



# FINANCIAL STATEMENTS

of CIECH S.A. for 2016



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



## CIECH S.A. – SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	in PLN thousand		in EUR thousand	
	12 months ended 31.12.2016	12 months ended 31.12.2015	12 months ended 31.12.2016	12 months ended 31.12.2015
Sales revenues	2,193,357	2,038,491	501,259	487,118
Operating profit/(loss)	300,774	315,225	68,737	75,326
Profit/(loss) before tax	194,678	278,532	44,491	66,558
Net profit / (loss) for the period	152,441	331,578	34,838	79,234
Other comprehensive income net of tax	(2,703)	3,787	(618)	905
Total comprehensive income	149,738	335,365	34,220	80,139
Cash flows from operating activities	344,602	56,987	78,754	13,618
Cash flows from investment activities	(86,973)	(186,185)	(19,876)	(44,491)
Cash flows from financial activities	(87,457)	293,785	(19,987)	70,203
Total net cash flows	170,172	164,587	38,891	39,330
	<b>as at 31.12.2016</b>	<b>as at 31.12.2015</b>	<b>as at 31.12.2016</b>	<b>as at 31.12.2015</b>
Total assets	3,599,972	3,268,739	813,737	767,040
Non-current liabilities	1,467,349	1,578,807	331,679	370,482
Current liabilities	835,857	392,709	188,937	92,153
Total equity	1,296,766	1,297,223	293,121	304,405
Share capital	287,614	287,614	65,012	67,491

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

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

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

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## STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	<i>nota</i>	01.01.-31.12.2016	01.01.-31.12.2015
<b>CONTINUING OPERATIONS</b>			
Sales revenues	3.1	2,193,357	2,038,491
Cost of sales	3.2	(1,651,553)	(1,592,087)
<b>Gross profit/(loss) on sales</b>		<b>541,804</b>	<b>446,404</b>
Other operating income	3.4	3,387	86,361
Selling costs	3.2	(167,804)	(145,914)
General and administrative expenses	3.2	(68,524)	(64,755)
Other operating expenses	3.4	(8,089)	(6,871)
<b>Operating profit/(loss)</b>		<b>300,774</b>	<b>315,225</b>
Financial income	3.5	190,327	309,744
Financial expenses	3.5	(296,423)	(346,437)
<b>Net financial income/(expenses)</b>		<b>(106,096)</b>	<b>(36,693)</b>
<b>Profit/(loss) before tax</b>		<b>194,678</b>	<b>278,532</b>
Income tax	4.1	(42,237)	53,046
<b>Net profit/(loss) on continuing operations</b>		<b>152,441</b>	<b>331,578</b>
<b>DISCONTINUED OPERATIONS</b>			
Net profit/(loss) on discontinued operations		-	-
<b>Net profit / (loss) for the period</b>		<b>152,441</b>	<b>331,578</b>
<b>Earnings/(loss) per share (in PLN):</b>			
Basic		2.89	6.29
Diluted		2.89	6.29
<b>Earnings/(loss) per share (in PLN) from continuing operations:</b>			
Basic		2.89	6.29
Diluted		2.89	6.29

The statement of profit or loss of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.

## STATEMENT OF OTHER COMPREHENSIVE INCOME OF CIECH S.A.

		01.01.-31.12.2016	01.01.-31.12.2015
<b>Net profit/(loss) on continuing operations</b>		<b>152,441</b>	<b>331,578</b>
Net profit/(loss) on discontinued operations		-	-
<b>Net profit / (loss) for the period</b>		<b>152,441</b>	<b>331,578</b>
<b>Other comprehensive income before tax that may be reclassified to statement of profit or loss</b>	3.6	<b>(3,295)</b>	<b>4,184</b>
Cash flow hedge		(3,295)	4,184
<b>Other comprehensive income before tax that may not be reclassified to statement of profit or loss</b>	3.6	<b>102</b>	<b>491</b>
Actuarial gains		102	491
<b>Income tax attributable to other comprehensive income</b>		<b>490</b>	<b>(888)</b>
Income tax attributable to other comprehensive income that may be reclassified to statement of profit or loss	4.1	510	(795)
Income tax attributable to other comprehensive income that may not be reclassified to statement of profit or loss	4.1	(20)	(93)
<b>Other comprehensive income net of tax</b>		<b>(2,703)</b>	<b>3,787</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>149,738</b>	<b>335,365</b>

The statement of other comprehensive income of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.



## STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

	<i>nota</i>	31.12.2016	31.12.2015*
<b>ASSETS</b>			
Property, plant and equipment	5.1	11,362	12,808
Intangible assets	5.2	9,251	9,462
Long-term financial assets	5.3	2,474,312	2,369,333
Deferred income tax assets	4.3	98,257	135,316
<b>Total non-current assets</b>		<b>2,593,182</b>	<b>2,526,919</b>
Inventory	5.4	37,450	19,673
Short-term financial assets	5.6	232,022	215,411
Income tax receivables		807	194
Trade and other receivables	5.5	393,904	331,797
Cash and cash equivalents	5.7	342,607	174,745
<b>Total current assets</b>		<b>1,006,790</b>	<b>741,820</b>
<b>Total assets</b>		<b>3,599,972</b>	<b>3,268,739</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	6.2	287,614	287,614
Share premium	6.2	470,846	470,846
Cash flow hedge	6.2	(5,120)	(2,335)
Actuarial gains	6.2	132	50
Other reserve capitals	6.2	76,199	76,199
Retained earnings		467,095	464,849
<b>Total equity</b>		<b>1,296,766</b>	<b>1,297,223</b>
Loans, borrowings and other debt instruments	7.1	1,345,973	1,494,775
Other non-current liabilities	7.2	120,929	83,522
Employee benefits provisions	7.5	447	510
<b>Total non-current liabilities</b>		<b>1,467,349</b>	<b>1,578,807</b>
Loans, borrowings and other debt instruments	7.1	348,889	124,124
Trade and other liabilities	7.3	443,963	237,411
Income tax liabilities		6,294	4,219
Employee benefits provisions	7.5	313	240
Other provisions	7.6	36,398	26,715
<b>Total current liabilities</b>		<b>835,857</b>	<b>392,709</b>
<b>Total liabilities</b>		<b>2,303,206</b>	<b>1,971,516</b>
<b>Total equity and liabilities</b>		<b>3,599,972</b>	<b>3,268,739</b>

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

The statement of financial position of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.



## STATEMENT OF CASH FLOWS OF CIECH S.A.

	<i>nota</i>	01.01.-31.12.2016	01.01.-31.12.2015*
<b>Cash flows from operating activities</b>			
<b>Net profit /(loss) for the period</b>		<b>152,441</b>	<b>331,578</b>
Adjustments			
Amortisation/depreciation		4,648	3,907
Recognition of impairment allowances		184,959	38,240
Foreign exchange (profit) /loss		8,529	59,958
(Profit) / loss on investment activities		(93)	(13,628)
(Profit) / loss on disposal of property, plant and equipment		21	(366)
Dividends and interest		(134,932)	(97,680)
Income tax payable/(receivable)		42,237	(53,046)
Change in liabilities due to loan arrangement fee		2,023	20,767
Valuation of derivative instruments		48,787	(3,727)
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>308,620</b>	<b>286,003</b>
Change in receivables	9.1	(104,436)	(60,117)
Change in inventory	9.1	(17,777)	2,100
Change in current liabilities	9.1	204,498	(59,340)
Change in provisions and employee benefits	9.1	9,693	4,569
<b>Cash generated from operating activities</b>		<b>400,598</b>	<b>173,215</b>
Interest paid		(53,135)	(125,391)
Income tax paid/returned		(2,861)	9,163
<b>Net cash from operating activities</b>		<b>344,602</b>	<b>56,987</b>
<b>Cash flows from investment activities</b>			
Disposal of a subsidiary		3,024	101,199
Disposal of intangible assets and property, plant and equipment		92	386
Dividends received		157,423	161,603
Interest received		11,906	13,614
Proceeds from cash-pooling facility		16,078	1,312
Proceeds from repaid borrowings		67,638	389,513
Acquisition of a subsidiary		(46)	(116,063)
Acquisition of intangible assets and property, plant and equipment		(5,724)	(11,975)
Expenditures on increase and extra contribution to capital		(35)	(35,495)
Borrowings paid out		(337,329)	(690,279)
<b>Net cash from investment activities</b>		<b>(86,973)</b>	<b>(186,185)</b>
<b>Cash flows from financial activities</b>			
Proceeds from loans and borrowings		-	1,371,499
Proceeds from cash-pooling facility		62,738	1,662
Dividends paid to shareholders		(150,195)	-
Redemption of debt securities		-	(1,079,298)
Payments of finance lease liabilities		-	(78)
<b>Net cash from financial activities</b>		<b>(87,457)</b>	<b>293,785</b>
<b>Total net cash flows</b>		<b>170,172</b>	<b>164,587</b>
<b>Cash and cash equivalents as at the beginning of the period</b>		<b>174,745</b>	<b>10,261</b>
<b>Impact of foreign exchange differences</b>		<b>(2,310)</b>	<b>(103)</b>
<b>Cash and cash equivalents as at the end of the period</b>	<b>5.7</b>	<b>342,607</b>	<b>174,745</b>

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

The statement of cash flows of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.



## STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

	Share capital	Share premium	Cash flow hedge	Other reserve capitals	Actuarial gains	Retained earnings	Total equity
<b>01.01.2015</b>	<b>287,614</b>	<b>470,846</b>	<b>(5,724)</b>	<b>76,199</b>	<b>(348)</b>	<b>133,271</b>	<b>961,858</b>
Transactions with shareholders recognised directly in equity	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	<b>3,389</b>	-	<b>398</b>	<b>331,578</b>	<b>335,365</b>
Net profit /(loss) for the period	-	-	-	-	-	331,578	331,578
Other comprehensive income net of tax	-	-	3,389	-	398	-	3,787
<b>31.12.2015</b>	<b>287,614</b>	<b>470,846</b>	<b>(2,335)</b>	<b>76,199</b>	<b>50</b>	<b>464,849</b>	<b>1,297,223</b>
Transactions with shareholders recognised directly in equity	-	-	-	-	-	(150,195)	(150,195)
Dividend payment	-	-	-	-	-	(150,195)	(150,195)
<b>Total comprehensive income</b>	-	-	<b>(2,785)</b>	-	<b>82</b>	<b>152,441</b>	<b>149,738</b>
Net profit /(loss) for the period	-	-	-	-	-	152,441	152,441
Other comprehensive income net of tax	-	-	(2,785)	-	82	-	(2,703)
<b>31.12.2016</b>	<b>287,614</b>	<b>470,846</b>	<b>(5,120)</b>	<b>76,199</b>	<b>132</b>	<b>467,095</b>	<b>1,296,766</b>

The statement of changes in equity of CIECH S.A. should be analysed together with additional notes and explanations which constitute an integral part of the financial statements.





## 1 GENERAL INFORMATION

### 1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

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

CIECH S.A. is a holding company that manages and provides support services to its subsidiaries — domestic and foreign manufacturing, trade and service companies of the CIECH Group. The CIECH Group is an international, professionally managed group with a well-established position of a leader of the chemical sector in Central and Eastern Europe. It manufactures products which are used in the production of articles necessary in everyday life of people all over the world - state-of-the-art products of the highest, world quality. Taking advantage of the support of a reliable strategic investor – Kulczyk Investments – it implements the strategy of global development. Key products manufactured by the CIECH Group include: soda ash, baking soda, evaporated salt, epoxy and polyester resins, agrochemical products, polyurethane foams, lanterns and jars, sodium and potassium silicates. The core sales market for the CIECH Group is the European Union, including mainly Poland, Germany and Central Eastern European countries. Part of products manufactured by the CIECH Group is also exported to overseas markets and sold to customers in India, North Africa and the Middle East.

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

#### 1.2.1. REPRESENTATIONS OF THE MANAGEMENT BOARD

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

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

The Management Board of CIECH S.A. represents that to the best of its knowledge these 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.



Furthermore, the Management Board of CIECH S.A. represents that the directors' report contains a true image of the Company's developments, achievements, and condition, including the description of major risks and threats.

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

### 1.2.2. BASIS OF PREPARATION

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 presented in note 1.4. These principles have been applied on a continuous basis in all presented periods, except for changes described in note 1.5.

The financial statements of CIECH S.A. have been prepared on the historical cost basis except for financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

These 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 financial statements, no facts or circumstances are known that would indicate any threat to the Company continuing as a going concern.

The financial year for CIECH S.A. is the calendar year.

The statement of profit or loss of CIECH S.A. is prepared in the cost by function format. The statement of cash flows is prepared using the indirect method.

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

### 1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of 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 National Bank of Poland (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.



## 1.4. ACCOUNTING POLICIES

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

Note	Title	Accounting principles	Judgements and estimates
3.1.	Sales revenue	x	
3.2.	Cost of sales	x	
3.4. and 3.5.	Other income and expenses	x	x
4.	Income tax	x	
4.3.	Deferred tax assets and liabilities	x	x
5.1.	Property, plant and equipment	x	x
5.2.	Intangible assets	x	x
5.3.	Other non-current assets	x	x
5.4.	Inventories	x	x
5.5.	Trade and other receivables	x	x
5.6.	Current assets	x	x
5.7.	Cash and cash equivalents	x	
6.2.	Equity	x	
7.2.	Long-term liabilities	x	
7.3.	Trade and other liabilities	x	x
7.4.	Operating leases	x	
7.5.	Employee benefits	x	x
7.6.	Provisions	x	x
8.1.	Financial instruments	x	x
8.2.	Hedge accounting	x	
9.2.	Contingent liabilities and assets	x	x

## 1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES

In 2016, CIECH S.A. introduced the following changes to its accounting policies:

- change in the presentation of inflows and outflows from cash pooling in the statement of cash flows — previously, cash flows were reported separately, at present they are disclosed on a net basis,
- change in the presentation of financial instrument valuation in the statement of financial position following which the valuation of these items is reported separately,
- change in the presentation of support services provided by CIECH S.A. to the Group companies within segment reporting — at present, all revenues and expenses from support services are presented under relevant segments within which the services are provided, whereas previously they were reported in the “Other activities” segment.

All the above changes were introduced retrospectively and adjusted the financial statements for 2015.

Amendments to IFRS that came into force from 1 January 2016, have had no significant impact on these financial statements of CIECH S.A.

New Standards, amendments to Standards and Interpretations:	
New standards, amendments to standards and interpretations which entered into force as of 1 January 2016	Impact on the financial statements
Annual improvements to IFRS 2010–2012	No material impact on the financial statements
Defined benefit plans: Employee contributions – amendments to IAS 19	No material impact on the financial statements
Amendments to IFRS 11 regarding acquisitions of interest in joint operations	No material impact on the financial statements
Amendments to IAS 16 and IAS 38 regarding depreciation and amortisation	No material impact on the financial statements
Amendments to IAS 16 and IAS 41 concerning crops	No material impact on the financial statements



<b>New Standards, amendments to Standards and Interpretations:</b>	
Amendments to IAS 27 concerning equity method in separate financial statements	No material impact on the financial statements
Annual improvements to IFRS 2012–2014	No material impact on the financial statements
Amendments to IAS 1	No material impact on the financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28 concerning exclusion of investment entities from consolidation	No material impact on the financial statements
<b>New standards, amendments to standards and interpretations which are not yet effective and have not been adopted early by the Company</b>	<b>Impact on the financial statements</b>
IFRS 14 “Regulatory deferral accounts”	No material impact on the financial statements is estimated
Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associates or joint ventures	No material impact on the financial statements is estimated
Amendments to IAS 12 relating to the recognition of deferred tax assets on unrealised losses	No material impact on the financial statements is estimated
Amendments to IAS 7: Disclosure Initiative	No impact on the financial statements is estimated — the reconciliation of net debt is presented
Clarifications to IFRS 15 “Revenue from contracts with customers”	No material impact on the financial statements is estimated
Amendments to IFRS 2: Classification and measurement of share-based payment transactions	No material impact on the financial statements is estimated
Amendments to IFRS 4: Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts”	No material impact on the financial statements is estimated
Annual improvements to IFRS 2014-2016	No material impact on the financial statements is estimated
Amendments to IAS 40: Transfers of investment property	No material impact on the financial statements is estimated
IFRIC 22: Foreign currency transactions and advance consideration	No material impact on the financial statements is estimated

### **IFRS 9 “Financial Instruments”**

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

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

CIECH S.A. plans to apply this standard as of 1 January 2018. At present, the Company is analysing the impact of IFRS 9 on the financial statements. It is likely that the new IFRS will affect the area of hedge accounting and recognition of write-downs on receivables based on the expected credit losses; however, the value of write-downs is not expected to change significantly. The Company also does not expect that the entry into force of IFRS 9 will have a material impact on the hedge accounting applied.

### **IFRS 15 “Revenue from contracts with customers”**

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

CIECH S.A. plans to apply IFRS 15 as of 1 January 2018. At present, the Company is conducting the process of identifying material sales agreements. Based on the preliminary analysis, it was concluded that the material sales agreement signed do

not contain provisions, as a result of which the currently applied approach to the recognition of sales revenue would change. CIECH S.A. has not signed any material agreements with multiple components, remuneration is paid within 90 days and has no significant variable components. Material contracts concluded do not contain any lending, rental or lease components, the Company does not transfer any tangible rights, does not provide any licences or services similar to licences, and does not provide any free products or services. The preliminary assessment conducted by the Company suggests that IFRS 15 will have no material impact both at the timing, and the amount of revenues recognised.

### IFRS 16 “Leases”

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

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

CIECH S.A. plans to apply IFRS 16 as of 1 January 2019. CIECH S.A. is currently analysing the agreements it has signed. As at the date of publication of these financial statements, CIECH S.A. used passenger cars and leased office space under lease agreements. These agreements are recognised in the financial statements as operating lease agreements, which means that the value of the fixed assets used was recognised in off-balance sheet records. Assets used by CIECH S.A. under operating lease agreements are not of a material value, therefore the Company, based on analyses conducted, expects that the application of IFRS 16 will have no material impact on the financial statements. However, by the time of application of IFRS 16, new lease agreements may be signed and recognised as finance leases which, in consequence, may increase the balance sheet total (resulting from the recognition of fixed assets in the statement of financial position as the right to use the assets and, on the opposite side, as a lease liability) and change the classification of costs in the statement of profit or loss (where lease expenses will be replaced by the costs of depreciation and interest). The entry of IFRS 16 into force may also affect the determination of the ratio calculated in relation to the loan agreement calculated based on consolidated financial statements. Should this be the case, CIECH S.A. will seek to update the definition in the loan agreement, so that the change in presentation will have no adverse impact on the level of ratios calculated.

## 2 SEGMENT REPORTING

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.

CIECH S.A. has been divided into the following operating segments:

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

**Organic segment** – CIECH S.A. is the main supplier of raw materials to companies operating within the organic segment. The CIECH Group companies (CIECH Sarzyna S.A. and CIECH Pianki Sp. z o.o.) are the producers of a variety of organic compounds, including polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. CIECH Sarzyna S.A. also manufactures plant protection products used in agriculture.



**Silicates and Glass segment** – CIECH S.A. sells the silicates and glass segment products manufactured by CIECH Soda Romania S.A. Key products in this group include glassy sodium silicate and sodium water glass. These products are used by the construction industry and in the production of detergents.

**Transport segment** – it includes forwarding activities carried out by CIECH S.A. since 2016 for its subsidiaries, i.e. CIECH Pianki Sp. z o.o. and CIECH Sarzyna S.A.

**Other activities segment** – it covers mainly services rendered outside the Group and goods sold by CIECH S.A. outside the scope of the above segments.

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

	01.01.-31.12.2016	01.01.-31.12.2015
Net profit/(loss) on continuing operations	152,441	331,578
Income tax	42,237	(53,046)
Financial expenses	296,423	346,437
Financial income	(190,327)	(309,744)
Amortisation/depreciation	4,648	3,907
<b>EBITDA from continuing operations</b>	<b>305,422</b>	<b>319,132</b>

	01.01.-31.12.2016	01.01.-31.12.2015
<b>EBITDA from continuing operations</b>	<b>305,422</b>	<b>319,132</b>
One-offs including:	4,982	8,781
Cash items (a)	547	(1,837)
Non-cash items (without impairment) (b)	4,435	10,618
<b>Normalised EBITDA from continuing operations</b>	<b>310,404</b>	<b>327,913</b>

(a) Cash items include, among others, profit/loss of the sale of property, plant and equipment as well as penalty fees and compensation received or paid.

(b) Non-cash items include: costs of liquidation of inventories and property, plant and equipment, the costs of suspended investments, provisions for liabilities and compensation and other items (including extraordinary costs and other provisions).



## 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.-31.12.2016	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	TOTAL
Sales revenues	1,772,601	392,897	15,192	9,169	3,498	-	2,193,357
Cost of sales	(1,241,860)	(383,719)	(14,084)	(8,934)	(2,956)	-	(1,651,553)
<b>Gross profit /(loss) on sales</b>	<b>530,741</b>	<b>9,178</b>	<b>1,108</b>	<b>235</b>	<b>542</b>	-	<b>541,804</b>
Selling costs	(164,283)	(543)	(402)	(1,068)	(80)	(1,428)	(167,804)
General and administrative expenses	(2,038)	(1,047)	(76)	(1)	(540)	(64,822)	(68,524)
Result on management of receivables	(192)	147	-	-	15	-	(30)
Result on other operating activities	(599)	(2)	-	-	21	(4,092)	(4,672)
<b>Operating profit /(loss)</b>	<b>363,629</b>	<b>7,733</b>	<b>630</b>	<b>(834)</b>	<b>(42)</b>	<b>(70,342)</b>	<b>300,774</b>
Exchange differences and interest on trade settlements	(6,579)	(12,181)	-	2	114	-	(18,644)
Borrowing costs	-	-	-	-	-	(23,991)	(23,991)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(63,461)	(63,461)
<b>Profit /(loss) before tax</b>	<b>357,050</b>	<b>(4,448)</b>	<b>630</b>	<b>(832)</b>	<b>72</b>	<b>(157,794)</b>	<b>194,678</b>
Income tax	-	-	-	-	-	-	(42,237)
Net profit /(loss) on continuing operations	-	-	-	-	-	-	152,441
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-
<b>Net profit /(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152,441</b>
Amortization/depreciation	-	-	-	-	-	4,648	4,648
EBITDA	363,629	7,733	630	(834)	(42)	(65,694)	305,422
Normalised EBITDA*	364,686	7,733	630	(834)	(42)	(61,769)	310,404

\* Normalised EBITDA for the 12-month period ended 31 December 2016 is calculated as EBITDA adjusted for untypical one-off events: recognition/reversal of provisions: PLN -4,359 thousand, penalty fees and compensation paid/received: PLN -568 thousand, donations given: PLN -34 thousand, other: PLN -21 thousand.



OPERATING SEGMENTS 01.01.-31.12.2015*	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	TOTAL
<b>Sales revenues</b>	<b>1,595,087</b>	<b>429,057</b>	<b>11,501</b>	<b>575</b>	<b>2,271</b>	-	<b>2,038,491</b>
Cost of sales	(1,158,411)	(420,223)	(10,919)	(548)	(1,986)	-	(1,592,087)
<b>Gross profit /(loss) on sales</b>	<b>436,676</b>	<b>8,834</b>	<b>582</b>	<b>27</b>	<b>285</b>	-	<b>446,404</b>
Selling costs	(144,465)	(127)	(129)	(656)	(18)	(519)	(145,914)
General and administrative expenses	(8,345)	(691)	(102)	-	-	(55,617)	(64,755)
Result on management of receivables	83,272	8	-	-	19	-	83,299
Result on other operating activities	(840)	55	-	-	-	(3,024)	(3,809)
<b>Operating profit /(loss)</b>	<b>366,298</b>	<b>8,079</b>	<b>351</b>	<b>(629)</b>	<b>286</b>	<b>(59,160)</b>	<b>315,225</b>
Exchange differences and interest on trade settlements	(5,755)	(13,560)	16	-	-	-	(19,299)
Borrowing costs	-	-	-	-	-	(92,508)	(92,508)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	75,114	75,114
<b>Profit /(loss) before tax</b>	<b>360,543</b>	<b>(5,481)</b>	<b>367</b>	<b>(629)</b>	<b>286</b>	<b>(76,554)</b>	<b>278,532</b>
Income tax	-	-	-	-	-	-	53,046
Net profit /(loss) on continuing operations	-	-	-	-	-	-	331,578
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-
<b>Net profit /(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>331,578</b>
Amortization/depreciation	-	-	-	-	-	3,907	3,907
EBITDA	366,298	8,079	351	(629)	286	(55,253)	319,132
Normalised EBITDA**	366,796	8,079	351	(629)	286	(46,970)	327,913

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

\*\*Normalised EBITDA for the 12-month period ended 31 December 2015 is calculated as EBITDA adjusted for untypical one-off events: provisions for compensation and future liabilities recognised: PLN -9,524 thousand, compensation received: PLN 378 thousand, gains on sales of property, plant and equipment: PLN 366 thousand, other: PLN 1 thousand.





## ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Soda segment	204,540	208,103	288,311	137,330
Organic segment	135,961	86,238	77,819	49,701
Silicates and glass segment	1,864	706	1,667	1,149
Transport segment	3,045	-	3,984	-
Other operations segment	6,893	8,140	13,623	11,831
Corporate functions	3,247,669	2,965,552	1,917,802	1,771,505
<b>Total</b>	<b>3,599,972</b>	<b>3,268,739</b>	<b>2,303,206</b>	<b>1,971,516</b>

## SALES REVENUES BY BUSINESS SEGMENTS

CIECH'S SALES DIVIDED INTO INDUSTRY SEGMENTS	2016	2015	Change 2016/2015	% of total revenues in 2016
<b>Soda segment, including:</b>	<b>1,772,601</b>	<b>1,595,087</b>	<b>11.1%</b>	<b>80.9%</b>
Dense soda ash	1,061,175	922,851	15.0%	48.4%
Light soda ash	387,534	374,043	3.6%	17.7%
Salt	180,185	169,337	6.4%	8.2%
Baking soda	98,829	90,048	9.8%	4.5%
Calcium chloride	15,144	12,388	22.2%	0.7%
Other goods and services	29,734	26,420	12.5%	1.4%
<b>Organic segment, including:</b>	<b>392,897</b>	<b>429,057</b>	<b>(8.4%)</b>	<b>18.0%</b>
Raw materials for production of plant protection products	70,345	72,381	(2.8%)	3.2%
Raw materials for production of plastics	198,899	234,911	(15.3%)	9.1%
Raw materials for the production of polyurethane foams	115,513	113,757	1.5%	5.3%
Other goods and services	8,140	8,008	1.6%	0.4%
<b>Silicates and Glass segment, including:</b>	<b>15,192</b>	<b>11,501</b>	<b>32.1%</b>	<b>0.6%</b>
Soda silicates	14,103	10,768	31.0%	0.6%
Other goods and services	1,089	733	48.6%	0.0%
<b>Transport segment, including:</b>	<b>9,169</b>	<b>575</b>	<b>1494.6%</b>	<b>0.4%</b>
Transport services	9,169	575	1494.6%	0.4%
<b>Other segment, including:</b>	<b>3,498</b>	<b>2,271</b>	<b>54.0%</b>	<b>0.1%</b>
Other goods and services	3,498	2,271	54.0%	0.1%
<b>TOTAL</b>	<b>2,193,357</b>	<b>2,038,491</b>	<b>7.6%</b>	<b>100.0%</b>

## INFORMATION ON GEOGRAPHICAL AREAS

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

## ASSETS - INFORMATION ON GEOGRAPHICAL AREAS

	31.12.2016	31.12.2015
Poland	2,417,181	1,984,106
European Union (excluding Poland)	1,085,395	1,221,388
Other European countries	50,685	38,477
Africa	2,852	8,628
Asia	42,380	15,620
Other regions	1,479	520
<b>TOTAL</b>	<b>3,599,972</b>	<b>3,268,739</b>



## SALES REVENUE - INFORMATION ON GEOGRAPHICAL AREAS

	01.01.-31.12.2016	01.01.-31.12.2015
Poland	1,033,813	1,023,889
European Union (excluding Poland), including:	716,907	634,768
Germany	140,867	97,193
Romania	127,451	181,424
Czech Republic	133,047	137,155
Sweden	58,266	34,384
Other European countries	211,179	207,508
Africa	73,273	55,176
Asia	138,872	107,498
Other regions	19,313	9,652
<b>TOTAL</b>	<b>2,193,357</b>	<b>2,038,491</b>

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 mainly in Romania and Germany. Trade and other receivables constitute the main component of current assets presented in individual geographical areas.

## 3

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

## 3.1. SALES REVENUES

**Accounting policy**

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

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

Revenues from the sales of products and goods are recognised in profit or loss at the NBP's average exchange rate from the date preceding the date of invoice, when the significant risks and rewards of ownership have been transferred to the buyer, except for sales revenues earned by the Branch of CIECH S.A. in Germany whose currency translation principle is described in note 1.3.

SALES REVENUES	01.01.-31.12.2016	01.01.-31.12.2015
Revenues from sales of products and services	58,831	44,692
- services	58,831	44,692
Revenues from sales of goods and materials	2,134,526	1,993,799
- goods	2,134,526	1,993,790
- materials	-	9
<b>Net sales of products, goods and materials</b>	<b>2,193,357</b>	<b>2,038,491</b>



### 3.2. COST OF SALES, SELLING COSTS, GENERAL AND ADMINISTRATIVE EXPENSES

#### Accounting policy

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

Cost of sales comprises the production cost of services sold and the cost of goods and materials sold. Selling costs include, among others: costs of transport, sales commissions and the costs of advertising, promotion and distribution.

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

<b>COST OF SALES, SELLING COSTS , GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
Cost of manufacture of products and services sold	(49,502)	(35,504)
Cost of sold goods and materials sold	(1,602,135)	(1,556,717)
Reversal of impairment on inventories to the net selling price	84	134
<b>Cost of sales</b>	<b>(1,651,553)</b>	<b>(1,592,087)</b>
<b>Selling costs</b>	<b>(167,804)</b>	<b>(145,914)</b>
<b>General and administrative expenses</b>	<b>(68,524)</b>	<b>(64,755)</b>

### 3.3. COSTS BY TYPE

<b>SELECTED COSTS BY TYPE</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
Amortisation	(4,648)	(3,907)
Consumption of materials and energy	(1,857)	(1,612)
Employee benefits, including:	(68,204)	(52,897)
- payroll	(58,435)	(44,915)
- social security and other benefits	(9,769)	(7,982)
External services	(188,845)	(150,475)

### 3.4. OTHER INCOME AND EXPENSES

#### Accounting policy

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

- ✓ recognition/ reversal of provisions
- ✓ gains/ losses on disposal and liquidation of non-financial long-term assets,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables),
- ✓ penalty fees and compensation paid/ received
- ✓ income from rental of investment property is recognised in profit or loss on a straight-line basis over the lease term. Any lease incentives granted are an integral part of the net consideration agreed for the use of the asset.

#### Grants

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

**Judgements and estimates****Impairment of non-financial assets**

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

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

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

<b>OTHER OPERATING INCOME</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
Subsidies	-	100
Rents/lease income	642	253
Gain on disposal of non-financial non-current assets	-	366
Reversal of impairment allowances on receivables	162	83,307
Reversal of provisions on employee benefits	307	58
Reversal of provisions for liabilities – changing the base	-	3
Reversal of other provisions	629	-
Penalty fees and compensations received	71	833
Other	1,576	1,441
<b>TOTAL</b>	<b>3,387</b>	<b>86,361</b>

In 2015, impairment losses on trade receivables in the amount of PLN 83,307 thousand were reversed following the settlement of these receivables. The main components are the reversed impairment losses on receivables from subsidiaries in the total amount of PLN 83,274 thousand.

<b>OTHER OPERATING EXPENSES</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
Costs related to the leased space	(570)	(232)
Loss on disposal of fixed assets	(21)	-
Recognition of impairment losses on receivables	(191)	(8)
Recognition of provisions on employee benefits	(132)	(287)
Recognition of provisions for liabilities – changing the base	(4,207)	(4,419)
Recognition of other provisions	(836)	(572)
Penalties and compensations paid	(584)	(455)
Other	(1,548)	(898)
<b>TOTAL</b>	<b>(8,089)</b>	<b>(6,871)</b>

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



## 3.5. FINANCIAL INCOME AND EXPENSES

**Accounting policy**

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

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

**Judgements and estimates**

At each reporting date the Company assesses whether there is any evidence that a financial asset or a group of financial assets is impaired. Where such evidence exists, the Company tests the value of involvement in subsidiaries. The recoverable value is defined as the higher of value in use and fair value less costs to sell. Value in use is determined using the discounted cash flow model. The cash flows are based on financial plans covering a period of the next five years, excluding the effects of restructuring, or significant future investments that can improve the operating results of assets being part of the tested cash-generating unit. The recoverable amount is sensitive to the discount rate used in the discounted cash flow model, as well as the expected future cash flows and growth rate adopted for the residual period. Where it is necessary to recognise impairment losses on involvement in other companies, such losses are recognised in the following order: on shares, on loans granted, on interest on loans.

<b>NET FINANCIAL INCOME (EXPENSES)</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
Interest	29,162	27,108
Dividends and shares in profit	157,423	161,602
Reversal of impairment losses	3,099	101,992
Income from liquidated companies	-	14,141
Gains from derivative instruments	-	3,727
Other	643	1,174
<b>Total financial income</b>	<b>190,327</b>	<b>309,744</b>
Interest	(54,356)	(113,645)
Net foreign exchange losses	(3,817)	(1,152)
Recognition of impairment losses on investments**	(180,850)	(111,337)
Factoring commissions	(1,260)	(2,240)
Bank fees and commissions*	(3,278)	(29,913)
Increase in provisions due to change in discount rates	(14)	(25)
Losses from derivative instruments	(30,666)	-
Bond issue costs	-	(76,901)
Costs of sureties and guarantees	(13,462)	(10,673)
Other	(589)	(551)
<b>Total financial expenses</b>	<b>(296,423)</b>	<b>(346,437)</b>
<b>Net Financial income (expenses)</b>	<b>(106,096)</b>	<b>(36,693)</b>

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

\*\*a detailed description of recognised and reversed impairment losses is provided in notes 5.3, 5.5 and 5.6.

The decrease in financial expenses from interest is mainly the effect of refinancing facility arranged by the Company at the end of 2015.



## 3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

COMPONENTS OF OTHER COMPREHENSIVE INCOME	01.01.-31.12.2016			01.01.-31.12.2015		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Cash flow hedge	(3,295)	510	(2,785)	4,184	(795)	3,389
Valuation of actuarial provisions	102	(20)	82	491	(93)	398
<b>TOTAL</b>	<b>(3,193)</b>	<b>490</b>	<b>(2,703)</b>	<b>4,675</b>	<b>(888)</b>	<b>3,787</b>

## Income tax and reclassification adjustments in other comprehensive income

OTHER COMPREHENSIVE INCOME BEFORE TAX	01.01.-31.12.2016	01.01.-31.12.2015
Cash flow hedge	(3,295)	4,184
fair value remeasurement in the period	(8,813)	(4,675)
reclassification to the statement of profit or loss	5,518	8,859
Valuation of actuarial provisions	102	491
remeasurement for the current period	102	491
<b>Income tax attributable to other components of other comprehensive income</b>	<b>490</b>	<b>(888)</b>
accrued for the current period	1,538	795
reclassification to the statement of profit or loss	(1,048)	(1,683)
<b>Other comprehensive income net of tax</b>	<b>(2,703)</b>	<b>3,787</b>

## 4

## INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

**Accounting policy**

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

## 4.1. MAIN COMPONENTS OF TAX EXPENSE

The main components of tax expense include:

MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-31.12.2016	01.01.-31.12.2015
<b>Current income tax</b>	<b>(4,688)</b>	<b>(5,829)</b>
Income tax for the reporting period	(4,688)	(2,826)
Adjustment to tax for previous years	-	(3,003)
<b>Deferred tax</b>	<b>(37,549)</b>	<b>58,875</b>
Origination/ reversal of temporary differences	(37,549)	58,875
<b>Income tax recognised in the statement of profit or loss</b>	<b>(42,237)</b>	<b>53,046</b>



INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2016	01.01.-31.12.2015
Cash flow hedge	510	(795)
Valuation of actuarial provisions	(20)	(93)
<b>TOTAL</b>	<b>490</b>	<b>(888)</b>

## 4.2. EFFECTIVE TAX RATE

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

EFFECTIVE TAX RATE	01.01.-31.12.2016	01.01.-31.12.2015
<b>Profit (loss) before tax</b>	<b>194,678</b>	<b>278,532</b>
Income tax based on currently enacted tax rate	36,989	52,921
Difference due to the application of tax rates of other tax jurisdictions*	527	(527)
Tax effect of revenues which are not revenues according to tax regulations (permanent difference)**	(34,979)	(93,306)
Tax effect of costs which are not obtaining costs according to tax regulations (permanent difference)***	43,922	(15,137)
Income tax for previous years recognised in the statement of profit or loss	(4,222)	3,003
<b>Income tax recognised in income statement</b>	<b>42,237</b>	<b>(53,046)</b>
<b>Effective tax rate</b>	<b>22%</b>	<b>(19%)</b>

\*The Branch of CIECH S.A. in Romania is subject to a tax rate of 16% and the Branch of CIECH S.A. in Germany – to a tax rate of 30.88%.

\*\*The main items included in the amount of revenues which are not revenues according to tax regulations result from the dividend income and reversal of impairment losses on investments in subsidiaries.

\*\*\*The main items included in the amount of non-tax deductible expenses result from the recognition of impairment losses on loans and receivables and on investments in subsidiaries.

## 4.3. DEFERRED INCOME TAX

### Accounting policy

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

Deferred tax liability is recognised for all taxable temporary differences, unless:

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

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

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



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

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

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

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

#### Judgements and estimates

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

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2016			31.12.2015		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	-	74	(74)	160	-	160
Financial assets	1,732	9,746	(8,014)	32,653	10,225	22,428
Inventory	-	-	-	16	-	16
Trade and other receivables	-	385	(385)	-	736	(736)
Provisions for employee benefits	108	31	77	102	11	91
Tax losses carried forward	88,068	-	88,068	108,315	-	108,315
Foreign exchange differences	3,777	-	3,777	2,430	-	2,430
Liabilities	15,114	306	14,808	3,939	1,327	2,612
<b>Deferred tax assets/liability</b>	<b>108,799</b>	<b>10,542</b>	<b>98,257</b>	<b>147,615</b>	<b>12,299</b>	<b>135,316</b>
Set - off of deferred tax assets / (liability)	(10,542)	(10,542)	-	(12,299)	(12,299)	-
<b>Deferred tax assets/liability recognised in the statement of financial position</b>	<b>98,257</b>	<b>-</b>	<b>98,257</b>	<b>135,316</b>	<b>-</b>	<b>135,316</b>

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2016	Change in temporary differences recognised in the income statement	Change in temporary differences recognised in equity	31.12.2016
Property, plant and equipment	844	(1,235)	-	(391)
Financial assets	118,040	(168,689)	4,009	(46,640)
Inventory	84	(84)	-	-
Trade and other receivables	(3,872)	1,846	-	(2,026)
Provisions for employee benefits	480	27	(102)	405
Tax losses carried forward	570,080	(106,564)	-	463,516
Foreign exchange differences	12,787	7,091	-	19,878
Liabilities	13,746	64,901	(715)	77,932
<b>TOTAL</b>	<b>712,189</b>	<b>(202,707)</b>	<b>3,192</b>	<b>512,674</b>





CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2015	Change in temporary differences recognised in the income statement	Change in temporary differences recognised in equity	31.12.2015
Property, plant and equipment	294	550	-	844
Financial assets	162,482	(41,160)	(3,282)	118,040
Inventory	218	(134)	-	84
Trade and other receivables	(120,929)	117,057	-	(3,872)
Provisions for employee benefits	1,006	(35)	(491)	480
Tax losses carried forward	298,396	271,684	-	570,080
Foreign exchange differences	34,536	(21,749)	-	12,787
Liabilities	31,004	(16,356)	(902)	13,746
<b>TOTAL</b>	<b>407,007</b>	<b>309,857</b>	<b>(4,675)</b>	<b>712,189</b>

The Management Board of the Company predicts that sufficient taxable profit will be realised within 5 years after the reporting date against which the Company can fully utilise the benefits therefrom. The expected taxable profit will be generated primarily on operating activities.

The Company did not recognise any deferred tax assets on impairment losses on shares in subsidiaries due to the fact that the Management Board of CIECH S.A. does not intend to sell them in the foreseeable future.

A portion of impairment losses recognised by the Company constitute a permanent difference which will not reduce the tax base in the future. This concerns mainly impairment losses on loans granted to related entities.

5

## NOTES TO ASSETS REPORTED IN THE STATEMENT OF FINANCIAL POSITION

### 5.1. PROPERTY, PLANT AND EQUIPMENT

#### Accounting policy

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

#### Subsequent costs

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

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



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

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

#### Depreciation

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

Buildings	20-40 years
Machinery and equipment	3–10 years
Means of transport	5 years

#### Judgements and estimates

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

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



01.01.-31.12.2016	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL FIXED ASSETS
<b>Gross value of property, plant and equipment at the beginning of the period</b>	<b>1,406</b>	<b>15,095</b>	<b>368</b>	<b>2,598</b>	<b>3,390</b>	<b>22,857</b>
Purchase	6	2,471	-	112	2,589	5,178
Investment outlays	-	-	-	-	30	30
Reclassification	369	2,453	-	5	(5,416)	(2,589)
Sales	(822)	(4,032)	(305)	(1,048)	(562)	(6,769)
Liquidation	-	(544)	-	(146)	-	(690)
<b>Gross value of property, plant and equipment at the end of the period</b>	<b>959</b>	<b>15,443</b>	<b>63</b>	<b>1,521</b>	<b>31</b>	<b>18,017</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(1,398)</b>	<b>(6,440)</b>	<b>(366)</b>	<b>(1,845)</b>	<b>-</b>	<b>(10,049)</b>
<b>Depreciation for the period (due to)</b>	<b>805</b>	<b>1,260</b>	<b>304</b>	<b>1,025</b>	<b>-</b>	<b>3,394</b>
Annual depreciation charge	(17)	(3,079)	(1)	(161)	-	(3,258)
Sales	822	4,018	305	1,047	-	6,192
Liquidation	-	314	-	146	-	460
Reclassification	-	7	-	(7)	-	-
<b>Accumulated depreciation at the end of the period</b>	<b>(593)</b>	<b>(5,180)</b>	<b>(62)</b>	<b>(820)</b>	<b>-</b>	<b>(6,655)</b>
<b>Impairment losses at the beginning of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Impairment losses at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount of property, plant and equipment at the beginning of period</b>	<b>8</b>	<b>8,655</b>	<b>2</b>	<b>753</b>	<b>3,390</b>	<b>12,808</b>
<b>Carrying amount of property, plant and equipment at the end of the period</b>	<b>366</b>	<b>10,263</b>	<b>1</b>	<b>701</b>	<b>31</b>	<b>11,362</b>



01.01.-31.12.2015	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL FIXED ASSETS
<b>Gross value of property, plant and equipment at the beginning of the period</b>	<b>1,984</b>	<b>12,272</b>	<b>368</b>	<b>1,971</b>	<b>4,010</b>	<b>20,605</b>
Purchase	-	4,531	-	693	5,224	10,448
Investment outlays	-	-	-	-	3,390	3,390
Reclassification	-	4,001	-	-	(9,225)	(5,224)
Sales	(578)	(104)	-	(66)	-	(748)
Liquidation	-	(5,640)	-	-	-	(5,640)
Other	-	35	-	-	(9)	26
<b>Gross value of property, plant and equipment at the end of the period</b>	<b>1,406</b>	<b>15,095</b>	<b>368</b>	<b>2,598</b>	<b>3,390</b>	<b>22,857</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(1,971)</b>	<b>(10,334)</b>	<b>(366)</b>	<b>(1,903)</b>	-	<b>(14,574)</b>
<b>Depreciation for the period (due to)</b>	<b>573</b>	<b>3,894</b>	-	<b>58</b>	-	<b>4,525</b>
Annual depreciation charge	(5)	(1,830)	-	(8)	-	(1,843)
Sales	578	104	-	66	-	748
Liquidation	-	5,620	-	-	-	5,620
<b>Accumulated depreciation at the end of the period</b>	<b>(1,398)</b>	<b>(6,440)</b>	<b>(366)</b>	<b>(1,845)</b>	-	<b>(10,049)</b>
<b>Impairment losses at the beginning of the period</b>	-	-	-	-	-	-
<b>Impairment losses at the end of the period</b>	-	-	-	-	-	-
<b>Carrying amount of property, plant and equipment at the beginning of period</b>	<b>13</b>	<b>1,938</b>	<b>2</b>	<b>68</b>	<b>4,010</b>	<b>6,031</b>
<b>Carrying amount of property, plant and equipment at the end of the period</b>	<b>8</b>	<b>8,655</b>	<b>2</b>	<b>753</b>	<b>3,390</b>	<b>12,808</b>



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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2016	01.01.-31.12.2015
Selling costs	(2)	(2)
General and administrative expenses	(3,256)	(1,841)
<b>TOTAL</b>	<b>(3,258)</b>	<b>(1,843)</b>

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

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2016	31.12.2015
Owned	11,362	12,808
<b>TOTAL</b>	<b>11,362</b>	<b>12,808</b>

In the reporting periods, CIECH S.A. did not receive any compensation from third parties for impaired items of property, plant and equipment.

As at 31 December 2016, collateral was established on all items of property, plant and equipment (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under domestic bonds issued and a term loan taken out.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 542 thousand in 2016 (in the comparable period: PLN 15 thousand).

TANGIBLE FIXED ASSETS IN OFF-BALANCE SHEET RECORD	31.12.2016	31.12.2015
<b>Used under rental, lease or other agreement, this lease agreement, including:</b>	<b>3,225</b>	<b>3,472</b>
Operating lease agreement	3,225	3,472

CIECH S.A. uses passenger cars under operating lease agreements. The value of these cars includes the approximate value of the leased assets, determined as the initial value, less the annual depreciation rate for this group of fixed assets. As at 31 December 2016, this amount was PLN 3,225 thousand, and in the comparable period – PLN 3,472 thousand.

CIECH S.A. is also a lessee of office space, in which the largest item (approx. 2 thousand m<sup>2</sup>) is the office in Warsaw at Wspólna Street, where the Company's registered seat is located. The term of the lease agreement expires in 2023. The Company does not have a valuation report concerning the lease real property and is of the opinion that the cost of preparing such report would be higher than its informative value. The value of payments incurred in relation to the leased asset and the total amount of future minimum lease payments are disclosed in item 7.4 of this report.

## 5.2. INTANGIBLE ASSETS

### Accounting policy

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

### Subsequent costs

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

### Amortisation

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

Patents and licences	2–10 years
Other	2-12 years

**Judgements and estimates**

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

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

01.01.-31.12.2016	Goodwill	Licences, patents, permits, etc. obtained, including:	Computer software	Intangible assets under development	Other intangible assets	TOTAL
<b>Gross value of intangible assets at the beginning of the period</b>	-	<b>35,851</b>	<b>35,851</b>	<b>5,568</b>	<b>5,573</b>	<b>46,992</b>
Purchase	-	1,063	1,063	1,063	-	2,126
Capital expenditures on intangible assets under development	-	-	-	159	-	159
Reclassifications	-	149	149	(1,212)	-	(1,063)
Liquidation	-	(5,318)	(5,318)	-	(385)	(5,703)
<b>Gross value of intangible assets at the end of the period</b>	-	<b>31,745</b>	<b>31,745</b>	<b>5,578</b>	<b>5,188</b>	<b>42,511</b>
<b>Accumulated amortisation at the beginning of the period</b>	-	<b>(34,832)</b>	<b>(34,832)</b>	-	<b>(2,698)</b>	<b>(37,530)</b>
<b>Amortisation for the period (due to)</b>	-	<b>4,841</b>	<b>4,841</b>	-	<b>(571)</b>	<b>4,270</b>
Annual amortisation charge	-	(434)	(434)	-	(956)	(1,390)
Liquidation	-	5,275	5,275	-	385	5,660
<b>Accumulated amortisation at the end of the period</b>	-	<b>(29,991)</b>	<b>(29,991)</b>	-	<b>(3,269)</b>	<b>(33,260)</b>
<b>Impairment losses at the beginning of the period</b>	-	-	-	-	-	-
<b>Impairment losses at the end of the period</b>	-	-	-	-	-	-
<b>Net value of intangible assets at the beginning of the period</b>	-	<b>1,019</b>	<b>1,019</b>	<b>5,568</b>	<b>2,875</b>	<b>9,462</b>
<b>Net value of intangible assets at the end of the period</b>	-	<b>1,754</b>	<b>1,754</b>	<b>5,578</b>	<b>1,919</b>	<b>9,251</b>

01.01.-31.12.2015	Goodwill	Licences, patents, permits, etc. obtained, including:	Computer software	Intangible assets under development	Other intangible assets	TOTAL
<b>Gross value of intangible assets at the beginning of the period</b>	-	<b>35,437</b>	<b>35,437</b>	<b>4,669</b>	<b>5,553</b>	<b>45,659</b>
Purchase	-	657	657	677	20	1,354
Capital expenditures on intangible assets under development	-	-	-	978	-	978
Reclassifications	-	88	88	(765)	-	(677)
Liquidation	-	(331)	(331)	-	-	(331)
Other	-	-	-	9	-	9
<b>Gross value of intangible assets at the end of the period</b>	-	<b>35,851</b>	<b>35,851</b>	<b>5,568</b>	<b>5,573</b>	<b>46,992</b>
<b>Accumulated amortisation at the beginning of the period</b>	-	<b>(34,153)</b>	<b>(34,153)</b>	-	<b>(1,645)</b>	<b>(35,798)</b>
<b>Amortisation for the period (due to)</b>	-	<b>(679)</b>	<b>(679)</b>	-	<b>(1,053)</b>	<b>(1,732)</b>
Annual amortisation charge	-	(1,010)	(1,010)	-	(1,053)	(2,063)
Liquidation	-	331	331	-	-	331
<b>Accumulated amortisation at the end of the period</b>	-	<b>(34,832)</b>	<b>(34,832)</b>	-	<b>(2,698)</b>	<b>(37,530)</b>
<b>Impairment losses at the beginning of the period</b>	-	-	-	-	-	-
<b>Impairment losses at the end of the period</b>	-	-	-	-	-	-
<b>Net value of intangible assets at the beginning of the period</b>	-	<b>1,284</b>	<b>1,284</b>	<b>4,669</b>	<b>3,908</b>	<b>9,861</b>
<b>Net value of intangible assets at the end of the period</b>	-	<b>1,019</b>	<b>1,019</b>	<b>5,568</b>	<b>2,875</b>	<b>9,462</b>



CIECH S.A. is the owner of all intangible assets held. The largest item in the Company's intangible assets is the right to market with the carrying amount of PLN 1,859 thousand.

As at 31 December 2016, collateral was established on all intangible assets (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under domestic bonds issued and a term loan taken out.

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

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2016	01.01.-31.12.2015
Selling costs	(888)	(858)
General and administrative expenses	(502)	(1,205)
<b>TOTAL</b>	<b>(1,390)</b>	<b>(2,063)</b>

The Company does not have intangible assets with indefinite useful life. In the current period changes in accounting estimates did not have a material impact and it is not expected that they will have a material impact in future periods.

As at 31 December 2016, future commitments arising from agreements concerning acquisition of intangible assets amounted to PLN 9 thousand (in the comparable period: PLN 393 thousand).

In the reporting period and in the presented comparable period, the Company did not incur any expenditure on development activities. The Company also does not hold any internally developed intangible assets.

### 5.3. LONG-TERM FINANCIAL ASSETS

#### Accounting policy

Shares in subsidiaries and associates are stated at purchase price less any impairment losses.

Loans after initial recognition are measured at amortised cost using the effective interest method less any impairment losses.

Accounting policy concerning financial instruments is presented in note 8.1.

#### Judgements and estimates

Accounting policy concerning judgements and estimates is presented in note 3.5.

NON-CURRENT FINANCIAL ASSETS	31.12.2016	31.12.2015
Shares	1,829,299	2,006,409
Loans granted	588,419	292,868
Derivatives	56,594	70,056
<b>TOTAL</b>	<b>2,474,312</b>	<b>2,369,333</b>

CHANGE IN LONG-TERM SHARES	01.01.-31.12.2016	01.01.-31.12.2015
Gross value as at the beginning of the period	2,184,091	1,997,820
Purchase	83	294,142
Sales	(168,295)	(107,871)
<b>Gross value as at the end of the period</b>	<b>2,015,879</b>	<b>2,184,091</b>
<b>Impairment losses as at the beginning of the period</b>	<b>(177,682)</b>	<b>(267,448)</b>
Recognition	(177,192)	(10,253)
Reversal	-	98,454
Utilisation	166,497	1,565
Other (increases)/ decreases	1,797	-
<b>Impairment losses as at the end of the period</b>	<b>(186,580)</b>	<b>(177,682)</b>
<b>Net value of shares as at the beginning of the period</b>	<b>2,006,409</b>	<b>1,730,372</b>
<b>Net value of shares as at the end of the period</b>	<b>1,829,299</b>	<b>2,006,409</b>



<b>CHANGE IN LONG-TERM LOANS</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
<b>Gross value as at the beginning of the period</b>	<b>315,995</b>	<b>693,811</b>
Granting	353,824	297,543
Repayment	(10,000)	(41,438)
Reclassifications to short-term items	(51,214)	(244,089)
Transferred as a contribution in-kind	-	(375,431)
Exchange differences	4,064	(14,401)
<b>Gross value as at the end of the period</b>	<b>612,669</b>	<b>315,995</b>
<b>Impairment losses as at the beginning of the period</b>	<b>(23,127)</b>	<b>(376,006)</b>
Recognition	(1,123)	(13,892)
Reversal	-	120
Transferred as a contribution in-kind	-	355,141
Exchange differences	-	11,510
<b>As at the end of the period</b>	<b>(24,250)</b>	<b>(23,127)</b>
<b>Net value of loans at the beginning of the period</b>	<b>292,868</b>	<b>317,805</b>
<b>Net value of loans as at the end of the period</b>	<b>588,419</b>	<b>292,868</b>

Change in the gross value of long-term shares results primarily from the sale of shares in CIECH Nieruchomości S.A. with the value of PLN 166,497 thousand (fully impaired).

In 2016, CIECH S.A. granted long-term loans to its subsidiaries:

- CIECH Soda Polska S.A. — in the amount of PLN 292,000 thousand,
- CIECH Vitrosilicon S.A. — in the amount of PLN 25,300 thousand,
- CIECH Soda Deutschland GmbH — in the amount of EUR 8,000 thousand (PLN 36,524 thousand recalculated using exchange rate from the date when the loan was granted).

The main items which affect the decrease in long-term loans granted are as follows:

- Repayment of a loan by CIECH Vitrosilicon S.A. — in the amount of PLN 10,000 thousand,
- Reclassification of the loan granted to CIECH Energy Deutschland GmbH (formerly: KWG - Kraftwerksgesellschaft Stassfurt mbH), in the amount of PLN 51,214 thousand, to short-term items.

As at 31 December 2016, collateral was established on all long-term receivables (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under domestic bonds issued and a term loan taken out.

Due to the occurrence of premises, CIECH S.A. analysed the recoverability of involvement in subsidiaries. The recoverable value applied was the value in use estimated based on the discounted cash flows determined based on five-year financial plans of the subsidiaries. The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for domestic companies was: 10.2% – for cash flows in PLN, 7.9% – for cash flows in EUR and 10.4% – for cash flows in USD;
- the weighted average cost of capital for CIECH Soda Deutschland GmbH for cash flows in EUR was 6.9%;
- the assumed growth rate for the residual period was 2.0% for both the domestic companies and for the German company.

Based on analyses conducted, the Management Board of CIECH S.A. decided to recognise impairment losses on involvement in, among others, the following companies:

- CIECH Trading S.A. — impairment loss on shares in the amount of PLN 16,933 thousand,
- Soda Deutschland CIECH GmbH — impairment loss on shares in the amount of PLN 160,257 thousand,
- CIECH Nieruchomości Sp. z o.o. — impairment loss on the loan granted (with accrued interest) in the amount of PLN 1,123 thousand.

According to the Management Board of CIECH S.A. estimates:

- for SDC Group decrease in the weighted average cost of capital to 6,1% without changing other factors would lead to the alignment of the recoverable value with the carrying value.
- for CIECH Trading S.A. change in the weighted average cost of capital by +/- 1 p.p. without changing other factors would not significantly affect the results of the aforementioned tests.





## CARRYING AMOUNT OF SHARES IN RELATED ENTITIES

No	Registered office	31/12/2016	31/12/2015	The Company's share in the share capital/ total number of votes as at 31 December 2016	The Company's share in the share capital/ total number of votes as at 31 December 2015	Core activities	
<b>Subsidiaries</b>							
1.	Soda Deutschland Ciech GmbH	Stassfurt – Germany	637,214	797,471	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
2.	CIECH Soda Polska S.A. *	Inowrocław	553,098	517,331	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
3.	CIECH Sarzyna S.A.	Nowa Sarzyna	295,947	295,947	100%	100%	Manufacture of plastics, manufacture of pesticides and other chemical products.
4.	CIECH Soda Romania	Rm. Valcea – Romania	111,000	111,000	98.74%	98.74%	Manufacture of other basic inorganic chemicals, wholesale of chemical products.
5.	CIECH Trading S.A.	Warsaw	77,262	94,195	100%	100%	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.
6.	CIECH Pianki Sp z o.o.	Bydgoszcz	57,451	57,451	100%	100%	Manufacture of organic and other inorganic chemicals.
7.	VERBIS ETA Sp z o.o. SKA	Warsaw	37,971	37,971	100%	100%	Financing activities, direct lending to the CIECH Group companies
8.	CIECH R&D Sp z o.o.	Warsaw	35,515	35,515	100%	100%	Granting licences to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta" for business activity purposes, research and developments activities.



No	Registered office	31/12/2016	31/12/2015	The Company's share in the share capital/ total number of votes as at 31 December 2016	The Company's share in the share capital/ total number of votes as at 31 December 2015	Core activities
9.	CIECH Vitrosilicon S.A. Hłowa	12,302	12,302	83.03%	83.03%	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.
10.	CIECH Transclean Sp. z o.o. Bydgoszcz	3,455	3,455	100%	100%	International transport of liquid chemicals
11.	Gamma Finanse Sp z o.o.* Warsaw	2,889	-	100%		Financing activities.
12.	Ciech Group Financing AB Sweden	2,787	2,787	100%	100%	Financing activities.
13.	Vasco Polska Sp. z o.o. Inowrocław	45	-	90%	-	Utilisation of post-soda lime in the restoration of degraded land.
14.	VERBIS ETA Sp z o.o. Warsaw	5	5	100%	100%	Other activities.
15.	CERIUM Finance Sp z o.o. (former name: CERIUM Sp. z o.o. SKA)* Warsaw	-	38,621	-	100%	Financing activities.
<b>Other subsidiaries</b>		<b>1,495</b>	<b>1,495</b>			
<b>Associates</b>		<b>863</b>	<b>863</b>			
<b>Carrying amount of shares in related entities</b>		<b>1,829,299</b>	<b>2,006,409</b>			

\*In 2016, CIECH S.A. and CIECH Soda Polska S.A. contributed shares of Cerium Finance Sp. z o.o. to Gamma Finance Sp. z o.o. As a result of the settlement of the transaction, the carrying value held by CIECH S.A. of the shares in Gamma Finance Sp. z o.o. was reduced, while increasing the carrying amount of shares held by CIECH S.A. in CIECH Soda Polska S.A.

## 5.4. INVENTORIES

### Accounting policy

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

The cost of inventory is based on the first-in first-out principle (FIFO).

### Judgements and estimates

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

INVENTORY	31.12.2016	31.12.2015
Materials	1	3
Goods	37,449	19,670
<b>TOTAL</b>	<b>37,450</b>	<b>19,673</b>

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	01.01.-31.12.2016	01.01.-31.12.2015
Opening balance	(84)	(218)
Reversed / released	84	134
Closing balance	-	(84)

The reversal of inventory impairment allowances results from the sale of inventories in the course of business activities.

The value of inventories (taking into account write-downs to net selling prices) recognised as costs in 2016 amounted to PLN 1,602,232 thousand (in the comparable period: PLN 1,556,853 thousand).

As at 31 December 2016, collateral was established on all inventories (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under domestic bonds issued and a term loan taken out.

## 5.5. SHORT-TERM RECEIVABLES

### Accounting policy

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

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

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

### Factoring

The Company uses non-recourse factoring services. The factor transfers advance payments to the Company's account in the full amount of invoices accepted for financing. The financing of receivables transferred is provided in various timeframes, therefore, as at the balance sheet date, there may be receivables which have not been financed yet and are reported as factoring receivables. Advance payments received are posted as factoring liabilities. In the statement



of financial position, factoring receivables and liabilities are recognised on a net basis up to 90% of the value of advance payments received from the factor (the 90% limit results from the level of the receivables insurance). The remaining 10% of receivables value is reported as factoring receivables, and 10% of the value of advance payments received is reported as factoring liabilities.

#### Judgements and estimates

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

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

Moreover, allowances in the full amount of receivables are recognised in relation to receivables that are more than 180 days past their maturity as at the balance sheet date. The amount established as a result of the abovementioned allowances may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.

TRADE AND OTHER RECEIVABLES	31.12.2016	31.12.2015
Trade receivables, including:	314,853	276,117
- up to 12 months	314,853	276,117
Public and legal receivables (excluding income tax)	40,206	7,413
Insurance receivables	162	139
External services	3,170	2,468
Factoring receivables	28,736	19,458
Assets from continued exposure	1,404	-
Cash pooling receivables	940	17,017
Loan interest accrued in advance	-	2,359
Other receivables	4,433	6,826
<b>NET TRADE AND OTHER RECEIVABLES</b>	<b>393,904</b>	<b>331,797</b>
Impairment allowances with respect to trade receivables including	(16,288)	(15,377)
- impairment allowance recognized in the current reporting period	(4,222)	(1,826)
Impairment allowances with respect to other current receivables including	(17,132)	(16,513)
- impairment allowance recognized in the current reporting period	-	(200)
<b>GROSS TRADE AND OTHER RECEIVABLES</b>	<b>427,324</b>	<b>363,687</b>

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

As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the period of delay in payments. As at 31 December 2016, the asset from continuing involvement amounted to PLN 1,404 thousand. The value of factoring assets derecognised from the statement of financial position is PLN 129,615 thousand.

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2016	01.01.-31.12.2015
<b>Opening balance</b>	<b>(31,890)</b>	<b>(119,362)</b>
Recognized	(4,222)	(2,026)
Reversed	2,652	86,503
Used	814	23
Exchange differences	(774)	2,972
<b>Closing balance</b>	<b>(33,420)</b>	<b>(31,890)</b>



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

<b>AGEING OF PAST DUE TRADE RECEIVABLES</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Up to 1 month	53,582	51,857
Between 1 and 3 months	58,708	38,317
3 to 6 months	9,665	30
6 months to 1 year	20	-
Above 1 year	12,006	11,495
<b>Total (gross) past due trade receivables</b>	<b>133,981</b>	<b>101,699</b>
Impairment allowances on past due trade receivables	(12,122)	(11,495)
<b>Total (net) past due trade receivables</b>	<b>121,859</b>	<b>90,204</b>

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

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

As at 31 December 2016, collateral was established on all receivables (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under domestic bonds issued and a term loan taken out.

## 5.6. SHORT-TERM FINANCIAL ASSETS

### Accounting policy

Loans after initial recognition are measured at amortised cost using the effective interest method less any impairment losses.

Accounting policy concerning financial instruments is presented in note 8.1.

### Judgements and estimates

Accounting policy concerning judgements and estimates is presented in note 3.5.

<b>SHORT-TERM INVESTMENTS</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Financial instruments	19,104	16,781
Loans granted	212,918	198,630
<b>Total (net) current financial assets</b>	<b>232,022</b>	<b>215,411</b>
Impairment of current financial assets	(130,300)	(123,655)
<b>Total (gross) current financial assets</b>	<b>362,322</b>	<b>339,066</b>

<b>CHANGE IN SHORT-TERM LOANS</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
<b>Gross value as at the beginning of the period</b>	<b>322,285</b>	<b>158,651</b>
Granting	35,612	441,655
Repayment	(66,996)	(360,217)
Reclassifications from long-term items	51,214	244,089
Transferred as a contribution in-kind	-	(150,229)
Exchange differences	1,103	(11,664)
<b>Gross value as at the end of the period</b>	<b>343,218</b>	<b>322,285</b>
<b>Impairment losses as at the beginning of the period</b>	<b>(123,655)</b>	<b>(40,259)</b>
Recognition	(7,733)	(112,892)



<b>CHANGE IN SHORT-TERM LOANS</b>	<b>01.01.-31.12.2016</b>	<b>01.01.-31.12.2015</b>
Reversal	1,088	221
Transferred as a contribution in-kind	-	27,976
Exchange differences	-	1,299
<b>As at the end of the period</b>	<b>(130,300)</b>	<b>(123,655)</b>
<b>Net value of loans at the beginning of the period</b>	<b>198,630</b>	<b>118,392</b>
<b>Net value of loans as at the end of the period</b>	<b>212,918</b>	<b>198,630</b>

As at 31 December 2016, collateral was established on all short-term receivables (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under domestic bonds issued and a term loan taken out.

Material items affecting the change in short-term loans including interests are as follows:

- granting of a loan to CIECH Cargo Sp. z o.o. in the amount of PLN 5,000 thousand,
- reclassification of the loan granted to CIECH Energy Deutschland GmbH (formerly: KWG - Kraftwerksgesellschaft Stassfurt mbH), in the amount of PLN 51,214 thousand, to short-term items,
- repayment of loans by subsidiaries (CIECH Trading S.A. in the amount of PLN 11,344 thousand, CIECH Soda Polska S.A. in the amount of PLN 7,195 thousand, CIECH Energy Deutschland GmbH in the amount of EUR 11,069 thousand, an equivalent of PLN 46,716 thousand).

The change in short-term loans resulted also from unrealised foreign exchange differences on the revaluation of loans as at the balance sheet date.

Based on analyses conducted, the Management Board of CIECH S.A. decided to recognise impairment losses on short-term loans granted to the following companies:

- CIECH Nieruchomości Sp. z o.o. — impairment loss of PLN 2,536 thousand,
- CIECH Cerium Sp. z o.o. SKA — impairment loss of PLN 1,957 thousand,
- Janikowskie Zakłady Sodowe "Janikosoda" S.A. — impairment loss of PLN 3,240 thousand.

Write-downs were affected by impairment loss which was reversed following loan repayment by CIECH CERIUM Spółka z o.o. SKA in the amount of PLN 1,088 thousand.

## 5.7. CASH AND CASH EQUIVALENTS

### Accounting policy

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

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

<b>CASH AND CASH EQUIVALENTS</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Bank accounts	318,766	76,534
Short-term deposits	23,820	98,193
Cash in hand	21	18
<b>Cash and cash equivalents – presented in the statement of financial position</b>	<b>342,607</b>	<b>174,745</b>
<b>Cash and cash equivalents – presented in the cash flow statement</b>	<b>342,607</b>	<b>174,745</b>

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

As at 31 December 2016, collateral was established on all cash and cash equivalents (under an agreement on registered pledges over a set of movable assets and rights) for the Company's financial liabilities under domestic bonds issued and a term loan taken out.

As at 31 December 2016 and as at 31 December 2015, there was no restricted cash and cash equivalents in CIECH S.A.

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## EQUITY

### 6.1. CAPITAL MANAGEMENT

#### Capital structure management

CIECH S.A.'s capital structure consist of its debts, including the bank loan and bonds presented in note 7.1, cash and cash equivalents and equity, including shares issued, reserve capital and retained earnings.

CIECH S.A. manages its capital in order to ensure its ability to continue as a going concern and, at the same time, maximize returns for stakeholders by optimising the debt to equity ratio. In 2015-2016 there were no changes in aims, principles and processes of capital management.

### 6.2. EQUITY

#### Accounting policy

CIECH S.A.'s share capital is disclosed at nominal value, adjusted by the effects of hyperinflation in the years 1989-1996. When shares are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a change in equity. The purchased shares are presented as a deduction from total equity.

A liability for a dividend payable is recognised when authorised.

Net profit (loss) is presented in equity under retained earnings.

As at 31 December 2016, the carrying amount of the share capital of CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment. As at the date of adopting the IFRS, i.e. 1 January 2004, the share capital of the Company was adjusted for hyperinflation between 1989 and 1996. The hyperinflation adjustment of PLN 24,114 thousand was charged to retained profits.

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

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

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

To the best knowledge of the Company, as at the day of approving this report, entities holding significant blocks of shares (at least 5%) are the entities listed below:



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 (%)
<b>KI Chemistry s. à r. l. with its registered office in Luxembourg*</b>	<b>Ordinary bearer</b>	<b>26,952,052</b>	<b>26,952,052</b>	<b>51.14%</b>	<b>51.14%</b>
TFI PZU Funds**	Ordinary bearer	6,428,681	6,428,681	12.20%	12.20%
Nationale-Nederlanden Otwarty Fundusz Emerytalny***	Ordinary bearer	3,000,000	3,000,000	5.69%	5.69%
Other	Ordinary bearer	16,319,176	16,319,176	30.97%	30.97%

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

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

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

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

#### Treasury shares

In 2016 and in the comparable period, CIECH S.A. did not purchase or hold treasury shares.

#### Share premium

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

#### Other reserve capitals

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

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2016	31.12.2015
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	57,669	57,669
<b>TOTAL</b>	<b>76,199</b>	<b>76,199</b>

#### Cash flow hedge

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies. Detailed information is presented in note 8.2.

#### Actuarial valuation reserve

Actuarial valuation reserve comprises actuarial gains or losses, i.e. the effects of differences between the previous assumptions made in the valuation of employee benefit provisions and what has actually occurred and the effects of changes in assumptions for these provisions, including change in discount rate.



### 6.3. DIVIDENDS PAID OR DECLARED

The Management Board of CIECH S.A. does not expect payment of the dividend from the profit generated in the period of 2016. The Board proposes to transfer generated in 2016 profit to supplementary capital.

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

### 6.4. BUSINESS COMBINATIONS AND ACQUISITION OF INTEREST

There were no business combinations in the presented periods.

Share purchase transactions are described in note 9.3.3 to these financial statements.

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## LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

### 7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES

<b>LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>LONG-TERM</b>	<b>1,345,973</b>	<b>1,494,775</b>
Loans and borrowings	1,345,973	1,335,349
Debt securities issued	-	159,426
<b>SHORT-TERM</b>	<b>348,889</b>	<b>124,124</b>
Loans and borrowings	59,463	57,571
Debt securities issued	160,382	301
Liabilities under cash pooling	129,044	66,252
<b>TOTAL</b>	<b>1,694,862</b>	<b>1,618,899</b>

#### Debt financing

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

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

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

#### Interest

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



### Information about the financial covenants included in loan agreements

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

## 7.2. OTHER NON-CURRENT LIABILITIES

### Accounting policy, judgements and estimates

Accounting policy concerning financial instruments is presented in note 8.1.

OTHER NON-CURRENT LIABILITIES	31.12.2016	31.12.2015
Financial instruments liabilities	120,929	83,522
<b>TOTAL</b>	<b>120,929</b>	<b>83,522</b>

## 7.3. CURRENT TRADE AND OTHER LIABILITIES

### Accounting policy

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

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

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

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

### Factoring

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

### Judgements and estimates

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

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



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

CURRENT TRADE AND OTHER LIABILITIES	31.12.2016	31.12.2015
Trade liabilities and prepayments received for supplies	385,404	201,393
- in up to 12 months	384,133	200,012
- prepayments received for supplies	1,271	1,381
Public and legal liabilities (excluding income tax)	2,569	2,253
Liabilities for purchase of property, plant and equipment	443	3,309
Financial instruments liabilities	6,006	2,468
Liabilities to employees	711	594
Payroll liabilities	15,231	12,381
Holiday leave accrual	1,939	1,868
External services	7,546	7,432
Social security and other employee benefits	1,935	1,172
Factoring liabilities	14,401	-
Liabilities from continued exposure	1,404	-
Other	6,374	4,541
<b>TOTAL</b>	<b>443,963</b>	<b>237,411</b>

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

## 7.4. OPERATING LEASES

### Accounting policy

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

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

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

Assets used in CIECH S.A. under operating lease agreements include passenger cars and premises – mainly office and warehouse space. The operating lease agreement for cars is a renewable agreement, making it possible to acquire an asset at its estimated market value at the end of its use. The Company is not obliged to purchase the leased assets.

In the financial year 2016, the costs of lease payments were as follows:

- lease of passenger cars – PLN 986 thousand,
- lease of space – PLN 4,062 thousand.

In the financial year 2015, the costs of lease payments were as follows:

- lease of passenger cars – PLN 835 thousand,
- lease of space – PLN 3,303 thousand.



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

TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	31.12.2016	31.12.2015
Up to 1 year	6,440	5,405
Between 1 and 5 years	22,618	21,266
Over 5 years	3,174	7,204
<b>TOTAL</b>	<b>32,232</b>	<b>33,875</b>

## 7.5. PROVISIONS FOR EMPLOYEE BENEFITS

### Accounting policy

#### Provisions for retirement and disability benefits

Based on the Company's remuneration plan, the employees of CIECH S.A. are entitled to retirement and disability benefits. The Company's obligations in respect of the above benefits is the amount of benefit entitlement that employees have earned as a result of their service in the current and prior years.

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

The Company recognises in the statement of profit or loss:

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

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

#### Judgements and estimates

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

PROVISIONS FOR EMPLOYEE BENEFITS	LONG-TERM		SHORT-TERM	
	01.01.-31.12.2016	01.01.-31.12.2015	01.01.-31.12.2016	01.01.-31.12.2015
Opening balance	510	875	240	132
Recognition	132	77	-	210
Use and reversal	(102)	(491)	(34)	(78)
Other	(93)	49	107	(24)
<b>Closing balance</b>	<b>447</b>	<b>510</b>	<b>313</b>	<b>240</b>

In 2016, a change in provision in the amount of PLN 102 thousand was recognised in equity (PLN 491 thousand in the comparable period).

Employee benefits are measured on the basis of actuarial valuations and including provision for retirement and disability benefits. A discount rate of 3.7% p.a. was applied in order to determine the current value of future liabilities due to employee benefits. The discount rate applied is established in nominal value. At the same time, future inflation in the amount of 1.5% per annum was taken into account. The estimated nominal growth rate of 1.0% was applied. The remuneration growth rate of 1.0% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment



restructuring plans. According to the Company's estimations, a change in actuarial assumptions will not have a significant impact on financial results.

## 7.6. OTHER PROVISIONS

### Accounting policy

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

A provision for restructuring is recognised when the Management Board has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly and a reliable estimate can be made.

### Judgements and estimates

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

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for liabilities (costs)	Provision for expected losses	Other provisions	TOTAL
<b>01.01.-31.12.2016</b>				
Opening balance	6,328	19,836	551	26,715
Recognition	4,207	8,131	836	13,174
Use and reversal	(3,012)	-	(629)	(3,641)
Foreign exchange differences	51	99	-	150
<b>Closing balance</b>	<b>7,574</b>	<b>28,066</b>	<b>758</b>	<b>36,398</b>
<b>01.01.-31.12.2015</b>				
Opening balance	2,527	19,362	-	21,889
Recognition	3,945	474	572	4,991
Use and reversal	(144)	-	(21)	(165)
<b>Closing balance</b>	<b>6,328</b>	<b>19,836</b>	<b>551</b>	<b>26,715</b>

Provisions for liabilities and expected losses are related to potential claims (principal liability plus interest liabilities and litigation costs) resulting from litigation.

The amount of provisions is an estimated value and may be subject to change during utilisation.

## 8.1. FINANCIAL INSTRUMENTS

### Accounting policy

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

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

### Impairment of financial assets

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

#### Financial assets measured at amortised cost

If any objective evidence indicates that loans and receivables measured at amortised cost are impaired, the impairment loss is the amount of the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on unrecoverable receivables that have not yet been incurred) discounted at the original (i.e. determined at initial recognition) effective interest rate. The carrying amount of assets is reduced through the use of allowances. The amount of allowance is recognised in profit or loss.

The Company first assesses whether there is any objective evidence of impairment of individually significant financial assets, and also whether any indications of impairment exist in respect of financial assets that are not individually significant. If the analysis does not reveal any objective evidence of impairment of an individually assessed financial asset, regardless of whether it is significant or not, the Company includes such an asset in a group of financial assets with similar credit risk and evaluates them collectively in terms of impairment.

Assets that are individually assessed for impairment and for which an impairment loss was recognised or it was considered that the existing allowance should not change, are not taken into account when assessing the group of assets for impairment.

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

In particular, in relation to trade receivables from entities in liquidation or bankruptcy, or not admitted to bankruptcy, or in relation to receivables that are contested by debtors (disputed receivables), or where payments due are delayed and either the debtor's financial standing makes the collection no longer probable or such delay exceeds 180 days, an



impairment loss is recognised in the full amount due after taking into account the amounts of any existing security which the Management Board of the Company considers highly probable of execution.

#### Available-for-sale financial assets

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

#### Financial assets measured at cost

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

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

#### Financial assets:

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

#### Financial liabilities:

- liabilities from debt securities – domestic bonds,
- term loan liabilities, revolving loan liabilities and overdraft liabilities,
- trade payables,
- financial instruments with negative valuation,
- cash pooling liabilities,
- factoring liabilities.

#### Carrying amount of financial instruments

CLASSES OF FINANCIAL INSTRUMENTS	note	31.12.2016	31.12.2015	CATEGORIES OF FINANCIAL INSTRUMENTS
Cash and cash equivalents	5.7	342,607	174,745	Loans and receivables
Loans granted	5.3, 5.6	801,337	491,498	Loans and receivables
Trade receivables	5.5	314,853	276,117	Loans and receivables
Factoring receivables	5.5	28,736	19,458	Loans and receivables
Hedging derivatives with positive value	5.3, 5.6, 8.2	1,674	2,362	Hedging instruments
Derivative instruments with positive value	5.3, 5.6	74,024	84,475	Assets at fair value through profit or loss
Cash pooling receivables	5.5	940	17,017	Loans and receivables
<b>ASSETS</b>		<b>1,564,171</b>	<b>1,065,672</b>	
Trade liabilities	7.3	(384,133)	(200,012)	Financial liabilities at amortised cost
Loans and borrowings	7.1	(1,405,436)	(1,392,920)	Financial liabilities at amortised cost
Debt securities – bonds issued	7.1	(160,382)	(159,727)	Financial liabilities at amortised cost



CLASSES OF FINANCIAL INSTRUMENTS	note	31.12.2016	31.12.2015	CATEGORIES OF FINANCIAL INSTRUMENTS
Factoring liabilities	7.3	(14,401)	-	Financial liabilities at amortised cost
Hedging derivatives with negative value	7.2, 7.3, 8.2	(7,852)	(5,243)	Hedging instruments
Derivative instruments with negative value	7.2, 7.3	(119,083)	(80,747)	Liabilities at fair value through profit or loss
Cash pooling liabilities	7.1	(129,044)	(66,252)	Financial liabilities at amortised cost
<b>LIABILITIES</b>		<b>(2,220,331)</b>	<b>(1,904,901)</b>	

Selected trade receivables in CIECH S.A. are subject to factoring. This is factoring with the assumption of insolvency risk under which whereby the factor assumes the risk in the amount specified in the insurance policy.

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

Revenues, costs, profit and loss recognised in the statement of profit or loss	01.01.- 31.12.2016	01.01.- 31.12.2015	Categories of financial instruments
Interest income /(costs) including income / costs calculated using the effective interest rate method	(18,189)	(167,877)	
	36,706	53,606	Loans and receivables
	(54,895)	(221,480)	Financial liabilities at amortised cost
	-	(3)	Financial liabilities excluded from IAS 39
Foreign exchange gains/(losses)	(3,817)	(1,152)	
	(3,817)	(1,152)	Financial liabilities at amortised cost
Recognition of impairment losses	(9,420)	(27,722)	Loans and receivables
Reversal of impairment losses	2,173	86,503	Loans and receivables
Income / costs on account of evaluation and use of derivatives	(29,778)	11,299	
	(30,666)	3,727	Financial assets/liabilities at fair value through profit or loss
	888	7,572	Hedging instruments
Gain / (loss) on the disposal of financial instruments	62	-	Loans and receivables
<b>TOTAL</b>	<b>(58,969)</b>	<b>(98,949)</b>	



## 8.2. FINANCIAL INSTRUMENTS DESIGNATED FOR HEDGE ACCOUNTING

### Accounting policy

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

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

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

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

### Cash flow hedge:

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

Cash flow hedge shall be accounted for as follows:

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

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

Hedged risk	Type of hedge	Hedged item	Hedging instrument
Currency risk EUR/PLN	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR exchange rate	Currency forwards EUR/PLN
Currency risk USD/PLN	Cash flow hedge	Future cash flows due to realisation of revenues from	Currency forwards USD/PLN



Hedged risk	Type of hedge	Hedged item	Hedging instrument
		sales denominated or indexed to the USD exchange rate	
Currency risk USD/RON	Cash flow hedge	Future cash flows due to realisation of revenues from sales denominated or indexed to the USD exchange rate	Currency forwards USD/RON
Interest rate risk (change of WIBOR 6M)	Cash flow hedge	Interest payments related to bonds issued by CIECH S.A. (Series 02) with the nominal value of PLN 80,000 thousand	Swap of WIBOR 6M to fixed interest rate
Interest rate risk (change of EURIBOR 6M)	Cash flow hedge	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of EUR 69,673 thousand	Swap of EURIBOR 6M to fixed interest rate

Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2016	Amount transferred from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2016	Forecast period of cash flow occurrence / Expected date of impact on the financial result
<b>Currency risk</b>				
CIECH S.A. – Currency forward EUR/PLN	1,616	1,309	2,706	from 1 January 2017 to 31 December 2018
CIECH S.A. – Currency forward USD/PLN	-	-	(112)	Closed designation
CIECH S.A. – Currency forward USD/RON	(3,862)	(3,244)	-	from 1 January 2017 to 30 November 2018
<b>Interest rate risk</b>				
CIECH S.A. – Interest Rate Swap (IRS) PLN 80 million	(1,241)	(1,005)	(1,070)	from 5 June 2017 to 5 December 2017
CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	(2,691)	(2,180)	(806)	from 30 June 2017 to 25 November 2020
<b>TOTAL</b>	<b>(6 178)</b>	<b>(5 120)</b>	<b>718</b>	

Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2015	Amount transferred from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2015	Forecast period of cash flow occurrence / Expected date of impact on the financial result
<b>Currency risk</b>				
CIECH S.A. – Currency forward EUR/PLN; USD/PLN	(972)	(788)	(6,133)	from 01 January 2016 to 31 December 2018
<b>Interest rate risk</b>				
CIECH S.A. – Interest Rate Swap (IRS) PLN 80 million	(2,810)	(2,277)	(988)	from 05 June 2016 to 05 December 2017
CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	901	730	(55)	from 30 June 2016 to 25 November 2020
<b>TOTAL</b>	<b>(2 881)</b>	<b>(2 335)</b>	<b>(7 176)</b>	-

The aim of CIECH S.A. when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate movements and exchange rates differences from valuation of financial instruments on the statement of profit or loss by reflecting their hedging nature in the financial statements.

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

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Company's long-term financial forecast. Additionally, majority of these transactions are concluded with regular customers of CIECH S.A., which supports the probability of their occurrence.

### 8.3. FINANCIAL RISK MANAGEMENT

#### Risk management principles

CIECH S.A. actively manages operational and financial risk, striving to reduce the fluctuation of cash flows and maximise the Company's market value.

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

In 2016, the Company held instruments to hedge currency risk and interest rate risk (forward, IRS and CIRS transactions).

#### Cash management

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

#### Quantitative and qualitative information on financial risks

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

In fulfilling its main goals, CIECH S.A. aims to avoid excessive market risk. This goal is realised by identifying, monitoring and hedging cash flow fluctuation risk and monitoring the size and costs of the Company's debt. When assessing risk, the Company takes into account the risk portfolio effect resulting from the variety of conducted business activities. Effects of the risk are reflected in the financial statements.

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

#### Interest rate risk

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

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

In 2016, CIECH S.A. benefited from the following hedging transactions:

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



- currency and interest rate swap transactions to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015. The transactions hedge indebtedness of nominal value of PLN 1,045 million and were concluded in November 2015.

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

Total carrying amount	31.12.2016	31.12.2015
<b>Fixed interest rate instruments</b>	<b>254,989</b>	<b>318,935</b>
Financial assets	254,989	377,935
Financial liabilities	-	(59,000)
<b>Floating interest rate instruments</b>	<b>(650,417)</b>	<b>(1,209,803)</b>
Financial assets	1,044,445	468,096
Financial liabilities*	(1,694,862)	(1,677,899)

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

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

	Statement of profit or loss		Equity*	
	increase by 100 bp	decrease by 100 bp	increase by 100 bp	decrease by 100 bp
<b>31.12.2016</b>				
Floating interest rate instruments	(6,504)	6,504	-	-
Interest rate swap transactions (IRS)	-	-	37,506	(39,426)
<b>Cash flows sensitivity (net)</b>	<b>(6,504)</b>	<b>6,504</b>	<b>37,506</b>	<b>(39,426)</b>
<b>31.12.2015</b>				
Floating interest rate instruments	(12,098)	12,098	-	-
Interest rate swap transactions (IRS)	-	-	50,449	(53,497)
<b>Cash flows sensitivity (net)</b>	<b>(12,098)</b>	<b>12,098</b>	<b>50,449</b>	<b>(53,497)</b>

\* Do not include financial result on capital.

### Currency risk

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

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

The table below presents the estimated currency exposure of CIECH S.A. in EUR and USD as at 31 December 2016 due to financial instruments:

Exposure to currency risk in EUR (figures denominated in EUR)	2016	2015	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
<b>Assets</b>				
Borrowings granted sensitive to FX rate changes	49,726	52,795	x	
Trade and other receivables	9,035	15,674	x	
Cash including bank deposits	24,363	7,332	x	
<b>Liabilities</b>				
Trade and other liabilities	(13,919)	(12,933)	x	
Term loan liabilities	(69,673)	(69,673)	x	
Hedging instruments: Forward	(54,400)	(19,500)		x



Exposure to currency risk in EUR (figures denominated in EUR)	2016	2015	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(246,781)	(246,909)	x	
<b>Total exposure</b>	<b>(301,649)</b>	<b>(273,214)</b>		

Exposure to currency risk in USD (figures denominated in USD)	2016	2015	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
<b>Assets</b>				
Trade and other receivables	15,325	11,644	x	
Cash including bank deposits	1,302	358	x	
<b>Liabilities</b>				
Trade and other liabilities	(3,851)	(1,482)	x	
Hedging instruments: Forward*	(33,800)	(1,600)		x
<b>Total exposure</b>	<b>(21,024)</b>	<b>8,920</b>		

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

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

figures denominated in EUR	PLN '000*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
<b>Analysis of sensitivity to EUR exchange rate changes – 2016</b>			
Currency balance sheet items	(2,472)	(2,472)	-
Hedging instruments: Forward	(544)	-	(544)
<b>Analysis of sensitivity to EUR exchange rate changes – 2015</b>			
Currency balance sheet items	(2,537)	(2,537)	-
Hedging instruments: Forward	(195)	-	(195)

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

figures denominated in USD	PLN '000*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
<b>Analysis of sensitivity to USD exchange rate changes – 2016</b>			
Currency balance sheet items	128	128	-
Hedging instruments: Forward	(338)	-	(338)
<b>Analysis of sensitivity to USD exchange rate changes – 2015</b>			
Currency balance sheet items	105	105	-
Hedging instruments: Forward	(16)	-	(16)

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



### Raw material price risk

A significant portion of CIECH S.A.'s activity is the import and export of chemical raw materials. The raw materials markets are characterised by a cyclical nature related to fluctuations of the global economy. The growing prices of raw materials cause a decrease in margins of trade intermediaries and a decrease of demand generated by recipients. On the other hand, the falling prices are usually a symptom of a decreasing demand and the beginning of an economic downturn. On the domestic market, raw materials are subject to similar tendencies. The maintenance of a stable pace of economic growth and stable prices of chemical raw materials will have a positive impact on the commercial activity of CIECH S.A. Considerable fluctuations of demand and prices caused either by fast economic growth or economic stagnation will have a negative influence on the activity related to trading in chemical raw materials by the Company.

CIECH S.A. reduces price risk through concluding agreements with suppliers with appropriate price formula.

### Credit risk

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

From the CIECH S.A.'s point of view, credit risk is linked to:

- trade receivables from customers,
- loans granted,
- cash and bank deposits,
- guarantees and sureties granted.

CIECH S.A. is exposed to credit risk connected with the credit rating of customers being parties to products and goods sales transactions. That risk is limited by using internal procedures to establish amounts of credit limits for customers and to manage trade receivables (the Company uses securities in the form of a letter of credit, bank guarantees, mortgages, receivables insurance and non-recourse factoring). Customers' creditworthiness is assessed and appropriate collateral is obtained from the borrowers, allowing for a reduction of potential losses in the case of failure to repay the debt. Credit risk assessment for customers is performed prior to concluding an agreement and periodically at subsequent deliveries of goods in accordance with the binding procedures. The risk of the receivables portfolio is assessed on a weekly basis. On selected markets, where more risky payment deadlines are applied, the Company makes use of services provided by companies specialising in insuring receivables. Credit risk connected with cash in bank and bank deposits is low as CIECH S.A. enters into transactions with high-rating banks with stable market position.

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

	31.12.2016	31.12.2015
Cash and cash equivalents	342,607	174,745
Loans granted	801,337	491,498
Trade receivables	314,853	276,117
Factoring receivables	28,736	19,458
Cash pooling receivables	940	17,017
Assets due to valuation of derivatives	75,698	86,837
<b>TOTAL</b>	<b>1,564,171</b>	<b>1,065,672</b>

The fair value of financial assets exposed to credit risk is similar to their carrying amount. At the end of the presented periods, there were no loans granted to non-related entities.

The table below presents trade receivables and factoring receivables by age from maturity date.

	31.12.2016		31.12.2015	
	Trade receivables and factoring receivables (gross value)	Impairment loss	Trade receivables and factoring receivables (gross value)	Impairment loss
Not overdue	225,896	(4,166)	209,251	(3,880)
Up to 1 month	53,582	-	51,857	-



	31.12.2016		31.12.2015	
	Trade receivables and factoring receivables (gross value)	Impairment loss	Trade receivables and factoring receivables (gross value)	Impairment loss
1-3 months	58,708	-	38,317	-
3-6 months	9,665	(96)	30	-
6-12 months	20	(20)	-	-
Over 1 year	12,006	(12,006)	11,495	(11,495)
<b>Total</b>	<b>359,877</b>	<b>(16,288)</b>	<b>310,950</b>	<b>(15,375)</b>

According to the Management Board of CIECH S.A., the Company's assets that are not overdue and not covered by an impairment allowance are of high credit quality. The Company has no material items which would be uncollectible as at the reporting date and not covered by an impairment allowance.

Information on guarantees and sureties granted is provided in note 9.2 of these statements.

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Poland	204,590	188,903	581,348	272,050
European Union	70,810	67,637	219,989	219,448
Other European countries	21,478	17,782	-	-
North America	105	353	-	-
South America	1,374	167	-	-
Africa	2,852	8,628	-	-
Asia	42,380	12,105	-	-
<b>Total</b>	<b>343,589</b>	<b>295,575</b>	<b>801,337</b>	<b>491,498</b>

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Soda segment	207,542	252,861	-	-
Organic segment	124,245	41,259	-	-
Transport segment	3,045	-	-	-
Silicates and Glass segment	1,858	706	-	-
Other activities	6,899	749	801,337	491,498
<b>Total</b>	<b>343,589</b>	<b>295,575</b>	<b>801,337</b>	<b>491,498</b>

### Liquidity risk

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

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of CIECH S.A.,
- monitoring and optimisation of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities from the CIECH Group's companies,
- current monitoring of the fulfilment of the liabilities under the loan agreements conditions.

The CIECH S.A.'s debt financing is ensured by term loans and bonds. In addition, a revolving loan in the amount of PLN 250 million has been made available to the Company, constituting an additional source of current liquidity and working capital financing.



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

31.12.2016	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Trade liabilities	(384,133)	(384,133)	(384,133)	-	-	-	-
Loans and borrowings	(1,405,436)	(1,536,628)	(17,549)	(79,033)	(237,140)	(1,202,906)	-
Debt securities issues	(160,382)	(169,836)	(4,542)	(165,294)	-	-	-
Factoring liabilities	(14,401)	(14,401)	(14,401)	-	-	-	-
Cash pooling liabilities	(129,044)	(129,044)	(129,044)	-	-	-	-
Derivative instruments with negative value	(119,083)	(7,526)	(2,888)	(2,674)	(1,069)	(895)	-
Hedging derivatives with negative value	(7,852)	(128,659)	-	-	(30,133)	(98,526)	-
<b>Total financial liabilities</b>	<b>(2,220,331)</b>	<b>(2,370,227)</b>	<b>(552,557)</b>	<b>(247,001)</b>	<b>(268,342)</b>	<b>(1,302,327)</b>	<b>-</b>

31.12.2015	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Trade liabilities	(200,012)	(200,012)	(200,012)	-	-	-	-
Loans and borrowings	(1,392,920)	(1,559,485)	(18,433)	(79,026)	(34,966)	(1,427,060)	-
Debt securities issues	(159,727)	(180,737)	(4,618)	(5,383)	(170,736)	-	-
Cash pooling liabilities	(66,252)	(66,252)	(66,252)	-	-	-	-
Derivative instruments with negative value	(80,747)	(5,823)	(2,014)	(1,062)	(2,042)	(705)	-
Hedging derivatives with negative value	(5,243)	(88,234)	-	-	-	(88,234)	-
<b>Total financial liabilities</b>	<b>(1,904,901)</b>	<b>(2,100,543)</b>	<b>(291,329)</b>	<b>(85,471)</b>	<b>(207,744)</b>	<b>(1,515,999)</b>	<b>-</b>

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

#### 8.4. DETERMINATION OF FAIR VALUE

The following list presents the fair value of financial instruments.

	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	342,607	342,607	174,745	174,745
Loans granted	801,337	801,337	491,498	491,498
Trade receivables	314,853	314,853	276,117	276,117
Assets due to valuation of derivatives	75,698	75,698	86,837	86,837
Cash pooling receivables	940	940	17,017	17,017
Factoring receivables	28,736	28,736	19,458	19,458
<b>ASSETS</b>	<b>1,564,171</b>	<b>1,564,171</b>	<b>1,065,672</b>	<b>1,065,672</b>
Loans and borrowings	(1,405,436)	(1,353,264)	(1,392,920)	(1,341,942)
Debt securities issues	(160,382)	(160,000)	(159,727)	(160,000)
Trade liabilities	(384,133)	(384,133)	(200,012)	(200,012)
Liabilities due to valuation of derivatives	(126,935)	(126,935)	(85,990)	(85,990)
Cash pooling liabilities	(129,044)	(129,044)	(66,252)	(66,252)
Factoring liabilities	(14,401)	(14,401)	-	-
<b>LIABILITIES</b>	<b>(2,220,331)</b>	<b>(2,167,777)</b>	<b>(1,904,901)</b>	<b>(1,854,196)</b>





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

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

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

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

#### Assets and liabilities measured at fair value

	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS	-	75,698	-	-	86,837	-
Hedging instruments	-	1,674	-	-	2,362	-
Derivatives at fair value through profit or loss	-	74,024	-	-	84,475	-
LIABILITIES	-	(126,935)	-	-	(85,990)	-
Hedging instruments	-	(7,852)	-	-	(5,243)	-
Derivatives at fair value through profit or loss	-	(119,083)	-	-	(80,747)	-
<b>TOTAL</b>	-	<b>(51,237)</b>	-	-	<b>847</b>	-

As at 31 June 2016, CIECH S.A. held the following types of financial instruments measured at fair value: interest rate swap contracts, currency forward contracts EUR/PLN, forward USD/RON and CIRS (currency and interest rate swap) contract EUR/PLN.

The fair value of the interest rate swap contract is determined as a difference in the discounted interest rate cash flow (cash flow based on a floating rate, the so-called floating leg, and a fixed rate, the so-called fixed leg). The input data for the method is the market data for interest rates provided by Reuters. The fair value of the CIRS contract is determined as a difference in discounted interest and capital cash flows. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters. The fair value of the currency forward is determined as a difference between the transaction rate and the forward rate at the valuation date multiplied by the nominal value of the contract in the foreign currency. Input data to the valuation are the market interest rate and spot exchange rate from Reuters, based on which the forward rate is calculated.

	Fair value of financial instruments	Other long-term investments	Short-term investments	Other long-term liabilities	Trade and other liabilities	TOTAL
<b>31.12.2016</b>						
IRS PLN	-	-	-	-	(1,241)	<b>(1,241)</b>
IRS EUR	58	-	-	(1,506)	(1,243)	<b>(2,691)</b>
CIRS	55,569	18,455	(119,083)	-	-	<b>(45,059)</b>
Forward EUR/PLN	967	649	-	-	-	<b>1,616</b>
Forward USD /RON	-	-	(340)	(3,522)	-	<b>(3,862)</b>
<b>TOTAL</b>	<b>56,594</b>	<b>19,104</b>	<b>(120,929)</b>	<b>(6,006)</b>	<b>(6,006)</b>	<b>(51,237)</b>
<b>31.12.2015</b>						
IRS PLN	-	-	(2,096)	(714)	-	<b>(2,810)</b>



Fair value of financial instruments	Other long-term investments	Short-term investments	Other long-term liabilities	Trade and other liabilities	TOTAL
IRS EUR	2,362	-	(679)	(782)	901
CIRS	67,694	16,781	(80,747)	-	3,728
Forward EUR/PLN	-	-	-	(718)	(718)
Forward USD/PLN	-	-	-	(254)	(254)
<b>TOTAL</b>	<b>70,056</b>	<b>16,781</b>	<b>(83,522)</b>	<b>(2,468)</b>	<b>847</b>

The above financial instruments were classified at level 2 of the fair value hierarchy. In 2016, there were no transfers within the fair value hierarchy of instruments measured at fair value.

#### Financial instruments not measured at fair value

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

CIECH S.A. has taken out term and working capital loans whose book value, as at 31 December 2016, amounts to PLN 1,345,973 thousand, and whose fair value amounts to PLN 1,353,264 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates.

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

## 9

## OTHER NOTES

### 9.1. NOTES TO THE STATEMENT OF CASH FLOWS

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

	31.12.2016	31.12.2015
<b>Receivables change presented in the statement of financial position</b>	<b>(62,720)</b>	<b>(49,835)</b>
Change of income tax receivables	613	(8,969)
Reclassification of cash pooling receivables	(16,078)	(1,313)
Change in receivables due liquidation of a company	(2,931)	-
Change in receivables – set-off	(21,525)	-
Other	(1,795)	-
<b>Receivables change presented in the statement of cash flows</b>	<b>(104,436)</b>	<b>(60,117)</b>

	31.12.2016	31.12.2015
<b>Liabilities change presented in the statement of financial position</b>	<b>348,713</b>	<b>313,843</b>
Change of financial liabilities	(61,700)	(349,373)
Change of income tax liabilities	(2,075)	(4,210)
Change in liabilities related to non-current assets	2,063	1,671
Change in liabilities due to set-off	-	11,035
Financial instruments	(81,923)	(38,362)
Other	(580)	6,056
<b>Liabilities change presented in the statement of cash flows</b>	<b>204,498</b>	<b>(59,340)</b>

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

### Accounting policy

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Company. Contingent assets are not recognised in the statement of financial position since this may result in the recognition of income that may never be realised.

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

### Significant disputed liabilities of CIECH S.A.

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

### Significant disputed receivables of CIECH S.A.

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

### Contingent assets and contingent liabilities including guarantees and sureties

	31.12.2016	31.12.2015
<b>Contingent assets</b>	<b>18,864</b>	<b>18,864</b>
Other contingent receivables*	18,864	18,864
<b>Other contingent liabilities</b>	<b>653,142</b>	<b>734,048</b>
Guarantees and sureties granted**	647,482	729,831
Other***	5,660	4,217

\*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.

\*\* Including:

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

\*\*\* Including mainly:

- potential liability in CIECH S.A. regarding employee claims in the amount of PLN 5,660 thousand.

As at 31 December 2016, contingent liabilities amounted to PLN 653,142 thousand and decreased as compared to 31 December 2015 by PLN 80,906 thousand. This change resulted primarily from:

- expiry of a guarantee for liabilities of subsidiaries in the amount of PLN 87,333 thousand,
- an increase in potential liability in CIECH S.A. regarding employee claims in the amount of PLN 1,443 thousand.
- differences resulting from changes in currency exchange rates used in the valuation of liabilities, in the amount of PLN - 4,984 thousand.



## Sureties and guarantees granted as at 31 December 2016

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

## Letters of support

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



### 9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

#### 9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

Detailed information about transactions between the 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. and subsidiaries and associates of the CIECH Group) is presented below:

TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED ENTITIES	Subsidiaries	Associates	Other related entities	TOTAL
<b>01.01.-31.12.2016</b>				
Sales revenue	635,964	46,940	-	<b>682,904</b>
Finance income, including:	205,668	166	-	<b>205,834</b>
<i>dividends</i>	157,257	166	-	<b>157,423</b>
Purchase of products, goods, materials and services, including:	1,281,717	7,694	3,798	<b>1,293,209</b>
<i>Kulczyk Holding S.A.</i>	-	-	698	<b>698</b>
Finance costs	27,853	-	-	<b>27,853</b>
<b>31.12.2016</b>				
Receivables, including:	193,859	3,030	863	<b>197,752</b>
<i>Kulczyk Holding S.A.</i>	-	-	180	<b>180</b>
Loans granted	801,337	-	-	<b>801,337</b>
Trade and other liabilities, including:	456,778	1,077	872	<b>458,727</b>
<i>Kulczyk Holding S.A.</i>	-	-	858	<b>858</b>
Loans received	442	-	-	<b>442</b>
<b>01.01.-31.12.2015</b>				
Sales revenue	594,691	35,008	-	<b>629,699</b>
Finance income, including:	261,206	230	-	<b>261,436</b>
<i>dividends</i>	161,373	230	-	<b>161,603</b>
Purchase of products, goods, materials and services, including:	1,190,896	5,734	1,738	<b>1,198,368</b>
<i>Kulczyk Holding S.A.</i>	-	-	1,184	<b>1,184</b>
Finance costs	409,362	-	-	<b>409,362</b>
<b>31.12.2015</b>				
Receivables, including:	146,030	4,651	1,292	<b>151,973</b>
<i>Kulczyk Holding S.A.</i>	-	-	630	<b>630</b>
Loans granted	507,487	-	-	<b>507,487</b>
Trade and other liabilities, including:	264,535	1,037	1,512	<b>267,084</b>
<i>Kulczyk Holding S.A.</i>	-	-	1,425	<b>1,425</b>
Loans received	426	-	-	<b>426</b>

#### Terms of transactions with related entities

Material sales to and purchases from related entities are carried out on arm's length terms. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. No material non-standard or non-routine transactions were concluded with related entities in 2016 except for the ones presented in not 9.3.3

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

### 9.3.2. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

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

### 9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES

#### Establishment of new companies

On 24 June 2016 a company was established under the business name Gamma Finanse Sp. z o.o. (limited liability company registered by the Court on 12 July 2016) with the registered office in Warsaw (share capital of PLN 50 thousand, divided into 1,000 shares with nominal value of PLN 50 each). Shares in the share capital are taken up as follows:

- 500 shares were taken up by CIECH S.A. in consideration for cash contribution,
- 500 shares were taken up by CIECH Soda Polska S.A. in consideration for cash contribution.

On 5 October 2016, a company was established under the business name Vasco Polska Sp. z o.o. (limited liability company registered by the Court on 24 October 2016) with the registered office in Warsaw. The partnership has the following partners:

- CIECH S.A. (900 shares with the total nominal value of PLN 45 thousand were taken up in consideration for cash contribution)
- individual shareholder (100 shares with the total nominal value of PLN 5 thousand were taken up in consideration for cash contribution)

#### Transformation of legal form of companies

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

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

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

#### Changes in the share capital of companies

1. On 24 June 2016, the Extraordinary Shareholders' Meeting of Cerium Finance Sp. z o.o. adopted, among others, a resolution on the increase of the share capital from the amount of PLN 1,429 thousand to the amount of PLN 1,439 thousand by creating 200 new shares with the nominal value of PLN 50 each – total nominal value of PLN 10 thousand. All newly created shares in the increased share capital of the Company were to be taken up by CIECH S.A. in consideration for cash contribution in the amount of PLN 10 thousand.

2. On 12 July 2016, shareholders of Cerium Finance Sp. z o.o. made a non-cash contribution to Gamma Finanse Sp. z o.o. in the form shares in Cerium Finance Sp. z o.o., in exchange for shares in the increased share capital of Gamma Finanse Sp. z o.o., i.e.:
- CIECH Soda Polska S.A. contributed 28,083 shares in Cerium Finance Sp. z o.o., with the total nominal value of PLN 1,404 thousand (representing 97.6% of the share capital),
  - CIECH S.A. contributed 400 shares in Cerium Finance Sp. z o.o., with the total nominal value of PLN 20 thousand (representing 1.39% of the share capital) and, in consequence, ceased to be a shareholder of the company.

#### Other changes

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

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

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

#### Acquisition / sale of shares in other companies

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

### 9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL

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

#### Remuneration of the Management Board of CIECH S.A.

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

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

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

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

**Remuneration of the Supervisory Board of CIECH S.A.**

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

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

In accordance with a Resolution of the Extraordinary General Shareholders' Meeting, Members of the Supervisory Board receive monthly remuneration amounting to:

- Chairman of the Supervisory Board – 300%,
- Deputy Chairman of the Supervisory Board – 250%,
- Other Members of the Supervisory Board – 200% of the average monthly remuneration in the enterprise sector, including profit distribution in the month preceding the calculation.

**9.4. INFORMATION ABOUT AGREEMENTS CONCLUDED WITH THE ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS OF CIECH S.A.**

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

CIECH S.A.	2016*	2015*
Audit of the annual financial statements	97	106
Review of the semi-annual report	83	335
Other attestation services	1	537
Tax advisory services	328	720
Other services	3,269	6
<b>TOTAL</b>	<b>3,778</b>	<b>1,704</b>

\* The remuneration includes additional costs such as travel and subsistence costs.

**9.5. EVENTS AFTER THE BALANCE SHEET DATE**

No significant events occurred in CIECH S.A. after the balance sheet date by the date of publishing this financial statement.





## STATEMENT OF THE MANAGEMENT BOARD

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

Warsaw, 20 March 2017.

*Signed on the Polish original*

.....

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

*Signed on the Polish original*

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

*Signed on the Polish original*

.....

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

*Signed on the Polish original*

.....

**Katarzyna Rybacka – Chief Accountant of CIECH Spółka Akcyjna**