' products depends on a number of factors, including general economic conditions.

Costs of labor and energy, interest rates and other macroeconomic factors also have a significant impact on the Group's operations. Due to the fact that a significant portion of the Group's revenue and expenses is generated in foreign currencies, changes in exchange rates also affect its financial performance.

As a result, the volume and profitability of the CIECH Group companies' sales depend on these variables as well as on the economic situation in Poland, Europe, and worldwide.

Situation in industries of recipients of products of the Group in Poland

Poland is the largest market of the CIECH Group. The direct, most important domestic recipients of the Group's products include: glass industry, chemical and plastic products industries, agriculture, furniture industry, food industry and construction industry. The development of these sectors of the economy depends on the economic situation in Poland.

According to the data of the Central Statistical Office, the sold industrial output at constant prices during the first 6 months of 2019 increased by 5.1% as compared with the corresponding period of the previous year (in 2018 — an increase by 6.2%). In the current year, the relevant dynamics of production in the industries of significant importance to the Group's activities (as receiving or target markets) were: chemicals and chemical products (increase by 6.8%); rubber and plastic products (increase by 7.2%); manufacture of motor vehicles (increase by 4.2%); manufacture of furniture (increase by 3.2%; including bedroom furniture – decrease by 6.8%, in terms of volumes); manufacture of food (increase by 4.2%); manufacture of paints and other coating products (increase by 6.6%, in terms of volumes), construction and assembly production (increase by 6.6%).

After last year's continued high rate of the Polish economic growth (GDP growth rate of 5.1% according to the Central Statistical Office), a slight slowdown is recorded in Poland in 2019 (the European Commission projects that GDP growth will amount to 4.4%). Similar trends should be expected in the chemical industry which usually develops similarly to the economy as a whole.

Economic situation in Europe and in the world

The activity of the CIECH Group is based, in a considerable part, on the sales of chemical products on foreign markets. The level of profitability on sales depends on the global economic situation in Europe and in the world. Global economic downturn usually results in the fall of the demand for raw materials on global markets and hence on the amount of export turnover of the Group.



As projected by the International Monetary Fund, the dynamics of global economic development is expected to weaken slightly in 2019 year on year (GDP growth by 3.2% vs. 3.6% in 2018 as a result of, among other factors, increased trade barriers between the USA and China and growing uncertainty about economic policy in some large economies). The largest Asian economies will continue grow relatively quickly (India, China, and ASEAN countries, for which the GDP growth indicators in 2019 should be, respectively: 7.0%, 6.2%, 5.0%). Among large economies, the relatively weaker conditions are expected in the current year in Japan, Russia and Brazil (expected GDP growth rates in 2019 of 0.9%, 1.2% and 0.8% respectively). According to the IMF, a clear acceleration in 2019 can be expected in sub-Saharan Africa (South Africa).

In European Union, the current relatively good economic situation is expected to slow down significantly (GDP growth in EU 28 by 1.4% in 2019 vs. 2.0% in 2018, according to the European Commission's forecasts).

For the chemical sector, the American Chemical Chamber (ACC) expects that this year the growth rate of global chemicals production will increase for another year in a row by approx. 3%.

On the other hand, a certain stagnation in the chemical industry is expected in the European Union. According to the European Chemical Industry Council (CEFIC), in 2019 the chemical industry output of the European Union will increase slightly by 0.5%, compared to a decrease by 0.7% in the previous year. However, projections for the largest market - Germany - indicate that there may even be a significant drop in output (according to VCI – German Chemical Industry Association).

For the European construction sector, a positive but declining growth rate of construction is expected to continue for the next 2-3 years. According to Euroconstruct, construction output in Western Europe and Central Europe will increase by 1.9% in 2019, compared to 3.1% in 2018. However, in Central European countries, including Poland, much higher growth rates can be expected. As projected by Euroconstruct, in 2019 construction output in our region of Europe should increase by approx. 7.4% (compared to approx. 14% in 2018).

OTHER FACTORS AFFECTING THE CIECH GROUP'S ACTIVITIES

Factors

Description

Economic situation on raw material market	<p>Due to the fact that costs of raw materials account for a large share of total costs of the Group, the situation on key raw material markets (availability and price) significantly affect the CIECH Group's activities and financial performance. Price and availability of raw materials depends largely on economic and political developments across the globe.</p> <p>Hard coal – situation on the market depends on a number of macroeconomic factors. The largest producer of hard coal in the European Union is Poland, but EU's import of coal (primarily from Russia, Columbia, USA and Australia) is nearly two times higher than production. Most of the coal imported to the EU is power coal, i.e. coal used by the CIECH Group in the production of process steam and electricity in soda plants in Poland. Despite the fact that the Group buys it usually from Polish mines, the price of thermal coal for CIECH S.A. in a long term depends on the European and global situation in the area of demand and supply.</p> <p>Gas – the main energy resource used by the combined heat and power plant at the Stassfurt plant. The situation on the gas market depends on many factors, such as the price of oil, demand for gas due to the current weather conditions and the current share of gas in the energy mix. CIECH Energy Deutschland GmbH (CED) burns two types of natural gas, from local sources and imported. Gas imports to Germany are from Russia (around 40%), Norway (around 21%) and the Netherlands (around 29%). In the gas combustion process, steam and electricity are generated, which is also sold outside the Group. Gas supplies are realized on the basis of bilateral delivery contracts, long-term contracts or short-term purchases (spot).</p> <p>Process steam – this form of heat energy is used by CIECH Soda Romania S.A. in the production process of sodium carbonate and liquid silicates, the company buys it from an external supplier. The price of a process steam is determined within the framework of bilateral negotiations with the supplier and depends in a significant way on the current costs of fuel (natural gas and lignite), as well as the costs of issuing EUA certificates. On 18 June 2019, this agreement was terminated. See item 2.15 hereof for details.</p> <p>Furnace fuel (coke/anthracite) – coke prices depend primarily on prices of coking coal, from which it is produced. The largest global producer of coke is China which, at the same time, is one of the largest consumers of this raw material. In Europe, coke is produced mainly in Poland and the Czech Republic. In its business activity, the Group uses anthracite as a substitute for coke. The main source of anthracite for Europe is Russia. Due to relatively high prices of coke, in the first quarter of 2019 the Group used anthracite to a large extent in the furnace mixture.</p> <p>Oil-derivative raw materials – used primarily in the organic segment, are linked to oil prices. Oil prices depend primarily on macroeconomic and political factors which translate into global demand and supply situation.</p>
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Factors	Description
Exchange rates of Polish zloty (PLN) and Romanian leu (RON) to euro (EUR) and US dollar (USD)	The CIECH Group's main source of exposure to foreign currency risk is related to EUR and USD in which export sales are denominated. Weakening of PLN and RON (in which significant costs are incurred) in relation to EUR and USD (in which a material portion of sales is made) has a positive impact on the CIECH Group's financial performance. The Group applies natural hedging and hedging instruments.
Volume of chemical production capacity on markets where the CIECH Group operates	<p>In the sectors of mass chemical products, in which the CIECH Group operates, the capital expenditures are an important barrier to entry, and in the case of the soda segment – an access to natural resources. For this reason, in the scope of the most important segment of the CIECH Group, the soda segment, green field investments are rare and generally done outside Europe.</p> <p>The CIECH Group's business was significantly affected by the extension of large soda ash and sodium bicarbonate production capacity carried out in recent years in Turkey. This affected the supply and demand situation and prices, mainly in Europe. On the other hand, it should be noted that the commissioning of new capacity in Turkey has been spread over several years and coincided with strong demand in markets served by CIECH and environmental constraints in the world's largest market, China. In the next 2-3 years, new sodium carbonate capacities will probably be commissioned mainly in China and India. In the case of China, however, it is important to bear in mind the simultaneous efforts of the authorities to protect the environment and the related possible further shutdowns of some old or inefficient factories. Therefore, there is still a considerable uncertainty about the balance of capacity changes in this country. Other investment projects that could significantly increase global supply are being considered in the US. However, they will rather be implemented in the longer perspective of 4-5 years.</p>
Environmental requirements	<p>REACH system implementation</p> <p>In accordance with the REACH regulation, the Group's companies selling substances in quantities exceeding 1 tonne p.a. have completed or plan to complete full registration of these substances by defined deadlines, which will enable them to continue their operations in the current scope.</p> <p>Emission trading system</p> <p>Production companies of the CIECH Group are included in the emission trading system. External analyses performed by the CIECH Group companies indicate that the amount of free CO₂ emission allowances in the 3rd settlement period (2013–2020) will be insufficient to cover the actual demand for this type of settlement units. In addition to the direct costs connected with the purchase of CO₂ emission allowances, the CIECH Group companies will bear higher costs of electricity due to their assumption of the costs of purchase of emission allowances from the producers.</p>

5.9. CIECH S.A.'S SHAREHOLDERS HOLDING AT LEAST 5% OF SHARES/VOTES AT THE GENERAL SHAREHOLDERS' MEETING

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. The number of shares and their nominal value has not changed since the last reporting period.

SHAREHOLDERS

As of the date of publishing the previous financial statements (i.e. the date of publication of the Extended consolidated quarterly report of the CIECH Group for the first quarter of 2019, i.e. 25 July 2019), CIECH S.A. has not received any information about a change in interests held by shareholders in the total number of shares. Therefore, to the best knowledge of CIECH S.A., as at the day of approving this report, shareholders holding significant blocks of shares (at least 5%) include the following entities:

**Shareholder structure of CIECH S.A. as at the date of approval of the report (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%
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	Ordinary bearer	3,300,000	3,300,000	6.26%	6.26%
Other	Ordinary bearer	22,447,857	22,447,857	42.60%	42.60%

* 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).

** On the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of Shareholders of CIECH S.A. on 22 August 2019, CR 35/2019 prepared and published pursuant to Article 70(3) 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 (Journal of Laws of 2009, No 185, item 1439).

5.10. CHANGES IN THE NUMBER OF SHARES IN CIECH S.A. HELD BY MANAGEMENT AND SUPERVISORY BODIES OF CIECH S.A.

The following Members of the Management Board of CIECH S.A. and of the Supervisory Board of CIECH S.A. held shares of CIECH S.A. as at 30 June 2019:

Mr Artur Osuchowski – Member of the Management Board of CIECH S.A., held 65,195 shares of CIECH S.A.

As at 30 June 2019, Mr Sebastian Kulczyk – President of the Supervisory Board of CIECH S.A., held indirectly 26,952,052 shares of CIECH S.A., representing 51.14% of the company's share capital.

Other Management Board Members of CIECH S.A. and Supervisory Board Members of CIECH S.A. did not hold any shares of the Company as at 30 June 2019.

The following Members of the Management Board of CIECH S.A. held shares of CIECH S.A. as at the date of approval hereof, i.e. as at 10 September 2019:

Mr Dawid Jakubowicz – President of the Management Board of CIECH S.A. held 5,713 shares of CIECH S.A.

Mr Artur Osuchowski – Member of the Management Board of CIECH S.A. held 65,195 shares of CIECH S.A.

Mr Mirosław Skowron – Member of the Management Board of CIECH S.A. held 1,930 shares of CIECH S.A.

In addition, Mr Rafał Czubiński – Managing Director of CIECH S.A. held 1,950 shares of CIECH S.A. as at 10 September 2019.

Managers and supervisors of CIECH S.A., as at 30 June 2019 and the date of approval hereof, did not hold any shares in other companies of the CIECH Group and this situation did not change in the period from the publication of the Extended consolidated quarterly report of the CIECH Group for the first quarter of 2019, i.e. from 25 July 2019.

5.11. LITIGATION PENDING BEFORE A COURT, COMPETENT ARBITRATION AUTHORITY OR PUBLIC ADMINISTRATION AUTHORITY**5.11.1. SIGNIFICANT DISPUTED LIABILITIES OF THE CIECH GROUP**

As at 30 June 2019, the CIECH Group did not have any significant disputed liabilities of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described in item 2.13, in "Audits of tax settlements at the CIECH Group", and the case described below:

**Case brought by OOO GK ZEMLYAKOFF against CIECH Sarzyna S.A. for payment**

Subject of the claim: compensation for improper performance of the contract. Value of the dispute: USD 7,566 thousand. On 4 March 2019, CIECH Sarzyna S.A. received a counter-claim from OOO GK ZEMLYAKOFF for payment of USD 7,566 thousand with statutory interest for delay from the date of filing the lawsuit (30 November 2016). The amount claimed by OOO GK ZEMLYAKOFF constitutes compensation for improper performance of the contract consisting in the delivery of a defective crop protection product called Expert Trio OF KE. In order to demonstrate the damage suffered, witnesses and documents from Zemlyakoff were appointed, including agreements between Zemlyakoff and counterparties (Zemlyakoff claims that the damage is the loss of profit resulting from the termination of a commercial relationship due to a defective product, in particular with two main counterparties). Zemlyakoff presented the same evidence in response to the lawsuit brought by CIECH Sarzyna S.A. for payment. Given the evidence submitted, Zemlyakoff's claim for damages, disregarding its unfoundedness (CIECH Sarzyna S.A. consistently denies responsibility for the product's defectiveness), has not been demonstrated in terms of the existence of damage, its amount and adequate causation. According to CIECH Sarzyna S.A. and its representative, the claim should be dismissed. On 31 May 2019, the Regional Court in Rzeszów, acting as the court of the first instance, dismissed the counterclaim and awarded CIECH Sarzyna S.A. the requested amount plus interest. The judgment is not final.

5.11.2. SIGNIFICANT DISPUTED RECEIVABLES OF THE CIECH GROUP

As at 30 June 2019, the CIECH Group did not hold any significant disputed receivables of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies.

5.12. LOAN OR BORROWING SURETIES OR GUARANTEES GRANTED BY CIECH S.A. OR ITS SUBSIDIARY

Information about loan or borrowing sureties or guarantees is presented in item 2.13 hereof.

Letters of support

As at 30 June 2019, 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 Innogy Gas Storage NWE GmbH ("Innogy") 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 45.8 million from Innogy by 30 June 2019. 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 Innogy resulting from the above-mentioned agreement.

5.13. INFORMATION ON TRANSACTIONS BETWEEN THE KEY MANAGEMENT PERSONNEL OF CIECH S.A. AND RELATED PARTIES

Information on transactions with related parties is presented in item 2.11 hereof.



RATIO CALCULATION METHODOLOGY

Principles of ratio calculation (according to the data for continuing operations):

EBITDA (%)	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
Adjusted EBITDA (%)	EBITDA excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
gross return on sales	gross profit on sales for a given period / net revenues from sales of products, services, goods and materials for a given period
return on sales	profit for a given period / net revenues from sales of products, services, goods and materials for a given period
EBIT margin	operating profit for a given period / net revenues from sales of products, services, goods and materials for a given period
EBITDA margin	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
adjusted EBIT margin	operating profit for a given period excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
adjusted EBITDA margin	EBITDA excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
net return on sales (ROS)	net profit for a given period / net revenues from sales of products, services, goods and materials for a given period
return on assets (ROA)	net profit for a given period/total assets at the end of a given period
return on equity (ROE)	net profit for a given period/total equity at the end of a given period
debt ratio	the ratio of current and non-current liabilities to total assets; measures the share of external funds in financing of a company's activity
long-term debt ratio	the ratio of non-current liabilities to total assets; measures the share of non-current liabilities in financing of company's activity
debt to equity ratio	the ratio of total liabilities to equity
equity to assets ratio	the ratio of equity to total assets; measures the share of equity in financing of a company's activity
net financial liabilities	liabilities from loans, borrowings (plus overdraft) and other debt instruments (leases + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities) less cash and cash equivalents
gross financial liabilities	liabilities from loans, borrowings (plus overdraft) and other debt instruments (leases + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities)



REPRESENTATION OF THE MANAGEMENT BOARD

This Extended consolidated report of the CIECH Group for the first half of 2019 was approved by the Management Board of CIECH S.A. at its registered office on 10 September 2019.

Warsaw, 10 September 2019.

(signed on the polish original)

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Dawid Jakubowicz — President 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)

.....

Mirosław Skowron — 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