

REPORT
ON ACTIVITY OF THE SUPERVISORY BOARD
CIECH S.A.

for financial year 2016

Warsaw, May 2017

The Supervisory Board of CIECH S.A. submits a report on its activity in financial year 2016 containing, *inter alia*, the report on the results of the evaluation, as referred to in Art. 382 § 3 of the Commercial Companies Code, i.e. evaluation of: The report of the Management Board on the activity of CIECH S.A. for 2016, the Financial Statement of CIECH S.A. for 2016, a motion of the Management Board regarding the distribution of profit or coverage of loss and the report on the activity of the CIECH Group for 2016 and the Consolidated Financial Statement of the CIECH Group for 2016.

The scope of this report covers:

- **Information concerning the composition of the Supervisory Board of CIECH S.A. in 2016.**
- **Discussion of the activity of the Supervisory Board of CIECH S.A. in the period from 01 January 2016 to 31 December 2016, including information about issues discussed during the meetings of the Board;**
- **Information concerning the activity of the Audit Committee of the Supervisory Board of CIECH S.A. in 2016;**
- **Information concerning the activity of the Remuneration Committee of the Supervisory Board of CIECH S.A. in 2016;**
- **Evaluation of the report on the activity of the Company in financial year 2016 and the Unit Financial Statement of the Company for financial year 2016 with regard to their compliance with the books and documents, as well as with the actual state of affairs, and a motion of the Management Board of CIECH S.A. concerning distribution of the net profit of CIECH S.A. for financial year 2016.**
- **Evaluation of the report on the activity of the CIECH Group in financial year 2016 and the Consolidated Financial Statement of the CIECH Group for financial year 2016 with regard to their compliance with the books and documents, as well as with the actual state of affairs.**
- **Assessment of the situation of CIECH S.A. in 2016, taking into account the evaluation of the internal control system and the system of management of the risk relevant for the Company.**
- **Recommendations for the Ordinary (Annual) General Meeting of CIECH S.A.**

INFORMATION CONCERNING THE COMPOSITION OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2016

As of 01 January 2016, the composition of the Supervisory Board was as follows:

1. Sebastian Kulczyk - Chairman of the Supervisory Board
2. Tomasz Mikołajczak - Vice-Chairman of the Supervisory Board
3. Wojciech Stramski - Secretary of the Supervisory Board
4. Piotr Augustyniak
5. Mariusz Nowak
6. Artur Olech.

Changes which occurred in the composition of the Supervisory Board in 2016 covered:

- resignation of Mr Wojciech Stramski from his function of a Member of the Supervisory Board of CIECH S.A., which was submitted as of 6 March 2016,

- appointment of Mr Dominik Libicki as a Member of the Supervisory Board of CIECH S.A., which was effected by means of a resolution of the Extraordinary General Meeting of CIECH S.A. as of 7 March 2016.

As of 31 December 2016, the composition of the Supervisory Board was as follows:

1. Sebastian Kulczyk - Chairman of the Supervisory Board
2. Tomasz Mikołajczak - Vice-Chairman of the Supervisory Board
3. Mariusz Nowak
4. Dominik Libicki
5. Artur Olech
6. Piotr Augustyniak.

The following two committees operated within the structures of the Supervisory Board of CIECH S.A. in 2016:

- 1) the Audit Committee of the Supervisory Board of CIECH S.A.
- 2) the Remuneration Committee of the Supervisory Board of CIECH S.A.

Information about the activity of the aforementioned committees is presented in the following parts of this Report.

DISCUSSION OF THE ACTIVITY OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2016

In 2016, 4 meetings of the Supervisory Board of CIECH S.A. were held.

In 2016, the Supervisory Board of adopted a total of 30 resolutions, including:

- 17 resolutions adopted during meetings of the Supervisory Board
- 13 resolutions adopted with the use of remote communication devices.

Acting pursuant to § 21 section 1 of the Articles of Association of CIECH S.A. and § 3 section 1 of the Regulations of the Supervisory Board, the Supervisory Board of CIECH S.A. exercised regular supervision of the activity of the Company.

Below the most important issues are presented which were the object of the work of the Supervisory Board of in financial year 2016.

FINANCIAL PLAN FOR 2016 AND FOR 2017

On 14 December 2015, by means of Resolution No. 58/IX/2015, the Supervisory Board approved the Financial Plan of the CIECH S.A. Group for 2016, adopted by means of Resolution No. 164/2015 of the Management Board of CIECH S.A., dated 10 December 2015.

On 14 December 2016, the Supervisory Board reviewed the Financial Plan of the CIECH Group for 2017 whose final approval was postponed until the next meeting of the Board.

PREPARATIONS FOR THE ORDINARY (ANNUAL) GENERAL MEETING OF CIECH S.A. HELD ON 16 JUNE 2016

During the meeting held on 30 March 2016, the Supervisory Board considered the statements which will be presented by the Company for approval at the General Meeting, namely:

1. The report on the activity of CIECH S.A. for 2015, which was evaluated by it as presenting the functioning of the Company in a complete manner, as being consistent with the financial data contained in the Unit Financial Statement of CIECH S.A. for financial year 2015, and as meeting the requirements stipulated in the Act on Accountancy of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended).
2. Unit Financial Statement of CIECH S.A. for financial year 2015, which it evaluated as having been drawn-up according to the books and documents, as well as the actual state of affairs, and as meeting the requirements specified in the Act of Accountancy of 29 September 1994 (consolidated text, Journal of Laws No. 2013, item 330, as amended).
3. The report on the activity of the CIECH Group for 2015, which it evaluated as presenting the functioning of the Group in 2015 in a complete manner, as being consistent with the financial data contained in the Consolidated Financial Statement of the CIECH Group for financial year 2015 and as meeting the requirements specified in Art. 49 of the Act on Accountancy.
4. Consolidated Financial Statement of the CIECH Group for financial year 2015, which it evaluated as having been drawn-up according to the books and documents, as well as the actual state of affairs, and as meeting the requirements specified in the Act of Accountancy of 29 September 1994 (consolidated text, Journal of Laws of 2013, item 330, as amended).
5. A motion of the Management Board of CIECH S.A. regarding the allocation of the net profit generated by CIECH S.A. in 2015, in whole, to the supplementary capital of the Company, which, upon the financial analysis of the Company, was approved, according to the recommendation of the Management Board of the Company.

As a result of the conducted evaluation, the Supervisory Board recommended to the Ordinary (Annual) General Meeting of CIECH S.A. the approval of the statements indicated in points 1-4 above and allocation of the net profit for 2015, in whole, to the supplementary capital.

Moreover, the Supervisory Board of CIECH S.A. recommended to the Ordinary (Annual) General Meeting of CIECH S.A. to grant acknowledgement to the following members of the Management Board serving their functions in financial year 2015 of fulfilment of their duties:

- 1) Mr Maciej Tybura for the fulfilment of his duties of the Member of the Management Board in the period from 1 January 2015 to 31 December 2015, including the duties of the President of the Management Board in the period from 22 July 2015 to 31 December 2015.
- 2) Mr Artur Osuchowski for the fulfilment of his duties of the Member of the Management Board in the period from 1 January 2015 to 31 December 2015.

- 3) Mr Artur Król for the fulfilment of his duties of the Member of the Management Board in the period from 26 October 2015 to 31 December 2015.
- 4) Mr Dariusz Krawczyk for the fulfilment of his duties of the President of the Management Board in the period from 1 January 2015 to 22 July 2015.

During the meeting held on 30 March 2016, the Supervisory Board also considered issues which were connected with the on-going activity of the Company, including inter-group loans granted to the companies from the CIECH Group, whose value was determined on the basis of the demand resulting from the financial plan for 2016, covering the cashflow forecast.

On 14 June 2016, the Supervisory Board re-considered the motion of the Management Board concerning its proposal to allocate the net profit for financial year 2015, to the value of PLN 331,578,548.92, in whole, to the supplementary capital. The Supervisory Board decided to revoke the previously-adopted resolution on allocation of the net profit for 2015, in whole, to the supplementary capital and submitted a recommendation to the General Meeting of the following distribution of the net profit:

- the amount of PLN 150,194,740.65 to be allocated to the payment of a dividend to the shareholders of the Company,
- the amount of PLN 181,383,808.27 to be allocated to the supplementary capital of the Company.

ON-GOING SUPERVISION OF THE FINANCIAL SITUATION AND OPERATING ACTIVITY

Within the framework of supervision of the on-going activity of the Company, the object of systematic analyses of the Supervisory Board was the financial situation and the results of the operating activity.

The basis of the analyses conducted by the Supervisory Board was constituted by the Financial Plan of CIECH S.A. for 2016, which received a positive opinion on 14 December 2015 granted by means of Resolution No. 58/IX/2015.

MARKET RISK HEDGING

The Supervisory Board reviewed the new Strategy of Market Risks Hedging in the CIECH Group, concerning the application of the instruments of market risk hedging, which are significant from the point of view of the operation of the CIECH Group, i.e. the currency risk, the interest rate risk and the risk of gas, coal and electrical energy prices, and the risk of the price for the right to CO2 emission. The new Strategy was developed in order to update the risk management rules, including, *inter alia*, the setting out of the rights of the Market Risk Committee appointed by the Management Board of CIECH S.A. According to the new Strategy, the Market Risk Committee monitors and supervises significant market risks, develops and recommends the strategy of securing the market risk and sets out parameters of hedging transactions within the boundary conditions deriving from the Strategy of Market Risks Hedging.

The Supervisory Board granted a positive opinion on the Strategy of Market Risks Hedging which will replace the currently-binding Financial Hedging Strategy implemented in March 2013, and expressed its consent for the entering into hedging transactions which are consistent with the new Strategy.

ACQUISITION OF COMPANIES FOR THE PURPOSE OF STRENGTHENING THE AGRO SEGMENT

The Supervisory Board reviewed the motion of the Management Board of CIECH S.A. regarding the submission of an offer by CIECH S.A. in the process of sale of 100% of shares in the share capital of Sapec Agro S.A., with a registered office in Setúbal, Portugal, and Trade Corporation International S.A., with a registered office in Madrid, Spain, from Sapec Portugal SGPS S.A., with a registered office in Lisbon, Portugal ("**the Seller**"), as well as the associated take-over of amounts receivable. The submission of the aforementioned offer was preceded by a number of analyses conducted from the business, operational and financial points of view in order to increase the share of the CIECH Group in the European market of crop protection products and significant extension of its product portfolio. The Supervisory Board, upon the analysis of the presented documents and after receiving extensive explanations and replies to its questions, it decided to grant its consent to the submission of a binding offer and entry into agreements concerning the acquisition of the aforementioned shares.

According to the obtained information, the Seller concluded a share transfer agreement with the Bridgepoint investment found, which meant the end for the participation of CIECH S.A. in the process of acquisition of the shares of those Companies.

INFORMATION CONCERNING THE ACTIVITY OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2016

The scope of this information covers:

- information concerning the composition and tasks of the Audit Committee of the Supervisory Board of CIECH S.A. in 2016;
- discussion of the activity of the Audit Committee the Supervisory Board of CIECH S.A. in 2016, including information about issues discussed during the meetings of the Committee;
- and evaluation of the statements of CIECH S.A. for 2016 and of the CIECH Group for 2016.

INFORMATION CONCERNING THE COMPOSITION AND TASKS OF THE AUDIT COMMITTEE IN 2016

The first Audit Committee of the Supervisory Board of CIECH S.A. was appointed by means of Resolution No. 57/IV/2005 of the Supervisory Board of CIECH S.A. of 16 February 2005.

As of 01 January 2016, the composition of the Audit Committee was as follows:

- | | |
|----------------------|-----------------------------|
| 1) Wojciech Stramski | - Chairman of the Committee |
| 2) Piotr Augustyniak | - Member of the Committee |
| 3) Artur Olech | - Member of the Committee |

Due to resignation of Mr Wojciech Stramski, the Supervisory Board appointed Mr Mariusz Nowak to become a member of the Audit Committee as of 10 March 2016.

During its meeting held on 17 March 2016, the Audit Committee elected the Chairman of the Committee from among its members and the function was entrusted to Mr Mariusz Nowak.

As of 31 December 2016, the composition of the Audit Committee was as follows:

- 1) Mariusz Nowak - Chairman of the Committee
- 2) Piotr Augustyniak - Member of the Committee
- 3) Artur Olech - Member of the Committee

The tasks of the Audit Committee were set out in the Regulations of the Audit Committee approved by means of Resolution No. 57/IV/2005 of the Supervisory Board of 16 February 2005. Amendments to the Regulations were made by means of Resolution No. 148/VI/2010 of the Supervisory Board of CIECH S.A. of 29 November 2010.

According to the regulations, the tasks of the Audit Committee include, in particular:

- 1) monitoring of the financial reporting process,
- 2) monitoring of the effectiveness of the internal control system,
- 3) monitoring of the effectiveness of the internal audit system,
- 4) monitoring of the effectiveness of the risk management system,
- 5) monitoring of the performance of financial audit activities,
- 6) monitoring of impartiality of the chartered accountant and of the entity authorized to audit financial statements of the Company.

DISCUSSION OF THE ACTIVITY OF THE AUDIT COMMITTEE IN 2016

In 2016, 5 (five) meetings of the Audit Committee were held.

The basic subject matter of the work of the Audit Committee in 2016 was an analysis and evaluation of both annual and periodic financial statements of CIECH S.A. and the CIECH Group, as well as the Strategy of Market Risks Hedging in the CIECH Group.

Below the most important issues are presented which were the subject matter of the work of the Audit Committee in 2016.

- ***Evaluation of the statements of CIECH S.A. for 2015 and of the CIECH Group for 2015***

During its meeting held on 17 March 2016, the Audit Committee discussed and evaluated the presented statements of the Company and the CIECH Group, concerning financial year 2015, and presented its positive recommendation to the Supervisory Board of the Company.

The following statements were evaluated by the Audit Committee:

- 1) the Unit Financial Statement of CIECH S.A. for financial year 2015,
- 2) report on the activity of CIECH S.A. for 2015,
- 3) the Consolidated Financial Statement of the CIECH Group for 2015,
- 4) the report on the activity of the CIECH Group in 2015.

The Audit Committee, upon reviewing the aforementioned statements and the chartered accountant's opinion regarding the unit and consolidated financial statement for 2015, decided to present its positive opinion to the Supervisory Board of CIECH S.A. to recommend them to the Ordinary (Annual) General Meeting of the Company.

- ***Distribution of profit of CIECH S.A. for 2015***

The Audit Committee reviewed the proposal of allocation of the net profit of the Company for 2015, in whole, to the supplementary capital of the Company, as presented in the evaluated Unit Financial Statement of CIECH S.A. for financial year 2015, and did not make any comments as to the proposal of the distribution of the net profit for 2015.

- ***Co-operation with the chartered accountant***

The Audit Committee held meetings with the chartered accountant of CIECH S.A., PricewaterhouseCoopers Sp. z o.o., during which it discussed, on an on-going basis, the scope of the conducted audits of the periodical statements of CIECH S.A. and the CIECH Group, as well as the unit financial statement for financial year 2015 and the consolidated financial statement for financial year 2015.

Members of the Audit Committee were informed about the progress of the work connected with the audit of the financial statements.

- ***Strategy of risks hedging in the CIECH Group***

The Audit Committee reviewed the draft of the new Strategy of Market Risks Hedging in the CIECH Group and provided its positive opinion to the Supervisory Board recommending it to adopt the Strategy of Market Risks Hedging in the CIECH Group.

The presented new Strategy will replace the Financial Hedging Strategy which has been in force since March 2013. Members of the Audit Committee were informed that all hedging transactions are carried out by internal financial services of CIECH S.A. and the Company is not using the services of any external companies.

Reports on hedging transactions are presented by the Management Board of the Company and discussed by the Audit Committee every quarter.

- ***The financing of the activity of the CIECH Group***

The Audit Committee, analysing and discussing periodical statements of CIECH S.A. and the CIECH Group, also reviews the details of the sources of financing of the CIECH Group, including the level of external debt and the level of debt resulting from the use of funds under the intra-group loan programme, as well as financial leasing agreements and factoring agreements.

- **Financial Plan of the CIECH Group for 2016 and for 2017**

The Financial Plan of the CIECH Group for 2016 was presented to the Audit Committee by the Management Board of CIECH S.A. during the meeting held on 7 December 2015. The Plan covered, *inter alia*, the key actions planned within the individual products sectors of the CIECH Group. The Audit Committee positively recommended to the Management Board of the Company the submission to the Supervisory Board of the Financial Plan of the CIECH Group for 2016.

The Financial Plan of the CIECH Group for 2016 was presented during the meeting of the Audit Committee held on 9 December 2016. The draft Plan covered, *inter alia*, priorities for 2017, starting with the priorities of the CIECH Group, covering the implementation of the strategy and initiatives from the Value Growth Programmes, through priorities specified with a breakdown into product segments, to priorities for individual products. The Financial Plan of the CIECH Group for 2017 was given a recommendation concerning its presentation to the Supervisory Board of the Company.

- **Analysis of the letter of the chartered accountant to the Management Board of the Company**

The Audit Committee reviewed a Letter to the Management Board of CIECH S.A. prepared by PricewaterhouseCoopers Sp. z o.o., covering the issues which drew attention of the auditor during the conducted audit of the consolidated financial statement of the CIECH Group for financial year ending on 31 December 2015, including the replies of the Management Board to those issues.

- **Other information**

The Audit Committee also dealt with issues which were subject to an audit conducted by the Control and Audit Office in 2015 and with the audit plan for 2016, and it reviewed the report on the activity of the Control and Audit Office in 2015.

EVALUATION OF THE STATEMENTS OF CIECH S.A. FOR 2016 AND OF THE CIECH GROUP FOR 2016

During its meeting held on 16 March 2017, the Audit Committee discussed and evaluated the presented statements of the Company and the CIECH Group, concerning financial year 2016.

The following statements were evaluated by the Audit Committee:

- 1) The report of the Management Board on the activity of the CIECH Group and CIECH S.A. for 2016.
- 2) the Unit Financial Statement of CIECH S.A. for financial year 2016,
- 3) the Consolidated Financial Statement for financial year 2016,
- 4) the motion of the Management Board regarding the distribution of net profit for 2016.

The Audit Committee, upon reviewing the aforementioned statements and the chartered accountant's opinion regarding the unit and consolidated financial statement for 2016, decided to present its positive opinion to the Supervisory Board of CIECH S.A. to recommend them to the Ordinary (Annual) General Meeting of the Company.

The Audit Committee, after reviewing the motion of the Management Board regarding the distribution of net profit for 2016, to the value of PLN 152,439,960.97 (say: one hundred fifty-two million four hundred thirty-nine thousand nine hundred sixty and 97/100), did not have any comments to the allocation of the net profit for 2016, in whole, to the supplementary capital.

INFORMATION CONCERNING THE ACTIVITY OF THE REMUNERATION COMMITTEE OF THE SUPERVISORY BOARD OF CIECH S.A. IN 2015

The scope of this report covers:

- information concerning the composition and tasks of the Remuneration Committee of the Supervisory Board of CIECH S.A. in 2016,
- discussion of the activity of the remuneration committee in 2016.

INFORMATION CONCERNING THE COMPOSITION AND TASKS OF THE REMUNERATION COMMITTEE

The first Committee of the Supervisory Board of CIECH S.A. for Remuneration of the Supervisory Board was appointed by means of Resolution No. 66/IV/2005 of the Supervisory Board of CIECH S.A. of 16 March 2005.

Throughout 2016, the composition of the Remuneration Committee of the Supervisory Board of CIECH S.A. was as follows:

- 1) Tomasz Mikołajczak - Chairman of the Committee
- 2) Mariusz Nowak.

According to the Regulations of the Remuneration Committee (adopted by means of Resolution No. 66/IV/2005 of the Supervisory Board of CIECH S.A. of 16 March 2005), the main task of the Committee is to provide advice to the Supervisory Board in matters concerning determination of the rules and value of the remuneration of members of the Management Board of CIECH S.A., including, in particular:

- 1) presentation of proposals to the Supervisory Board regarding the rules of remuneration of members of the Management Board of CIECH S.A., which should take into account all forms of remuneration, in particular with regard to: fixed remuneration, performance-based system of remuneration, pension and severance pay system,
- 2) presentation of proposals to the Supervisory Board regarding the value of remuneration of each of the members of the Management Board of CIECH S.A.,
- 3) presentation of draft agreements to the Supervisory Board regulating the the fulfilment of duties by members of the Management Board of CIECH S.A.,
- 4) discussion (with or without participation of the Management Board of the Company) of any problems or objections which may arise in connection with remuneration of members of the Management Board of CIECH S.A.,

- 5) consideration of any other issues pointed out by the Committee or the Supervisory Board,
- 6) notification of the Supervisory Board of any significant issues in the general context of operation of the Committee.

DISCUSSION OF THE ACTIVITY OF THE REMUNERATION COMMITTEE

In 2016, due to the fact that no changes were introduced in the rules and conditions of remuneration of Members of the Management Board of CIECH S.A., the Remuneration Committee did not meet, but it conducted an on-going analysis of the remuneration of the Management Board of CIECH S.A. in comparison with market conditions.

EVALUATION OF THE REPORT ON THE ACTIVITY OF THE CIECH GROUP AND CIECH S.A. IN 2016 AND THE UNIT FINANCIAL STATEMENT OF CIECH S.A. FOR 2016 AND THE CONSOLIDATED FINANCIAL STATEMENT FOR 2016 WITH REGARD TO THEIR CORRESPONDENCE TO THE BOOKS AND DOCUMENTS, AS WELL AS THE ACTUAL STATE OF AFFAIRS, AND EVALUATION OF THE MOTION OF THE MANAGEMENT BOARD OF CIECH S.A. CONCERNING THE ALLOCATION OF THE NET PROFIT OF THE COMPANY FOR 2016

According to Art. 382 § 3 of the Commercial Companies Code and § 21 section 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. performed the evaluation of the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. for 2016 and the Unit Financial Statement of CIECH S.A. for 2016 and the Consolidated Financial Statement for 2016 with regard to their correspondence to the books and documents, as well as the actual state of affairs, and the motion of the Management Board of CIECH S.A. concerning the distribution of the net profit for 2016.

1. EVALUATION OF THE REPORT ON THE ACTIVITY OF THE CIECH GROUP AND CIECH S.A. IN 2016

According to Art. 382 § 3, in conjunction with Art. 395 § 5 of the Commercial Companies Code and § 21 section 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. performed the evaluation of the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. for 2016 with regard to its correspondence to the books and documents, as well as the actual state of affairs.

The Supervisory Board reviewed the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. in 2016, including an opinion of a chartered accountant.

As regards the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. in 2016, the chartered accountant stated that the information contained in the report of the Management Board on the activity of the CIECH Group and CIECH S.A. for the financial period from 1 January to 31 January 2016 take into account the provisions of Art. 49 of the Act on Accountancy and the Regulation, and they are consistent with the information contained in the audited unit and consolidated financial statements.

On 16 March 2017, the Audit Committee of the Supervisory Board of CIECH S.A. recommended to the Supervisory Board to give a positive opinion to the Ordinary (Annual) General Meeting of CIECH S.A. regarding the approval of the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. in 2016.

The Supervisory Board of CIECH S.A. decided that the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. for 2016 meets the requirements imposed by the Act of 29 September 1994 on Accountancy ("the Act on Accountancy" - Journal of Laws of 2016, item 1047, as amended), and that it is complete, as defined in Art. 49 of the Act on Accountancy and the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information delivered by issuers of securities and on conditions of recognition of information required under non-member state law regulations as equivalent, and that the information contained therein, originating from the audited unit and consolidated financial statements, is consistent therewith.

During the meeting held on 4 April 2017, the Supervisory Board of CIECH S.A. reviewed the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. in 2016 and recommended to the Ordinary (Annual) General Meeting to approve the same.

2. EVALUATION OF THE UNIT FINANCIAL STATEMENT OF THE COMPANY FOR 2016

According to Art. 382 § 3 of the Commercial Companies Code and § 21 section 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. performed the evaluation of the Financial Statements of CIECH S.A. for financial year 2016 with regard to its correspondence to the books and documents, as well as the actual state of affairs.

The audit of the Financial Statement of CIECH S.A. for financial year 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. (hereinafter also referred to as the "chartered accountant"), which was appointed by means of Resolution No. 28/IX/2015 of the Supervisory Board of CIECH S.A. of 26 May 2015 regarding the replacement of the chartered accountant appointed to audit the financial statements for 2015 and election of a new chartered accountant to audit the financial statements in the future years.

The representatives of the chartered accountant participated in the meetings of the Supervisory Board and co-operated with the Audit Committee of the Supervisory Board on an on-going basis.

The Supervisory Board reviewed the opinion and report of the chartered accountant.

In the opinion of the chartered accountant, the Unit Financial Statement of CIECH S.A.:

- a. presents a reliable and clear picture of the property and financial situation of the Company as of 31 December 2016, as well as its financial result and cash flow for the financial year from 1

January to 31 December 2016, according to the International Financial Reporting Standards, approved by the European Union, and the adopted accounting rules (policy);

- b. it is consistent, in its form and contents with the provisions of law binding the Company, including the requirements of the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information delivered by issuers of securities and on conditions of recognition of information required under non-member state law regulations as equivalent ("the Regulation" - Journal of Laws of 2014, item 133, as amended), and the Articles of Association of the Company;
- c. was drawn-up on the correctly-kept accounting books.

On 16 March 2017, the Audit Committee recommended to the Supervisory Board to present a positive opinion to the Ordinary (Annual) General Meeting of CIECH S.A. regarding the approval of the Unit Financial Statement of CIECH S.A. for financial year 2016.

The Supervisory Board of CIECH S.A. decided that the aforementioned statement meets the requirements imposed by the Act of 29 September 1994 on Accountancy ("the Act on Accountancy" - Journal of Laws of 2016, item 1047, as amended), and, during the meeting held on 4 April 2017, it performed the evaluation of the statement and recommended to Ordinary (Annual) General Meeting to approve the same.

3. EVALUATION OF THE MOTION OF THE MANAGEMENT BOARD OF CIECH S.A. REGARDING THE DISTRIBUTION OF THE NET PROFIT FOR FINANCIAL YEAR 2016

The Supervisory Board of CIECH S.A., upon reviewing the proposal submitted by the Management Board of the Company regarding the allocation of the whole net profit of CIECH S.A., generated by the Company in 2016, to the value of PLN 152,439,960.97 (say: one hundred fifty-two million four hundred thirty-nine thousand nine hundred sixty and 97/100), to the supplementary capital, and upon the performance of a financial analysis of the Company, recommended the General Meeting of CIECH S.A. to allocate the whole net profit for 2016 to the supplementary capital of CIECH S.A.

4. EVALUATION OF THE CONSOLIDATED FINANCIAL STATEMENT OF THE CIECH GROUP FOR 2015

According to Art. 382 § 3, in conjunction with Art. 395 § 5 of the Commercial Companies Code and § 21 section 2 point 1) of the Articles of Association of CIECH S.A., the Supervisory Board of CIECH S.A. performed the evaluation of the Consolidated Financial Statement of the CIECH Group for 2016 with regard to its correspondence to the books and documents, as well as the actual state of affairs.

The audit of the Consolidated Financial Statement of the CIECH Group for financial year 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. (hereinafter also referred to as the "chartered accountant"), which was appointed by means of Resolution No. 28/IX/2015 of the Supervisory Board of CIECH S.A. of 26 May 2015 regarding the replacement of the chartered accountant appointed to

audit the financial statements for 2015 and election of a new chartered accountant to audit the financial statements in the future years.

The Supervisory Board reviewed the opinion and report of the chartered accountant.

In the opinion of the chartered accountant, the Consolidated Financial Statement of the CIECH Group for 2016:

- a. presents a reliable and clear picture of the property and financial situation of the Group as of 31 December 2016, as well as its financial result and cash flow for financial year from 1 January to 31 December 2016, according to the International Financial Reporting Standards, approved by the European Union, and the adopted accounting rules (policy);
- b. it is consistent, in its form and contents with the provisions of law binding the Group, including the requirements of the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information delivered by issuers of securities and on conditions of recognition of information required under non-member state law regulations as equivalent ("the Regulation" - Journal of Laws of 2014, item 133, as amended);
- c. was drawn-up on the basis of the correctly-kept consolidation documentation.

On 16 March 2017, the Audit Committee of the Supervisory Board of CIECH S.A. recommended to the Supervisory Board to give a positive opinion to the Ordinary (Annual) General Meeting of CIECH S.A. regarding the approval of the Consolidated Financial Statement of the Group for financial year 2016.

The Supervisory Board decided that the Consolidated Financial Statement of the CIECH Group for 2016 meets the requirements imposed by the Act of 29 September 1994 on Accountancy ("the Act on Accountancy" - Journal of Laws of 2016, item 1047, as amended), and, during the meeting held on 4 April 2017, it performed the evaluation of the Consolidated Financial Statement of the CIECH Group for 2016 and recommended to Ordinary (Annual) General Meeting to approve the same.

ASSESSMENT OF THE SITUATION OF CIECH S.A. IN 2016, PERFORMED BY THE SUPERVISORY BOARD OF CIECH S.A. TAKING INTO ACCOUNT THE SYSTEM OF INTERNAL CONTROL AND THE SYSTEM OF MANAGEMENT OF THE RISK RELEVANT FOR THE COMPANY

The Supervisory Board of CIECH S.A. submits to the Ordinary (Annual) General Meeting of CIECH S.A. a brief assessment of the situation of the Company in 2016, taking into account the evaluation of the internal control system and the system of management of the risk relevant for the Company.

1. EVALUATION OF THE SITUATION OF THE COMPANY IN 2016

In 2016, CIECH S.A. reached a positive net profit to the value of PLN 152,441 thousand, the balance sheet sum amounted to PLN 3,599,972 thousand, and the level of cash showed an increase by the amount of PLN 167,862 thousand, to the level of PLN 342,607 thousand. Net profitability of sale amounted to 13.7%. Both internal and external factors contributed to the net profit generated in

2016. The key internal factors included a significant increase in the volume of soda sales in connection with the completion by CIECH Soda Polska S.A. of soda production intensification investment (volume growth in 2016 by 140 thousand tonnes), the key external factors include the prevailing good level of soda sales prices, a drop in the prices of raw materials for the organic segment and an improvement of export profitability as a result of the weakening of PLN and RON against USD and EUR. The payment of dividends by subsidiaries, to the amount of PLN 157,423 thousand has a positive effect on the net result, whereas the establishment of write-offs of involvement in CIECH Trading S.A., Soda Deutschland CIECH GmbH and CIECH Nieruchomości Sp. z o.o., to a total value of PLN 178,373 thousand had a negative impact.

In 2016, revenues from sale of CIECH S.A. amounted to PLN 2,193,357 thousand and they were higher (by 7.6%) in comparison with 2015. The main reason for this growth was the increase in the volume of soda sales, the maintenance of the attractive soda sales prices and an improvement of export profitability in effect of the weakening of PLN and RON against USD and EUR.

In 2016, the gross profit on sales amounted to PLN 541,804 thousand, and, during the corresponding period of the previous year, to PLN 446,404 thousand, while the profit on operating activity for 2016 was at the level of PLN 300,774 thousand and PLN 315,225 thousand for the corresponding period, which gave EBIT for 2016 at the level of 13.7% (in the preceding year - 15.5%). Adjusted EBITDA amounted to PLN 310,404 thousand for 2016 and, respectively, PLN 327,913 thousand for 2015, which gave adjusted EBITDA at the level of, respectively, 14.2% for 2016 and 16.1% for 2015.

The equity capital as of 31 December 2016 equal PLN 1,296,766 thousand, which corresponded to the level of the equity capital as of the end of 2015 (PLN 1,297,223 thousand). The fact that there was no change in the level of the equity capital was connected, on the one hand, with the achievement by the Company of the net result at the level of PLN 152,441 thousand and, on the other hand, with the payment of the dividend for 2015, to the value of PLN 150,195 thousand. Amounts payable (both short- and long-term) of CIECH S.A. were, as of 31 December 2016, equal to PLN 2,303,206 thousand, which means an increase in the level of amounts payable by PLN 331,690 thousand in comparison with the level from the previous year. This growth was mainly due to an increase in trade and other liabilities.

The net debt of CIECH S.A. counted as a sum of long- and short-term amounts payable under credits, loans and other debt instruments decreased by the level of cash and cash equivalents, amounted, as of 31 December 2016, to PLN 1,352,225 thousand and decreased in comparison with the level as of the end of December 2015, by PLN 91,899 thousand.

Cash flow from operating activity in 2016 increased in comparison with the corresponding period, by PLN 287,615 thousand and amounted to PLN 344,602 thousand.

In 2016, a surplus of investment expenditure over proceeds amounted to PLN 86,973 thousand. With regard to this activity, the Company incurred expenditure connected mainly with the granting of loans to Subsidiaries (mainly CIECH Soda Polska S.A. to the value of PLN 292,000 thousand, CIECH Vitrosilicon S.A., to the value of PLN 25,300 thousand, and CIECH Soda Deutschland GmbH - loan in

EUR to the value of PLN 36,524 thousand). The main source of proceeds was the obtainment of dividends (PLN 157,423 thousand) and proceeds from repayment of loans (PLN 67,638 thousand).

The balance of cash flow from financial activity was negative and it amounted to PLN 87,457 thousand. The main item of expenses covers the payment of the dividend to the value of PLN 150,195 thousand, the main item of proceeds includes proceeds from cash pooling to the value of PLN 62,738 thousand.

2. EVALUATION OF THE INTERNAL CONTROL SYSTEM

The control system in the CIECH Group consists of:

- institutional control - implemented by the Control and Audit Office of CIECH S.A.,
- operational-functional control implemented on an on-going basis by employees of all organizational units by compliance with procedures, regulations and other internal provisions at all stages of the business activity, in the form of initial, on-going and post-executive (verification) control.

In 2016, the Control and Audit Office, acting pursuant to the Organizational Regulations of CIECH S.A., conducted, on the basis of the adopted Control and Audit Plan, a number of audits and controls, both at CIECH S.A. and at the companies of the CIECH Group. The Office also conducted ad hoc audits and controls at the order of the Management Board of CIECH S.A.

Reports on audits and controls, including conclusions, are presented on an on-going basis to the Management Board of CIECH S.A. and to the relevant organizational units, and their implementation is monitored.

Both the audit and control plan and information about its implementation and results are presented and discussed during meetings of the Audit Committee of the Supervisory Board of CIECH S.A. Under the annual system of internal control and risk management, feedback is presented at the meeting of the Supervisory Board.

CIECH S.A. has a system of internal control in place which covers the relevant areas of operation throughout the CIECH Group, which is adapted to the organizational structure of the Group and which also extends to subsidiaries. However, it requires continuous improvement by regular audits and controls of the areas identified as most vulnerable to various types of irregularities.

3. EVALUATION OF THE SYSTEM OF MANAGEMENT OF THE RISK SIGNIFICANT FOR THE COMPANY

In the CIECH Group, the process of risk management is implemented at all levels of strategic and operational management. Implementation of tasks in this area is conducted on an on-going basis by organizational units forming a part of the Group, co-ordinated by the Plenipotentiary of the CIECH Group for Risk and the Plenipotentiary of the Management Board for the Integrated Management System. A number of instructions, procedures and internal regulations forms the basis for effective operation of a complex system of information security management, management of the business continuity and management of the financial risk.

The method of risk management in the CIECH Group is specified in the Risk Management Policy in the CIECH Group, adopted by the Management Board of CIECH S.A. in 2016, which describes and sets out the procedures, model, structure and responsibility for the functioning of the risk management system in the CIECH Group.

At the strategic level, on-going monitoring and assessment of risks connected with the activity are performed by the Management Board of CIECH S.A.

At the operating level, tasks are implemented by a number of organizational units. The main areas of activities include:

- Protection of information security;
- Ensuring security in the area of business continuation;
- Financial risk management.

4. PROTECTION OF INFORMATION SECURITY

The supervision of information security constitutes the responsibility of the Security Office. Tasks are implemented in the areas of organizational, legal, physical, personal and ICT security. The risk management plan regulates the issues of procedures and security measures.

5. ENSURING SECURITY IN THE AREA OF BUSINESS CONTINUATION

In the area of ensuring security in with regard to business continuity, analysis and monitoring extend to factors affecting business continuity, strategies of business continuity, business continuity maintenance plans, compliance with regulations and emergency plans. The co-ordination of those activities is performed by the Security Office.

6. FINANCIAL RISK MANAGEMENT

The method of financial risk management is defined in the Strategy of Market Risks Hedging for the CIECH Group, adopted by the Supervisory Board on 27 April 2016, which describes and sets out the procedures and division of tasks in the area of management of risk of currency exchange, interest rates and a change in the prices of materials (coal, gas, electrical energy and CO₂ emission certificates). The document specifies the purpose of market risk management, defines the risks to which hedging instruments are applied, sets out the rules of identification, quantification and determination of the method of dealing with market risks, including the maximum permitted values of hedging transactions. The Strategy of Market Risks Hedging specifies the instruments used for individual types of market risks and the rules of operation of the market risk committee.

The risk management system of the CIECH Group provides for effective management of risks in the course of the conducted business activity. However, taking into account the dynamics of global economic processes and emergence of new risk areas requiring identification and reaction, this system should be developed and improved in the next years.

In the opinion of the Supervisory Board, the internal control activities of the Company are adapted to the volume and profile of risk connected with the business activity conducted by the Companies.

At the same time, the management of risk relevant for the Company is carried out in an adequate manner, but an improvement of methods of risk management should be put in place and should constitute an on-going process.

In view of the foregoing, the Supervisory Board grants a positive opinion to the potential of the CIECH SA Company, which has sufficient resources to implement the planned changes of the business activity model which will endure long-term development of the Company and its whole Capital Group.

RECOMMENDATIONS FOR THE ORDINARY (ANNUAL) GENERAL MEETING OF CIECH S.A.

The evaluation conducted by the Supervisory Board of the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. for 2016, the Unit Financial Statement of CIECH S.A. for 2016 and the Consolidated Financial Statement for 2016, provided for the formulation of the conclusion that the information contained in those documents is consistent with the books and documents, as well as with the actual state of affairs, and their contents is consistent. The Report of the Management Board on the activity of the CIECH Group and CIECH S.A. for 2016 presents, in a reliable and clear manner, all the relevant elements of the activity of the Company and the Group, and the information covered by it is consistent with the information covered by the Unit and Consolidated Financial Statement for 2016.

The Supervisory Board of CIECH S.A., taking into account the above evaluation, recommends that the Ordinary (Annual) General Meeting of CIECH S.A. approves:

- 1) the Report of the Management Board on the activity of the CIECH Group and CIECH S.A. for 2016,
- 2) The Unit Financial Statement of CIECH S.A. for financial year 2016,
- 3) the Consolidated Financial Statement of the CIECH Group for 2016,

The Supervisory Board of CIECH S.A., upon the conducted analysis and taking account the recommendation of the Audit Committee, evaluated the motion of the Management Board of CIECH S.A. regarding the proposal of allocation of the whole net profit generated by the Company in 2016, to the value of PLN 152,439,960.97 (say: one hundred fifty-two million four hundred thirty-nine thousand nine hundred sixty and 97/100) to the supplementary capital, and decides to recommend that the General Meeting of CIECH S.A. allocates the net profit for 2016 to the supplementary capital of CIECH S.A.

In addition, the Supervisory Board of CIECH S.A. recommends the Ordinary (Annual) General Meeting of CIECH S.A. to grant acknowledgement for the fulfilment of their duties to the following Members of the Management Board of CIECH S.A. serving their duties in financial year 2016:

- 1) Mr Maciej Tybura for the fulfilment of his duties of the President of the Management Board in the period from 1 January 2016 to 31 December 2016,

- 2) Mr Artur Osuchowski for the fulfilment of his duties of the Member of the Management Board in the period from 01 January 2016 to 31 December 2016,
- 3) Mr Artur Król for the fulfilment of his duties of the Member of the Management Board in the period from 1 January 2016 to 31 December 2016.