
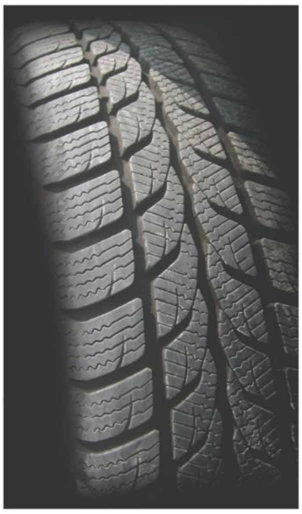

FINANCIAL STATEMENTS

of the CIECH S.A. for 2017




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 thousand PLN		in thousand EUR	
	12 months ended 31.12.2017	12 months ended 31.12.2016	12 months ended 31.12.2017	12 months ended 31.12.2016
Sales revenues	2,365,764	2,193,357	557,345	501,259
Operating profit	242,213	300,774	57,062	68,737
Profit before tax	301,471	194,678	71,023	44,491
Net profit for the period	243,907	152,441	57,462	34,838
Other comprehensive income net of tax	8,355	(2,703)	1,968	(618)
Total comprehensive income	252,262	149,738	59,430	34,220
Cash flows from operating activities	300,288	344,602	70,744	78,754
Cash flows from investment activities	(131,486)	(86,973)	(30,977)	(19,876)
Cash flows from financial activities	(137,479)	(87,457)	(32,388)	(19,987)
Total net cash flows	31,323	170,172	7,379	38,891
Earnings (loss) per ordinary share (in PLN/EUR)	4.63	2.89	1.09	0.66
	as at 31.12.2017	as at 31.12.2016	as at 31.12.2017	as at 31.12.2016
Total assets	3,652,664	3,599,972	875,749	813,737
Non-current liabilities	1,172,446	1,467,349	281,101	331,679
Current liabilities	931,190	835,857	223,259	188,937
Total equity	1,549,028	1,296,766	371,389	293,121
Share capital	287,614	287,614	68,957	65,012

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 31.12.2017	as at 31.12.2016	12 months ended 31.12.2017	12 months ended 31.12.2016
1 EUR = 4.1709 PLN	1 EUR = 4.4240 PLN	1 EUR = 4.2447 PLN	1 EUR = 4.3757 PLN

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FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	note	01.01.-31.12.2017	01.01.-31.12.2016
CONTINUING OPERATIONS			
Sales revenues	*3.1*	**2,365,764**	**2,193,357**
Cost of sales	*3.2*	(1,863,346)	(1,651,553)
Gross profit on sales		**502,418**	**541,804**
Other operating income	*3.4*	4,461	3,387
Selling costs		(207,112)	(167,804)
General and administrative expenses		(55,327)	(68,524)
Other operating expenses	*3.4*	(2,227)	(8,089)
Operating profit		**242,213**	**300,774**
Financial income	*3.5*	342,793	190,327
Financial expenses	*3.5*	(283,535)	(296,423)
Net financial income/(expenses)		**59,258**	**(106,096)**
Profit before tax		**301,471**	**194,678**
Income tax	*4.1*	(57,564)	(42,237)
Net profit on continuing operations		**243,907**	**152,441**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations		-	-
Net profit for the period		**243,907**	**152,441**
Earnings per share (in PLN):			
Basic		4.63	2.89
Diluted		4.63	2.89
Earnings per share (in PLN) from continuing operations:			
Basic		4.63	2.89
Diluted		4.63	2.89

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

STATEMENT OF OTHER COMPREHENSIVE INCOME OF CIECH S.A.

	01.01.-31.12.2017	01.01.-31.12.2016
Net profit on continuing operations	**243,907**	**152,441**
Net profit/(loss) on discontinued operations	-	-
Net profit for the year	**243,907**	**152,441**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	**10,132**	**(3,295)**
Cash flow hedge	10,132	(3,295)
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	**(13)**	**102**
Actuarial gains	(13)	102
Income tax attributable to other comprehensive income	**(1,764)**	**490**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	(1,766)	510
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	2	(20)
Other comprehensive income net of tax	**8,355**	**(2,703)**
TOTAL COMPREHENSIVE INCOME	**252,262**	**149,738**

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

	note	31.12.2017	31.12.2016
ASSETS			
Property, plant and equipment	5.1	13,880	11,362
Intangible assets, including:	5.2	34,143	9,251
Long-term financial assets	5.3	1,864,137	2,474,312
Deferred income tax assets	4.3	40,247	98,257
Total non-current assets		**1,952,407**	**2,593,182**
Inventory	5.4	31,795	37,450
Short-term financial assets	5.6	1,012,304	232,022
Income tax receivables		-	807
Trade and other receivables	5.5	280,765	393,904
Cash and cash equivalents	5.7	375,393	342,607
Total current assets		**1,700,257**	**1,006,790**
Total assets		**3,652,664**	**3,599,972**
EQUITY AND LIABILITIES			
Share capital	6.2	287,614	287,614
Share premium		470,846	470,846
Cash flow hedge	8.2	3,246	(5,120)
Actuarial gains		121	132
Other reserve capitals	6.2	76,199	76,199
Retained earnings		711,002	467,095
Total equity		**1,549,028**	**1,296,766**
Loans, borrowings and other debt instruments	7.1	1,130,482	1,345,973
Other non-current liabilities	7.2	41,528	120,929
Employee benefits reserve	7.5	436	447
Total non-current liabilities		**1,172,446**	**1,467,349**
Loans, borrowings and other debt instruments	7.1	413,516	348,889
Trade and other liabilities	7.3	476,443	443,963
Income tax liabilities		4,758	6,294
Employee benefits reserve	7.5	400	313
Other provisions	7.6	36,073	36,398
Total current liabilities		**931,190**	**835,857**
Total liabilities		**2,103,636**	**2,303,206**
Total equity and liabilities		**3,652,664**	**3,599,972**

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

STATEMENT OF CASH FLOWS OF CIECH S.A.

	note	01.01.-31.12.2017	01.01.-31.12.2016
Cash flows from operating activities			
Net profit for the period		**243,907**	**152,441**
Amortisation/depreciation		5,213	4,648
Recognition of impairment allowances		113,169	184,959
Foreign exchange (profit) /loss		(1,347)	8,529
(Profit) / loss on investment activities		199	(93)
(Profit) / loss on disposal of property, plant and equipment		(96)	21
Dividends and interest		(126,178)	(134,932)
Income tax		57,564	42,237
Change in liabilities due to loan arrangement fee		2,614	2,023
Value of derivatives		(56,877)	48,787
Cash from operating activities before changes in working capital and provisions		**238,168**	**308,620**
Change in receivables	*9.1*	55,277	(104,436)
Change in inventory		5,655	(17,777)
Change in current liabilities	*9.1*	47,774	204,498
Change in provisions and employee benefits		(249)	9,693
Cash generated from operating activities		**346,625**	**400,598**
Interest paid		(43,959)	(53,135)
Income tax (paid)		(2,378)	(2,861)
Net cash from operating activities		**300,288**	**344,602**
Cash flows from investment activities			
Disposal of a subsidiary		454	3,024
Disposal of intangible assets and property, plant and equipment		6	92
Dividends received		127,874	157,423
Interest received		18,983	11,906
Cash pooling inflows		-	16,078
Proceeds from repaid borrowings		138,833	67,638
Acquisition of a subsidiary		(100)	(46)
Acquisition of intangible assets and property, plant and equipment		(15,479)	(5,724)
Raise capital expenditures and extra charge on capital		(100,500)	(35)
Borrowings paid out		(289,973)	(337,329)
Cash pooling outflows		(11,584)	-
Net cash from investment activities		**(131,486)**	**(86,973)**
Cash flows from financial activities			
Proceeds from loans and borrowings		39,000	-
Cash pooling inflows		-	62,738
Dividends paid to parent Company		-	(150,195)
Repayment of loans and borrowings		(5,438)	-
Cash pooling outflows		(11,041)	-
Payments of shares liabilities		(160,000)	-
Net cash from financial activities		**(137,479)**	**(87,457)**
Total net cash flows		**31,323**	**170,172**
Cash and cash equivalents as at the beginning of the period		**342,607**	**174,745**
Impact of foreign exchange differences		*1,463*	*(2,310)*
Cash and cash equivalents as at the end of the period	**5.7**	**375,393**	**342,607**

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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
note	*6.2*		*8.2*	*6.2*			
01.01.2017	**287,614**	**470,846**	**(5,120)**	**76,199**	**132**	**467,095**	**1,296,766**
Total comprehensive income for the period	**-**	**-**	**8,366**	-	(11)	**243,907**	**252,262**
Net profit / (loss) for the period	-	-	-		-	243,907	243,907
Other comprehensive income	-	-	8,366	-	(11)	-	8,355
31.12.2017	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**711,002**	**1,549,028**
01.01.2016	**287,614**	**470,846**	**(2,335)**	**76,199**	**50**	**464,849**	**1,297,223**
Transactions with shareholders included directly in equity	**-**	**-**	**-**	-	-	**(150,195)**	**(150,195)**
Dividend payment	-	-	-	-	-	(150,195)	(150,195)
Total comprehensive income for the period	**-**	**-**	**(2,785)**	-	82	**152,441**	**149,738**
Net profit / (loss) for the period	-	-	-	-	-	152,441	152,441
Other comprehensive income	-	-	(2,785)	-	82	-	(2,703)
31.12.2016	**287,614**	**470,846**	**(5,120)**	**76,199**	**132**	**467,095**	**1,296,766**

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

1 GENERAL INFORMATION

1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

Company Name	**CIECH Spółka Akcyjna**
Registered office	Warsaw
Address	Wspólna 62 Street, 00-684 Warsaw
KRS (National Court Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 12th Commercial Division of the National Court Register)
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
Website	www.ciechgroup.com
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Ultimate Parent Company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

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: sodium carbonate, sodium bicarbonate, evaporated salt, epoxy and polyester resins, agrochemical products, polyurethane foams, lanterns and jars, sodium and potassium silicates. The core sales market for the CIECH Group is the European Union, including mainly Poland, Germany and Central Eastern European countries. Products manufactured by the CIECH Group are also exported to overseas markets and sold mainly 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 2017 to 31 December 2017, including comparative data, were approved by the Management Board of CIECH S.A. on 26 March 2018.

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 Management Board Report on activities of the CIECH

Group and CIECH S.A. in 2017 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 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 valuation 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.

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 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 revenues	x	
3.2.	Cost of sales	x	
3.4.; 3.5.	Other income and expenses	x	x
4.	Income tax	x	
4.3.	Deferred income tax	x	x
5.1.	Property, plant and equipment	x	x
5.2.	Intangible assets	x	x

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

Note	Title	Accounting principles	Judgements and estimates
5.3.	Long-term financial assets	x	x
5.4.	Inventories	x	x
5.5.	Short-term receivables	x	x
5.6.	Short-term financial assets	x	x
5.7.	Cash and cash equivalents	x	
6.2.	Equity	x	
7.2.	Other non-current liabilities	x	
7.3.	Current trade and other liabilities	x	x
7.4.	Operating leases	x	
7.5.	Provisions for employee benefits	x	x
7.6.	Other 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

Amendments to IFRS that came into force from 1 January 2017, 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 2017	**Impact on the financial statements**
Amendments to IAS 7: Disclosure Initiative	No impact on the financial statements is estimated — the reconciliation of net debt is presented in the financial statements
Amendments to IAS 12 relating to the recognition of deferred tax assets on unrealised losses	No material impact on the financial statements is estimated
Annual improvements to IFRS 2014–2016	No material impact on the financial statements is estimated
New standards, amendments to standards and interpretations which are not yet effective and have not been adopted early by the Group	**Impact on the financial statements**
Amendments to IFRS 9: Prepayment features with negative compensation	No material impact on the financial statements is estimated
IFRS 17 “Insurance Contracts”	No material impact on the financial statements is estimated
Clarifications to IFRS 15 “Revenue from contracts with customers”	No material impact on the financial statements is estimated
Amendments to IFRS 2: Classification and valuation 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
Amendments to IAS 40: Reclassification 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
IAS 19 “Employee benefits”	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
IFRIC 23: Uncertainty over income tax treatments	No material impact on the financial statements is estimated
Amendments to IAS 28: “Investments in associates and joint ventures”	No material impact on the financial statements is estimated

New Standards, amendments to Standards and Interpretations:	
Annual improvements to IFRS 2015–2017	No material impact on the financial statements is estimated
IFRS 14 "Regulatory deferral accounts"	The European Union has decided not to approve IFRS 14.
Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associates or joint ventures	As at the date of drawing up these consolidated financial statements, the approval of this amendment has been postponed by the European Union.

1.5.1 IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" is effective for annual periods beginning on or after 1 January 2018. The company did not decide to adopt the standard earlier. IFRS 9 implements: a new financial assets impairment model based on the "expected loss" concept, changes within the scope of financial instruments valuation and classification rules (particularly with regards to financial assets), and a new approach to hedge accounting.

For the purposes of the first application of IFRS 9, the CIECH S.A. does not restate data regarding previous reporting periods. Thus, any differences between the previous balance sheet value of financial assets and financial liabilities and their carrying amount at the beginning of the annual reporting period, in which the first application of IFRS 9 falls, CIECH S.A. will recognize in the opening balance of retained earnings in the annual reporting period which is the date of first application of IFRS 9.

1.5.1.1 Summary of Key IFRS 9 Assumptions

a) Classification and Valuation of Financial Instruments

Financial Assets

Pursuant to IFRS 9, financial assets - as initially recognized - are classified in the following valuation categories:

1. financial assets valued at depreciated costs;
2. financial assets valued at fair value through other comprehensive income;
3. financial assets valued at fair value through profit or loss.

Any financial asset is classified into one of the foregoing valuation categories when it is initially recognized in the balance sheet, on the basis of:

1. the Company's financial asset management business model specified at a level reflecting the way of collectively managing financial assets to achieve a given business goal; and
2. contract cash flow characteristics of financial assets aimed at verifying whether the terms and conditions of the agreement cause the creation, at certain dates, of cash flows constituting only the repayment of principal and interest (*the so-called SPPI criterion*).

Financial assets valued at depreciated costs are financial assets meeting both of the following conditions, unless the Company has earmarked them for valuation at fair value through profit or loss:

1. the financial asset is maintained in accordance with a business model aimed at keeping financial assets to obtain contract cash flows, and
2. the terms and conditions of the agreement pertaining to the financial asset cause the creation, at certain dates, of cash flows constituting only the repayment of principal and interest (the so-called SPPI criterion).

Financial assets valued at fair value through other comprehensive income are financial assets meeting both of the following conditions, unless the Company has earmarked them for valuation at fair value through profit or loss:

1. the financial asset is maintained in accordance with a business model aimed at both keeping financial assets to obtain contract cash flows, and selling financial assets (the sale making up an integral part of the business model), and
2. the terms and conditions of the agreement pertaining to the financial asset cause the creation, at certain dates, of cash flows constituting only the repayment of principal and interest (the so-called SPPI criterion).

Financial assets valued at fair value through profit or loss are assets which:

1. cannot be classified into the category of assets valued at depreciated costs or fair value through other comprehensive income (the business model for managing such assets is largely based on selling financial assets or changing fair values, or the terms and conditions of the agreement cause the creation of cash flows not constituting only the SPPI criterion - in particular derivatives and equity instruments);
2. have been classified into this category by virtue of a Company decision at the moment of their initial recognition, whereby classification of a financial asset into the category of valuation at fair value through profit or loss at the moment of the initial recognition is irrevocable and may happen only when that is the way for the Company to eliminate or seriously decrease the incoherence of valuation or recognition ("accounting mismatch") which would have otherwise been established as a result of valuating assets or liabilities, or recognizing any gains or losses related to such assets/liabilities pursuant to different rules.

Initially recognizing equity instruments not held for trading (or as of the first day of IFRS 9 utilization), the Company may irrevocably decide to earmark individual equity instrument investments for valuation at fair value through other comprehensive income.
Carrying out any initial recognition, it must be analyzed whether a given instrument includes an embedded derivative. Any derivative embedded in a hybrid contract whose principal agreement is determined by a financial asset covered by IFRS 9 is not separated, while the entirety of the hybrid contract is recognized in pursuance with the IFRS 9 financial asset classification requirements. Conversely, any derivative embedded in a hybrid contract whose principal agreement is not determined by a financial asset covered by IFRS 9 should be assessed against a possible separation.
Financial assets may be reclassified only when the Company changes the financial asset management business model. Should that be the case, the assets affected by the modified business model will be reclassified.

Financial Liabilities
IFRS 9 does not introduce any significant changes regarding the classification and measurement/valuation of financial liabilities, in relation to the principles introduced by IAS 39 – financial liabilities on the date of their acquisition are classified into the following categories:
1. financial liabilities measured at fair value through profit or loss,
2. other financial liabilities valued at depreciated costs.

Furthermore, as per IFRS 9, financial liabilities should not be reclassified.

b) Impairment
The Company assumes that the introduction of a new impairment model based on the concept of expected credit losses (*ECL*) will affect the total amount of write-downs.
IFRS 9, unlike IAS 39, does not require identification of impairment evidence to estimate losses. Conversely, the units are obliged to permanently estimate their credit losses from the day a given asset was recognized until it is removed from the balance sheet.
At the moment of acquiring or granting the financial asset, the Company is required to keep a write-down in the amount of a 12 month ECL. In the event of a significant increase in credit risk as compared with the recognition of assets in the balance sheet, it is necessary to calculate losses over the lifelong horizon (the so-called basket 2). Such an approach makes it possible for the expected credit losses to be recognised earlier, which will ultimately increase the amount of write-downs and thus impact the financial result.
The exception from the above rule are trade receivables and assets related to contracts covering transactions subject to IFRS 15 (the so-called *contract assets*). For these categories of assets, the Company may choose a simplified approach whereby write-downs are estimated over the lifetime horizon - right from the initial recognition of exposures.
In the Company's opinion, the implementation of a new standard calls for using more complex solutions as compared to the ones currently in utilization.

c) Hedge Accounting
In accordance with IFRS 9, the Company - only on the day of implementation of IFRS 9 - may decide to make a decision making part of the accounting policy to continue applying hedge accounting requirements in accordance with IAS 39 instead of those specified in IFRS 9. IFRS 9 requires the Company to ensure the coherence of appropriate hedging relationships and its risk management strategy and objectives. IFRS 9 introduces new provisions regarding the assessment of the effectiveness of hedging relationships and the mechanism of rebalancing them. It also eliminates the possibility of discontinuation of hedge accounting as a result of a subjective decision of the Company (i.e. in the absence of evidence justifying the discontinuation of hedge accounting, as specified in the Standard).

1.5.1.2 Expected Impact of IFRS 9 on the Company's Financial Position

a) Classification and Valuation of Financial Instruments

Financial Assets
In order to ensure the possibility to decide on the classification of financial assets held by the Company in accordance with IFRS 9, as of 1 January 2018, the Company, within the framework of the IFRS 9 implementation project, reviewed the financial assets that were held by the Company after 31 December 2017 in order to:
1. determine and assign financial asset of Company to the appropriate business model, based on an assessment of the financial assets management portfolio, by means of:
    a) reviewing and assessing significant and objective qualitative data affecting the assignment of asset portfolios to the relevant business model (in particular the reasons for the past sale of financial assets within the framework of portfolios),
    b) reviewing and assessing significant and objective qualitative data affecting the assignment of asset portfolios to the relevant business model (such as the value of sale of financial assets, carried out within the portfolios in earlier

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reporting periods (provided such sale took place)), and the frequency of sale of financial assets within the portfolios (provided such sale took place));

c) analyzing expectations regarding the planned future value of financial assets and their frequency in the framework of portfolios;

2. determination - by identification and analysis of the contractual provisions of the financial asset with economic characteristics of the debt instrument that may affect the non-compliance of the SPPI criterion by the financial asset in question - whether the terms of the financial asset agreement result in the creation, at given time intervals, of cash flows constituting only the repayment of principal and interest.

The Company expects the following impact of IFRS 9 implementation on the classification and valuation of its financial assets:

Financial Asset Classes	Note	31 Dec. 2017	Financial Asset Categories and Valuation Method as per IAS 39	IFRS 9 Business Model	SPPI Criterion	Reclassification	Financial Asset Categories and Valuation Method as per IFRS 9
Cash and cash equivalents	5.7	375,393	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Bank deposits (value included in cash and cash equivalents)	5.7	156,455	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Loans granted	5.3; 5.6	1,106,130	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Trade receivables	5.5	217,333	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Factoring receivables	5.5	23,255	Loans and receivables – valued at depreciated costs;	Maintenance of financial assets to obtain contractual cash flows	Met	None	Financial assets valued at depreciated costs
Derivatives	8.1; 8.4	53,530	Financial assets measured at fair value through profit or loss	Another business model	Not applicable	None	Financial assets measured at fair value through profit or loss
Derivatives allotted as hedging instruments	8.1	5,910	Hedging instruments	Another business model	Not applicable	None	Hedging instruments

Financial Assets with Economic Characteristics of Debt Instruments

The Company expects that the implementation of IFRS 9 will not result in any change in the method of classification and valuation of its financial assets with economic characteristics of debt instruments, except for trade receivables to be transferred to the factor as part of factoring without recourse. These receivables are held by the Company so that the entire trade receivable balance (agreed with the factor) may be assigned to the factor. The Company manages trade receivables designated for transfer to the factor under factoring without recourse in order to carry out cash flows through the sale of assets – obtaining cash flows arising from the agreement is not an integral part of the business model. Therefore, in accordance with IFRS 9, the Company classifies these receivables as financial assets measured at fair value through profit or loss, whereby - due to the relatively short period of maintenance of receivables subject to transfer to the factor, it does not expect - in its balance sheet - any significant impact of the classification change on the Company's financial standing.

Derivatives

IFRS 9 does not change the approach to the classification and measurement of derivatives.

Equities

The Company holds equity instruments (shares) which constitute financial assets within the meaning of IAS 39 and IFRS 9. According to IAS 39, the Company valuates its equity instruments at purchase price adjusted against impairment. The current net carrying amount of these instruments is close to zero.

According to IFRS 9, the Company will qualify its equity instruments in the category measured at fair value through profit or loss. As of 31 Dec. 2017, the Company estimated the value of its equities as close to zero. Therefore, it does not expect any significant impact of changes in their classification on the Company's financial standing.

Designation of Financial Assets to be Valuated at Fair Value Through Profit and Loss

The Company holds no financial assets designated for valuation at fair value through profit or loss.

The Company does not identify any financial assets that would need to be designated on 1 January 2018 at fair value through profit or loss in order to reduce the accounting mismatch that would have otherwise arisen as a result of the valuation of financial assets at depreciated costs or at fair value through other comprehensive income.

Financial Liabilities

As a result of the implementation of IFRS 9 requirements, the Company does not expect any changes in the classification of its financial liabilities as compared to the existing IAS 39 classification, which could have a significant impact on the balance sheet and/or the financial result of the Company.

b) Impairment

The new requirements for the determination of write-downs will primarily relate to the following types of financial assets in the Company's balance sheet:

1. Trade receivables,
2. Contract assets covered by IFRS 15,
3. Loans granted and purchased bonds,
4. Time deposits,

The Company estimates that the total impact of IFRS 9 on impairment charges will amount to PLN 17.3 million.

It should be underlined that at the time of implementation of IFRS 9, a single change resulting from the adoption of new solutions will not be included in the financial result, and it will be recognised in retained earnings.

c) Hedge Accounting

On 1 January 2018, the Company decided to move to IFRS 9, as regards hedge accounting. The impact of IFRS 9 will depend on the nature and type of the hedging relationship, the performance test structure, and the fair value determination method.

1.5.2 IFRS 15 “Revenue from Customer Agreements”

IFRS 15 “Revenue from Customer Agreements is effective for annual periods beginning on or after 1 January 2018. The Company did not decide to adopt the standard earlier.

CIECH S.A. decided to apply IFRS 15 retrospectively with the recognition of the cumulative effect of the first application of this IFRS as an adjustment to the opening balance of retained earnings of the year 2018.

The standard introduces uniform requirements for all the entities as regards recognition of revenue from customer agreements, based on the 5-step model:

1. agreement identification,
2. identification of service obligations,
3. transactional price specification,
4. transactional price assignment to service obligations,
5. performance of service obligations.

In line with the standard, the entities should assess their customer agreements and set apart elements constituting separate service obligations within the meaning of the IFRS 15 definition. As for agreements stipulating more obligations of this type, each obligation will be assigned - in the next steps of the model - with expected remuneration, and the revenue will be recognized upon that condition being met. The service obligation identification requirement shall also apply to agreements where the settlement with the customer is based on the assumption of there being only one element (e.g. product sales) stipulated therein.

Based on the analysis of the IFRS 15 impact on the statement of CIECH S.A., there were no certain areas identified which must be adjusted in order to implement the new standard.

1.5.3 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 Company did not decide to adopt the standard earlier. As of this statement date, Company is assessing the IFRS 16 impact on the Company's consolidated financial statements.

The standard has introduced a new leasing definition. Any agreement shall be deemed to be or include leasing where by the virtue thereof the right to control the usage of an identified asset for a given period is given in return for remuneration. The agreement gives the right to exercise control of using an identified asset for a given period, if throughout the whole useful life of such asset, the customer holds the entire right to use, in principle, any and all benefits arising from such use, along with the right to manage such use. In practice, the entities are not obliged to reassess whether the agreement constitutes leasing on the first day of the standard usage. Instead, it is possible not to use the new definition in agreements which have been previously assessed against leasing in accordance with IAS 17 and IFRIC 4. Applying the aforementioned simplification on identifying whether the agreement is indicative of leasing, the new leasing definition should be applied only to agreements concluded after 1 Jan. 2019.

Where an agreement is or includes leasing, the entity shall recognize each leasing element as leasing separately from non-leasing elements, unless it can utilize a practical solution. As a practical solution, the lessee may elect not to separate non-leasing elements and recognize the whole agreement as a single leasing element instead.

In the case of lessees, IFRS 16 steps away from dividing leasing into operational and financial leasing, introducing one model for accounting recognition, which - in principle - corresponds with the previous accounting model used for finance leases. The lessee will be required to recognise: (a) assets and liabilities for all leasing transactions 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. In the case of lessors, IFRS 16 substantially carries forward the requirements set forth in 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.

Note 7.5 of this consolidated financial statement presents cumulative amounts of future minimum fees for concluded operating lease agreements, as at 31 Dec. 2017. The numerical data presented herein indicates approximate amounts of additional lease liabilities which should be recognized in the financial standing statement, if all the agreements were treated as leases within the meaning of IFRS 16. After the application of the new standard, all the operating leases will be disclosed in the financial standing statement 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). It should be underlined, however, that in order to define the amount of additional liabilities which would be revealed pursuant to IFRS 16, the amounts mentioned in the note would need to be adjusted to the current value through an appropriate discount rate. Consequently, the potential lease obligation would be lower than the amounts presented. Furthermore, the period of assumed lease payment projections refers only to the irrevocable lease period, while pursuant to IFRS 16, the lease period requiring recognition of lease obligations, also takes into account the potential periods resulting from the extension or early termination of the agreement, if one of the aforementioned scenarios is sufficiently certain according to the entity’s assessment. In the case of extendible agreements, the lease obligation would be higher, while the termination options would lead to a decrease of the liability amount.

The Company has been considering the usage of simplifications, stipulated in the standard, for short-term leases and low value asset leases. It has been assumed that low value assets are assets whose unit value does not exceed approximately PLN 17 thousand, i.e. approximately USD 5 thousand. Short-time leases are leases whose term is below 12 months. The Company has been trying to identify agreements subject to the aforementioned simplifications. As of the day of preparing this statement, the analysis has not been finalized, and the potential impact of the new rules cannot be specified yet.

Moreover, the Company needs to decide whether it will use the proposed simplification, or utilize the lease agreement identification standard for agreement which have not been previously identified as lease agreements, as per IAS 17 and IFRIC 4. As of the day of preparing this statement, the decision on using the simplification has not been made yet.

The entry of IFRS 16 into force may also affect the determination of the ratio calculated in relation to the loan agreement. Should this be the case, CIECH Company 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 – the most important manufactured goods in the scope of the segment products are: light and dense sodium carbonate, evaporated salt, sodium bicarbonate and calcium chloride. The products of this segment are sold mainly by the parent Company CIECH S.A. Production of the soda segment goods manufactured by the CIECH Group is implemented in CIECH Soda Polska S.A., the Romanian Company CIECH Soda Romania S.A. and in the German Company CIECH Soda Deutschland GmbH&Co. KG. (the German Company also sells its products on its own). 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 crop protection chemicals 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.

The transport segment since 2016 is concentrated on transporting for its subsidiaries, i.e. CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Trading 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 valued in a manner consistent with the method used in the financial statements.

Operational segments results are assessed by the CIECH S.A's Management Board on the basis of sales revenue, operating profit, level of EBITDA and adjusted EBITDA. EBITDA should be viewed as a supplement not as a substitute for the business performance presented in accordance with IFRS. EBITDA is a useful ratio of the ability to incur and serve debt. EBITDA and adjusted EBITDA levels are not defined by the IFRS and can be calculated in a different manner by other entities.

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The reconciliation and definitions applied by CIECH S.A. when determining these measures are presented below:

:	01.01.-31.12.2017	01.01.-31.12.2016
Net profit/(loss) on continuing operations	243,907	152,441
Income tax	57,564	42,237
Financial expenses	283,535	296,423
Financial income	(342,793)	(190,327)
Amortisation/depreciation	5,213	4,648
EBITDA on continued operations	**247,426**	**305,422**

	01.01.-31.12.2017	01.01.-31.12.2016
EBITDA on continued operations	**247,426**	**305,422**
One-offs including:	(1,241)	4,982
Cash items (a)	(84)	547
Non-cash items (without impairment) (b)	(1,157)	4,435
Adjusted EBITDA from continuing operations	**246,185**	**310,404**

(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).

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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.-31.12.2017	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions	TOTAL
Total sales revenues	**1,817,739**	**505,095**	**15,108**	**25,128**	**2,694**	**-**	**2,365,764**
Cost of sales	(1,331,802)	(490,871)	(13,779)	(24,601)	(2,293)	-	(1,863,346)
Gross profit /(loss) on sales	**485,937**	**14,224**	**1,329**	**527**	**401**	**-**	**502,418**
Selling costs	(199,960)	(2,040)	(954)	(2,966)	(73)	(1,119)	(207,112)
General and administrative expenses	(3,617)	(1,328)	(55)	(206)	(535)	(49,586)	(55,327)
Result on management of receivables	132	-	-	-	6	1	139
Result on other operating activities	2,548	(5)	-	-	1	(449)	2,095
Operating profit /(loss)	**285,040**	**10,851**	**320**	**(2,645)**	**(200)**	**(51,153)**	**242,213**
Exchange differences and interest on trade settlements	(17,188)	(5,503)	-	3	206	-	(22,482)
Borrowing costs	-	-	-	-	-	(7,086)	(7,086)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	88,826	88,826
Profit /(loss) before tax	**267,852**	**5,348**	**320**	**(2,642)**	**6**	**30,587**	**301,471**
Income tax	-	-	-	-	-	-	(57,564)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**243,907**
Amortization/depreciation	-	-	-	-	-	5,213	5,213
EBITDA	285,040	10,851	320	(2,645)	(200)	(45,940)	247,426
Adjusted EBITDA*	283,842	10,852	320	(2,645)	(200)	(45,984)	246,185

** Adjusted EBITDA for the 12-month period ended 31 December 2017 is calculated as EBITDA adjusted for untypical one-off events: recognition/reversal of provisions: PLN 1,158 thousand, penalty fees and compensation paid/received: PLN 40 thousand, donations given: PLN -53 thousand, other: PLN 96 thousand.*

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OPERATING SEGMENTS 01.01.-31.12.2016	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions	TOTAL
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)
Gross profit /(loss) on sales	**530,741**	**9,178**	**1,108**	**235**	**542**	**-**	**541,804**
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)
Operating profit /(loss)	**363,629**	**7,733**	**630**	**(834)**	**(42)**	**(70,342)**	**300,774**
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)
Profit /(loss) before tax	**357,050**	**(4,448)**	**630**	**(832)**	**72**	**(157,794)**	**194,678**
Income tax							(42,237)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**152,441**
Amortization/depreciation	-	-	-	-	-	4,648	4,648
EBITDA	363,629	7,733	630	(834)	(42)	(65,694)	305,422
Adjusted EBITDA*	364,686	7,733	630	(834)	(42)	(61,769)	310,404

** Adjusted 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.*

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ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Soda segment	182,556	204,540	303,910	288,311
Organic segment	53,730	135,961	77,512	77,819
Silicates and glass segment	5,106	1,864	3,272	1,667
Transport segment	4,589	3,045	5,151	3,984
Other operations segment	3,153	6,893	9,040	13,623
Corporate functions	3,403,530	3,247,669	1,704,751	1,917,802
TOTAL	**3,652,664**	**3,599,972**	**2,103,636**	**2,303,206**

SALES REVENUES BY BUSINESS SEGMENTS

	01.01.-31.12.2017	01.01.-31.12.2016	Change 2017/2016	Change %
Soda segment, including:	**1,817,739**	**1,772,601**	**45,138**	**2.5%**
Dense soda ash	1,053,263	1,061,175	(7,912)	(0.7%)
Light soda ash	445,528	387,534	57,994	15.0%
Salt	169,968	180,185	(10,217)	(5.7%)
Sodium bicarbonate	94,998	98,829	(3,831)	(3.9%)
Calcium chloride	19,829	15,144	4,685	30.9%
Other goods and services	34,153	29,734	4,419	14.9%
Organic segment, including:	**505,095**	**392,897**	**112,198**	**28.6%**
Raw materials for the production of plant protection products	117,596	70,345	47,251	67.2%
Raw materials for the production of plastics	235,199	198,899	36,300	18.3%
Raw materials for the production of polyurethane foams	142,961	115,513	27,448	23.8%
Other goods and services	9,339	8,140	1,199	14.7%
Silicates and Glass segment, including:	**15,108**	**15,192**	**(84)**	**(0.6%)**
Sodium silicates	13,868	14,103	(235)	(1.7%)
Other goods and services	1,240	1,089	151	13.9%
Transport segment, including:	**25,128**	**9,169**	**15,959**	**174.1%**
Transport services	25,128	9,169	15,959	174.1%
Other segment, including:	**2,694**	**3,498**	**(804)**	**(23.0%)**
Revenues from third parties	2,694	3,498	(804)	(23.0%)
TOTAL	**2,365,764**	**2,193,357**	**172,407**	**7.9%**

INFORMATION ON GEOGRAPHICAL AREAS

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

ASSETS - INFORMATION ABOUT GEOGRAPHICAL AREAS	ASSETS	
	31.12.2017	31.12.2016
Poland	2,590,308	2,417,181
European Union (excluding Poland)	986,953	1,085,395
Other European countries	26,634	50,685
Africa	3,779	2,852
Asia	44,433	42,380
Other regions	557	1,479
TOTAL	**3,652,664**	**3,599,972**

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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.

. REVENUES - INFORMATION ABOUT GEOGRAPHICAL AREAS	01.01.-31.12.2017	01.01.-31.12.2016
Poland	1,194,195	1,033,813
European Union (excluding Poland):	717,890	716,907
Romania	140,023	127,451
Czech Republic	131,638	133,047
Germany	117,705	140,867
Other European countries	201,488	211,179
Afica	54,532	73,273
Asia	172,380	138,872
Other regions	25,279	19,313
TOTAL	**2,365,764**	**2,193,357**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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.-31.12.2017	01.01.-31.12.2016
Revenues from sales of products and services	**78,593**	**58,831**
- services	78,593	58,831
Revenues from sales of goods and materials	**2,287,171**	**2,134,526**
- goods	2,287,171	2,134,526
Net sales of products, goods and materials	**2,365,764**	**2,193,357**

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.

COST OF SALES, SELING COST AND ADMINISTRATIVE EXPENSES	01.01.-31.12.2017	01.01.-31.12.2016
Cost of manufacture of products and services sold	(68,098)	(49,502)
Cost of sold goods and materials sold	(1,795,248)	(1,602,135)
Reversal of impairment losses on inventory to net sale price	-	84
Cost of sales	**(1,863,346)**	**(1,651,553)**
Selling costs	**(207,112)**	**(167,804)**
General and administrative expenses	**(55,327)**	**(68,524)**

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3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01.-31.12.2017	01.01.-31.12.2016
Amortisation	(5,213)	(4,648)
Consumption of materials and energy	(2,534)	(1,857)
Employee benefits, including:	(70,274)	(68,204)
- payroll	(59,774)	(58,435)
- social security and other benefits	(10,500)	(9,769)
External services	(220,640)	(188,845)

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 non-current 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.

Subsidies

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

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 unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in profit or loss. Impairment losses in respect of assets are recognised in those expense categories that correspond to the function of the asset to which they relate.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

OTHER OPERATING INCOME	01.01.-31.12.2017	01.01.-31.12.2016
Rents/lease income	739	642
Gain on disposal of non-financial non-current assets	97	-
Reversal of impairment allowances on receivables	176	162
Reversal of provisions on employee benefits – changing the base	87	307
Reversal of provisions for compensation – changing the base	105	-
Reversal of provisions for liabilities – changing the base	904	-
Reversal of other provisions – changing the base	251	629
Penalty fees and compensations received	67	71
Other	2,035	1,576
TOTAL	**4,461**	**3,387**

OTHER OPERATING EXPENSES	01.01.-31.12.2017	01.01.-31.12.2016
Rental costs	(575)	(570)
Loss on disposal of fixed assets	-	(21)
Recognition of impairment losses on receivables	(37)	(192)
Recognition of impairment losses on property, plant and equipment	(1)	-
Recognition of provisions on employee benefits – changing the base	(51)	(132)
Recognition of provisions for restructuring - changing the base	(9)	-
Recognition of provisions for liabilities – changing the base	(102)	(4,207)
Recognition of other provisions – changing the base	-	(836)
Penalties and compensations paid	(27)	(584)
Other	(1,425)	(1,548)
TOTAL	**(2,227)**	**(8,089)**

As at 31 December 2017, 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 interests 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

NET FINANCIAL INCOME (EXPENSES)	01.01.-31.12.2017	01.01.-31.12.2016
Interest	44,264	38,390
Dividends and shares in profit	127,873	157,423
Reversal of impairment losses	94,886	3,099
Income from liquidated companies	454	-
Profits from derivatives	75,236	-
Other	80	643
Total financial income	**342,793**	**190,327**
Interest	(49,596)	(54,356)
Net foreign exchange losses	(12,155)	(3,817)
Recognition of impairment losses on investments	(202,313)	(180,850)
Factoring commissions	(1,512)	(1,260)
Bank fees and commissions	(3,523)	(3,278)
Recognition of provision for anticipated losses	(1,321)	(8,131)
Increase in provisions due to change in discount rates	(21)	(14)
Loss from derivatives instruments	-	(30,666)
Costs of sureties and guarantees	(12,221)	(13,462)
Other	(873)	(589)
Total costs	**(283,535)**	**(296,423)**
Net Financial income (expenses)	**59,258**	**(106,096)**

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

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income	01.01.-31.12.2017			01.01.-31.12.2016		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Cash flow hedge	10,132	(1,766)	8,366	(3,295)	510	(2,785)
Valuation of actuarial provisions	(13)	2	(11)	102	(20)	82
TOTAL	**10,119**	**(1,764)**	**8,355**	**(3,193)**	**490**	**(2,703)**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2017	01.01.-31.12.2016
Cash flow hedge	10,132	(3,295)
fair value remeasurement in the period	(1,652)	(8,813)
reclassification to profit or loss	11,784	5,518
Valuation of actuarial provisions	(13)	102
remeasurement for the current period	(13)	102
Income tax attributable to other components of other comprehensive income	**(1,764)**	**490**
accrued for the current period	1,920)	1,538
reclassification to profit or loss	(3,684)	(1,048)
Other comprehensive income net of tax	**8,355**	**(2,703)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

4 INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

Accounting policy

Current tax receivables and liabilities for the current and prior periods are valued 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:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME))	01.01.-31.12.2017	01.01.-31.12.2016
Current income tax	**(1,320)**	**(4,688)**
Income tax for the reporting period	(1,320)	(4,688)
Deferred tax	**(56,244)**	**(37,549)**
Origination/reversal of temporary differences	(56,244)	(37,549)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(57,564)**	**(42,237)**

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2017	01.01.-31.12.2016
Cash flow hedge	(1,766)	510
Valuation of actuarial provisions	2	(20)
TOTAL	**(1,764)**	**490**

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 pre-tax financial result to income tax calculated based on the effective tax rate:

EFEKTYWNA STOPA PODATKOWA	01.01.-31.12.2017	01.01.-31.12.2016
Profit (loss) before taxes	**301,471**	**194,678**
Income tax based on currently enacted tax rate	(57,279)	(36,989)
Difference due to the application of tax rates of other tax jurisdictions*	(1,207)	(527)
Tax effect of revenues which are not revenues according to tax regulations (permanent difference)**	40,405	34,979
Tax effect of costs which are not obtaining costs according to tax regulations (permanent difference)***	(40,294)	(43,922)
Tax losses from statement periods from which deferred tax asset was not included	811	4,222
Income tax recognised In profit and loss statement	**(57,564)**	**(42,237)**
EFFECTIVE TAX RATE	**19%**	**22%**

**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 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 valued 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 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

Deferred income tax is attributable to the following items

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2017			31.12.2016		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	-	74	(74)	-	74	(74)
Financial assets	700	14,970	(14,270)	1,732	9,746	(8,014)
Trade and other receivables	-	1,297	(1,297)	-	385	(385)
Provisions for employee benefits	111	31	80	108	31	77
Tax losses carried forward	48,023	-	48,023	88,068	-	88,068
Foreign exchange differences	3,212	-	3,212	3,777	-	3,777
Liabilities	5,383	810	4,573	15,114	306	14,808
Deferred tax assets/liability	**57,429**	**17,182**	**40,247**	**108,799**	**10,542**	**98,257**
Set - off of deferred tax assets/ liability	(17,182)	(17,182)	-	(10,542)	(10,542)	-
Deferred tax assets/liability recognised in the statement of financial position	**40,247**	**-**	**40,247**	**98,257**	**-**	**98,257**

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2017	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	31.12.2017
Property, plant and equipment	(391)	-	-	(391)
Financial assets	(46,640)	(23,632)	(9,295)	(79,567)
Trade and other receivables	(2,026)	(4,800)	-	(6,826)
Provisions for employee benefits	405	5	11	421
Tax losses carried forward	463,516	(210,763)	-	252,753
Foreign exchange differences	19,878	(2,974)	-	16,904
Liabilities	77,932	(53,868)	-	24,064
TOTAL	**512,674**	**(296,032)**	**(9,284)**	**207,358**

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2016	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	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
TOTAL	**712,189**	**(202,707)**	**3,192**	**512,674**

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.

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

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

Upon the acquisition or creation of an item of property, plant and equipment, the 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 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

01.01.-31.12.2017	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**959**	**15,443**	**63**	**1,521**	**31**	**18,017**
Purchase	21	4,607	-	59	4,687	9,374
Investment outlays	-	-	-	-	991	991
Reclassification	-	30	-	-	(4,717)	(4,687)
Sales	(219)	(294)	-	-	-	(513)
Other	-	6	-	-	-	6
Gross value of property, plant and equipment at the end of the period	**761**	**19,792**	**63**	**1,580**	**992**	**23,188**
Accumulated depreciation at the beginning of the period	**(593)**	**(5,180)**	**(62)**	**(820)**	**-**	**(6,655)**
Annual depreciation charge	(59)	(2,938)	-	(166)	-	(3,163)
Sales	219	292	-	-	-	511
Accumulated depreciation at the end of the period	**(433)**	**(7,826)**	**(62)**	**(986)**	**-**	**(9,307)**
Impairment losses at the end of the period	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Carrying amount of property, plant and equipment at the beginning of period	**366**	**10,263**	**1**	**701**	**31**	**11,362**
Carrying amount of property, plant and equipment at the end of the period	**328**	**11,965**	**1**	**594**	**992**	**13,880**

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
Gross value of property, plant and equipment at the beginning of the period	**1,406**	**15,095**	**368**	**2,598**	**3,390**	**22,857**
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)
Gross value of property, plant and equipment at the end of the period	**959**	**15,443**	**63**	**1,521**	**31**	**18,017**
Accumulated depreciation at the beginning of the period	**(1,398)**	**(6,440)**	**(366)**	**(1,845)**	**-**	**(10,049)**
Depreciation for the period	**805**	**1,260**	**304**	**1,025**	**-**	**3,394**
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)	-	-
Accumulated depreciation at the end of the period	**(593)**	**(5,180)**	**(62)**	**(820)**	**-**	**(6,655)**
Carrying amount of property, plant and equipment at the beginning of period	**8**	**8,655**	**2**	**753**	**3,390**	**12,808**
Carrying amount of property, plant and equipment at the end of the period	**366**	**10,263**	**1**	**701**	**31**	**11,362**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2017	01.01.-31.12.2016
Selling costs	(2)	(2)
General and administrative expenses	(3,161)	(3,256)
TOTAL	**(3,163)**	**(3,258)**

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.

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2017	31.12.2016
Owned	13,880	11,362
TOTAL	**13,880**	**11,362**

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 2017, 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 a term loan taken out.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 70 thousand in 2017 (in the comparable period: PLN 542 thousand).

OFF-BALANCE SHEET PROPERTY, PLANT AND EQUIPMENT	31.12.2017	31.12.2016
Used under lease, tenancy and other agreements including:	**2,464**	**3,225**
Operating lease agreement	2,464	3,225

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 2017, this amount was PLN 2,464 thousand, and in the comparable period – PLN 3,225 thousand.

CIECH S.A. is also a lessee of office space, in which the largest item (approx. 2 thousand m2) is the office in Warsaw at Wspólna Street, where the Company's registered office 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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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.-31.12.2017	Licences,patents, permits, etc. obtained	Intangible assets under development	Other intangible assets	TOTAL
Gross value of intangible assets at the beginning of the period	**31,745**	**5,578**	**5,188**	**42,511**
Purchase	929	5,628	4,699	11,256
Investment outlays	-	21,300	-	21,300
Reclassifications	419	(6,047)	-	(5,628)
Other	14	-	-	14
Gross value of intangible assets at the end of the period	**33,107**	**26,459**	**9,887**	**69,453**
Accumulated amortisation at the beginning of the period	(29,991)	-	(3,269)	(33,260)
Annual amortisation charge	(724)	-	(1,326)	(2,050)
Accumulated amortisation at the end of the period	**(30,715)**	**-**	**(4,595)**	**(35,310)**
Net value of intangible assets at the beginning of the period	**1,754**	**5,578**	**1,919**	**9,251**
Net value of intangible assets at the end of the period	**2,392**	**26,459**	**5,292**	**34,143**

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

CIECH S.A. is the owner of all intangible assets held. The largest item in the Company's other intangible assets is the right to market with the carrying amount of PLN 3,338 thousand.

As at 31 December 2017, 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 a term loan taken out.

An increase in capital expenditure in 2017 was driven by expenditure related to the implementation of the SAP system.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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.-31.12.2017	01.01.-31.12.2016
Cost of sales	(846)	(888)
General and administrative expenses	(1,204)	(502)
TOTAL	**(2,050)**	**(1,390)**

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 2017, future commitments arising from agreements concerning acquisition of intangible assets amounted to PLN 1,359 thousand (in the comparable period: PLN 9 thousand).

In the reporting period and in the presented comparable period, the Company did not incur any expenditure on development activities.

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 valued 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	31.12.2017	31.12.2016
Shares	1,710,871	1,829,299
Loans granted	118,180	588,419
Derivatives	35,086	56,594
TOTAL	**1,864,137**	**2,474,312**

Change in long-term stocks and shares	01.01.-31.12.2017	01.01.-31.12.2016
Gross value at the beginning of the period	2,015,879	2,184,091
Purchase	100,600	83
Sales	653	168,295
Gross value at the end of the period	**2,115,826**	**2,015,879**
Impairment update at the beginning of the period	**(186,580)**	**(177,682)**
Recognition	(218,375)	(177,192)
Utilisation	-	166,497
Other increase	-	1,797
Impairment update at the end of the period	**(404,955)**	**(186,580)**
Net value of the shares at the beginning of the period	**1,829,299**	**2,006,409**
Net value of the shares at the end of the period	**1,710,871**	**1,829,299**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

Change in Long-term loan	31.12.2017	31.12.2016
Gross value at the beginning of the period	**612,669**	**315,995**
Grant	150,000	353,824
Repayment	(10,000)	(10,000)
Reclasification to short-term positions	(633,846)	(51,214)
Foreign exchange differences	(643)	4,064
Gross value at the end of the period	**118,180**	**612,669**
Impairment update at the beginning of the period	**(24,250)**	**(23,127)**
Recognition	-	(1,123)
Reversal	7,886	-
Reclasification on shares	16,364	-
Closing balance	**-**	**(24,250)**
Carrying amount of loans at the beginning of period	**588,419**	**292,868**
Carrying amount of loans at the end of the period	**118,180**	**588,419**

Change in the gross value of long-term shares results primarily from the acquisition of shares in the increased share capitals of the following companies:

- Janikosoda S.A. — in the amount of PLN 78,000 thousand,
- CIECH Nieruchomości S.A. — in the amount of PLN 18,000 thousand,
- CIECH R&D — in the amount of PLN 4,500 thousand,
- BOSTEN S.A. — in the amount of PLN 100 thousand (formation of the Company).

In 2017, CIECH S.A. granted a long-term loan to its subsidiary, CIECH Soda Polska, in the amount of PLN 150,000 thousand. 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 loans granted to the following companies to short-term loans:

  - CIECH Energy Deutschland GmbH&Co. KG — in the amount of PLN 69,058 thousand,
  - CIECH Soda Deutschland GmbH — in the amount of PLN 97,488 thousand,
  - CIECH Soda Polska S.A. — in the amount of PLN 442,000 thousand,
  - CIECH Vitrosilicon S.A. — in the amount of PLN 25,300 thousand.

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

As at 31 December 2017, 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 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: 9.4% – for cash flows in PLN, 7.2% – for cash flows in EUR and 9.0% – for cash flows in USD;
- the weighted average cost of capital for CIECH Soda Deutschland GmbH for cash flows in EUR was 6.6%;
- 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 Soda Deutschland GmbH — impairment loss on shares in the amount of PLN 100,237 thousand,
- Janikosoda S.A. — impairment loss on shares in the amount of PLN 77,263 thousand,
- CIECH Trading S.A. — impairment loss on shares in the amount of PLN 23,734 thousand,
- Ciech Nieruchomości S.A. — impairment loss on shares in the amount of PLN 16,364 thousand,
- CIECH Group Financing AB — impairment loss on shares in the amount of PLN 732 thousand,
- VASCO Sp. z o.o. — impairment loss on shares in the amount of PLN 45 thousand,

reversal of an impairment loss on the loan granted to Ciech Nieruchomości S.A. in the amount of PLN 7,886 thousand.

According to the estimates of the Management Board:

- for SDC Group, a 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. a decrease in the weighted average cost of capital by 1.9 p.p. without changing other factors would lead to the alignment of the recoverable value with the carrying value.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

CARRYING AMOUNT OF SHARES IN RELATED ENTITIES

No		Registered office	31/12/2017	31/12/2016	The Company's share in the share capital/ total number of votes as at 31 December 2017	The Company's share in the share capital/ total number of votes as at 31 December 2016	Core activities
	Subsidiaries						
1.	Soda Deutschland Ciech GmbH	Stassfurt – Germany	536,977	637,214	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	553,098	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 - Rumunia	111,000	111,000	98.74%	98.74%	Manufacture of other basic inorganic chemicals, wholesale of chemical products.
5.	CIECH Trading S.A.	Warsaw	53,528	77,262	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 food and feed additives, 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	40,015	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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

No		Registered office	31/12/2017	31/12/2016	The Company's share in the share capital/ total number of votes as at 31 December 2017	The Company's share in the share capital/ total number of votes as at 31 December 2016	Core activities
9.	CIECH Vitrosilicon S.A.	Iłowa	12,302	12,302	83.03%	83.03%	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of resin 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	2,889	100%	100%	Financing activities.
12.	Ciech Group Financing AB	Sweden	2,056	2,787	100%	100%	Financing activities.
13.	Vasco Polska Sp. z o.o.	Inowrocław	0	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.	Bosten S.A.	Warsaw	100	-	90%	-	Other research and experimental development on natural sciences and engineering,
16.	Ciech Nieruchomości	Warsaw	1,636	-	99.2%	-	Buying and selling of own real estate.
17.	Janikosoda	Warsaw	737	-	17.6%	-	Since March 2017, the Company has not carried out any operating activities.
	Other subsidiaries		**841**	**1,495**			
	Associates		**863**	**863**			
	Carrying amount of shares in related entities		**1,710,871**	**1,829,299**			

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

5.4. INVENTORIES

Accounting policy

Raw materials and goods are valued 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	31.12.2017	31.12.2016
Materials	1	1
Goods	31,794	37,449
TOTAL	**31,795**	**37,450**

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	01.01.-31.12.2017	01.01.-31.12.2016
Opening balance	-	**(84)**
Reversed / released	-	84
Closing balance	-	-

The value of inventories (taking into account write-downs to net selling prices) recognised as costs in 2017 amounted to PLN 1,795,248 thousand (in the comparable period: PLN 1,602,232 thousand).

As at 31 December 2017, 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 a term loan taken out.

5.5. SHORT-TERM RECEIVABLES

Accounting policy

After initial recognition, current trade and other receivables are valued 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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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	31.12.2017	31.12.2016
Trade receivables, including:	217,339	314,853
- up to 12 months	217,333	314,853
- prepayments for inventory	6	-
Public and legal receivables (excluding income tax)	19,404	40,206
Insurance receivables	306	162
External services	691	3,170
Factoring receivables	23,255	28,736
Receivables due to continuing involvement	1,821	1,404
Receivables from cashpooling	12,524	940
Other receivables	5,425	4,433
NET TRADE AND OTHER RECEIVABLES	**280,765**	**393,904**
Impairment allowances with respect to trade receivables, including:	(13,164)	(16,288)
- impairment allowance recognized in the current reporting period	(1,363)	(4,222)
Impairment allowances with respect to other current receivables	(15,701)	(17,132)
GROSS TRADE AND OTHER RECEIVABLES	**309,630**	**427,324**

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 2017, the asset from continuing involvement amounted to PLN 1,821 thousand. The value of factoring assets derecognised from the statement of financial position is PLN 146,733 thousand (in previous year was PLN 129,615 thousand).

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2017	01.01.-31.12.2016
Opening balance	**(33,420)**	**(31,890)**
Recognized	(1,363)	(4,222)
Reversed	4,026	2,652
Used	471	814
Exchange differences	1,421	(774)
Closing balance	**(28,865)**	**(33,420)**

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2017	31.12.2016
Up to 1 month	31,753	53,582
Between 1 and 3 months	738	58,708
3 to 6 months	2,660	9,665
6 months to 1 year	565	20
Above 1 year	11,487	12,006
Total (gross) past due trade receivables	**47,203**	**133,981**
Impairment allowances on past due trade receivables	(11,529)	(12,122)
Total (net) past due trade receivables	**35,674**	**121,859**

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 2017, 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 a term loan taken out.

5.6. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Loans after initial recognition are valued 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.

SHORT-TERM FINANCIAL ASSETS	31.12.2017	31.12.2016
Derivatives	24,354	19,104
Loans granted	987,950	212,918
Total (net) short-term financial assets	**1,012,304**	**232,022**
Impairment of short-term financial assets	(49,345)	(130,300)
Total (gross) short-term financial assets	**1,061,649**	**362,322**

Change in liabilities due to Short-term loan	31.12.2017	31.12.2016
Gross value at the beginning of the period	**343,218**	**322,285**
Grant	251,644	35,612
Repayment	(174,387)	(66,996)
Reclassification to long-term positions	633,847	51,214
Exchange differences	(17,027)	1,103
Gross value at the end of the period	**1,037,295**	**343,218**
Impairment update at the beginning of the period	**(130,300)**	**(123,655)**
Recognition	(2,194)	(7,733)
Reversal	83,149	1,088
Closing balance	**(49,345)**	**(130,300)**
Carrying amount of loans at the beginning of period	**212,918**	**198,630**
Carrying amount of loans at the end of the period	**987,950**	**212,918**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

As at 31 December 2017, 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 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 Sarzyna S.A. in the amount of PLN 65,000 thousand,
- granting of a loan to Ciech Soda Deutschland in the amount of EUR 23,400 thousand (PLN 97,599 thousand),
- granting of a loan to Ciech Trading S.A. in the amount of PLN 20,000 thousand,
- granting of a loan to CIECH Pianki Sp. z o.o. in the amount of PLN 18,000 thousand,
- granting of a loan to Vasco Sp. z o.o. in the amount of PLN 272 thousand,

- reclassification of long-term loans granted to the following companies to short-term investments:
  CIECH Energy Deutschland GmbH&Co. KG — in the amount of PLN 69,058 thousand,
  CIECH Soda Deutschland GmbH — in the amount of PLN 97,488 thousand,
  CIECH Soda Polska S.A. — in the amount of PLN 442,000 thousand,
  CIECH Vitrosilicon S.A. — in the amount of PLN 25,300 thousand,

- interest accrued on loans granted in the amount of PLN 44,940 thousand,
- repayment of loans by subsidiaries (Janikosoda S.A. in the amount of PLN 75,000 thousand, CIECH Cargo Sp. z o.o. in the amount of PLN 5,000 thousand, CIECH Energy Deutschland GmbH in the amount of EUR 11,935 thousand, an equivalent of PLN 48,833 thousand) and of interest in the amount of PLN 40,265 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:

- Vasco Sp. z o.o. — impairment loss on the loan granted (with accrued interest) in the amount of PLN 310 thousand.

The balance of impairment losses was also affected by the

- reversed impairment loss on the value of loan granted to Ciech Nieruchomości S.A. in the amount of PLN 2,536 thousand
- impairment loss reversed following the repayment by JZS Janikosoda S.A. of a loan of PLN 75,000 thousand and interest on loans in the amount of PLN 5,613 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 valued at the average exchange rate for a given currency, established by the President of the NBP on that date.

CASH AND CASH EQUIVALENTS	31.12.2017	31.12.2016
Bank accounts	218,927	318,766
Short-term deposits	156,455	23,820
Cash in hand	11	21
Cash and cash equivalents – presented in the statement of financial position	**375,393**	**342,607**
Cash and cash equivalents – presented in the cash flow statement	**375,393**	**342,607**

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 2017, 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 a term loan taken out.

As at 31 December 2017 and as at 31 December 2016, there was no restricted cash and cash equivalents in CIECH S.A.

6 EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

CIECH S.A.'s capital structure consist of its debts, including the bank loans 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 2016-2017 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 2017, 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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

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

*** In accordance with information dated 28 February 2017 provided by Shareholder under Article 70(1) of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies of 29 July 2005 – 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 of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (Journal of Laws of 2009, No 185, item 1439). However, 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 22 June 2017 (Current report 13/2017), Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter "NN") held 4.74% of the total number of votes in the Company. Until the date of publication hereof, the Company has not received a notification from NN on the decrease in the number of votes held below 5% of the total number of votes in the Company.*

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 2017 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 capital

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

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2017	31.12.2016
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	57,669	57,669
TOTAL	**76,199**	**76,199**

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 gains

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

Until the date of approval of the report for publication, the Management Board of CIECH S.A. did not adopt a resolution regarding the proposal to distribute the 2017 net profit.

On 22 June 2017, the Ordinary General Meeting of Shareholders of CIECH S.A. adopted a resolution regarding the allocation of the entire net profit of the Company for 2016, in the amount of PLN 152,440 thousand, to the Company's supplementary capital.

6.4. BUSINESS COMBINATIONS AND ACQUISITION OF INTEREST

There were no business combinations in the presented periods.

Establishment of new companies

On 5 October 2017, CIECH S.A. established a special purpose vehicle, BOSTEN S.A. The share capital of this Company amounts to PLN 100 thousand and is divided into 10 thousand shares with the nominal value of PLN 10 each. The issue price of shares is equal to their nominal value. The entire share capital was covered with a cash contribution and acquired by CIECH SA. The Company will be involved in R&D activities.

Phasing out and liquidation of businesses

On 8 November 2017, Polcommerce GmbH was deleted from the Commercial Register pursuant to decision of the General Meeting of Shareholders of the Company dated 18 October 2017 which concluded that the liquidation of the Company – opened on 31 December 2016 – had been completed. The liquidation of the Company resulted from changes in the CIECH Group's business model in the area of sales.

Changes in the share capital of companies

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

Pursuant to resolution of the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. of 28 February 2017 on the increase of the share capital, CIECH S.A., in accordance with the declaration dated 3 March 2017, took up 90,000 new shares in CIECH R&D Sp. z o.o. with the nominal value of PLN 50 each. Shares in CIECH R&D Sp. z o.o. taken up by CIECH S.A. were covered in whole with a cash contribution in the amount of PLN 4,500 thousand, constituting the equivalent of the total nominal price of new shares in CIECH R&D Sp. z o.o. Following the above, the share capital of the Company, registered by the Court on 8 May 2017, increased to PLN 40,000 thousand and is divided into 800,000 shares with the nominal value of PLN 50 each. CIECH S.A. remains the sole shareholder of the Company.

On 26 October 2017, the Extraordinary Shareholders' Meeting of JANIKOSODA S.A. adopted resolution No 1 on increasing the Company's share capital, pursuant to which:

1) the share capital is to be increased by the amount of PLN 7,800 thousand, i.e. from PLN 36,530 thousand to PLN 44,330 thousand;
2) the share capital is to be increased by way of issue of 260 million series E bearer shares with the nominal value of PLN 0.03 each;
3) the issue price of series E shares amounts to PLN 0.30 per share;
4) the shares in the increased share capital of JANIKOSODA S.A. were taken up by way of an offer placed by JANIKOSODA S.A. and accepted by CIECH S.A. with its registered office in Warsaw.

The agreement on taking up 260 million series "E" shares in JANIKOSODA S.A., with the nominal value of PLN 0.03 each, by CIECH was concluded on 26 October 2017. The shares are taken up by CIECH S.A. at the issue price of PLN 0.30 per share and the share premium (agio) is allocated to the Company's supplementary capital. The total issue price of the series "E" shares is PLN 78,000 thousand. CIECH acquired the ownership title to series "E" shares on 22 November 2017 (the date of registration of the increase of the Company's share capital by the District Court).

On 9 November 2017, the Extraordinary General Meeting of Ciech Nieruchomości S.A. resolved to increase the Company's share capital, i.e.:

- the Company's share capital was increased by PLN 18,000 thousand, i.e. from PLN 148 thousand to PLN 18,148 thousand by way of issue of 900 million series D bearer shares with the nominal value of PLN 0.02 per share and issue price of PLN 0.02 per share,
- the issue of series D shares was addressed to CIECH S.A.,
- the pre-emptive right to series D shares held by the sole shareholder of the Company was waived,
- series D shares were taken up by CIECH S.A. in consideration for cash contribution; the agreement on the subscription of shares through a private placement was signed on 9 November 2017. On 3 January 2018, the Court registered the increase of the Company's share capital.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

7 LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2017	31.12.2016
LONG-TERM	**1,130,482**	**1,345,973**
Loans and borrowings	1,130,482	1,345,973
SHORT-TERM	**413,516**	**348,889**
Loans and borrowings	295,559	59,463
Debt securities issued	-	160,382
Cash pooling liabilities	117,957	129,044
TOTAL	**1,543,998**	**1,694,862**

Debt financing

The Company's debt financing is secured mainly through loans made available to CIECH S.A. under the Loans Agreement dated 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 2017 was PLN 1,335,631 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 2017 was PLN 0).

On 5 December 2017, CIECH S.A. repaid bonds in the amount of PLN 160,000 thousand.

Detailed information about loan and bond liabilities is disclosed in the Directors' Report for the CIECH Group and CIECH S.A. for 2017, in section 4.6.

As at 31 December 2017, CIECH S.A. has a short-term liability on account of loans received in the amount of PLN 96,122 thousand, including:

- a loan from Gamma Finanse sp. z o.o. in the amount of PLN 93,000 thousand
- interest on the loan in the amount of PLN 3,122 thousand.

Interest rates

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%.

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). As at the balance sheet date, i.e. 31 December 2017, this ratio was maintained and amounted to 1.1.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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	31.12.2017	31.12.2016
Derivatives	41,528	120,929
TOTAL	**41,528**	**120,929**

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 valuation (unrealised) are presented within financial income or expense. Prepayments for deliveries denominated in foreign currencies are recognised at the exchange rate applicable as at the transaction day.

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 valued 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

CURRENT TRADE AND OTHER LIABILITIES	31.12.2017	31.12.2016
Trade liabilities and advances taken	398,885	385,404
- in up to 12 months	396,908	384,133
- prepayments received for supplies	1,977	1,271
Public and legal liabilities (excluding income tax)	282	2,569
Liabilities for purchase of property, plant and equipment	15,705	443
Financial instruments liabilities	2,141	6,006
Liabilities to employees	765	711
Payroll liabilities	15,070	15,231
Holiday leave accrual	2,326	1,939
Materials and energy consumption	131	-
External services	2,731	7,546
Social security and other employee benefits	1,388	1,935
Factoring liabilites	16,304	14,401
Liabilites due to continuing commitment	1,821	1,404
Other	18,894	6,374
TOTAL	**476,443**	**443,963**

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 statement of profit or loss in the period in which they are incurred and are irrelevant.

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 2017, the costs of lease payments were as follows:
- lease of passenger cars – PLN 1,494 thousand (PLN 986 thousand for the comparable period),
- lease of space – PLN 3,969 thousand (PLN 4,062 thousand for the comparable period).

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

TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	31.12.2017	31.12.2016
Up to 1 year	5,824	6,440
Between 1 and 5 years	23,565	22,618
Over 5 years	-	3,174
TOTAL	**29,389**	**32,232**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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.-31.12.2017	01.01.-31.12.2016	01.01.-31.12.2017	01.01.-31.12.2016
Opening balance	**447**	**510**	**313**	**240**
Recognition	83	132	60	-
Use and reversal	-	(102)	(67)	(34)
Other	(94)	(93)	94	107
Closing balance	**436**	**447**	**400**	**313**

In 2017, a provision for employee benefits was recognised in the amount of PLN 83 thousand, of which PLN 11 thousand was recognised in equity. In the comparable period, a provision for employee benefits included in equity and amounting to PLN 102 thousand was reversed.

Employee benefits are valued on the basis of actuarial valuations and including provision for retirement and disability benefits. A discount rate of 3.2% 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 2.0% 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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
01.01.-31.12.2017				
Opening balance	**7,574**	**28,066**	**758**	**36,398**
Recognition	102	1,321	-	1,423
Use and reversal	(1,497)	-	(251)	(1,748)
Closing balance	**6,179**	**29,387**	**507**	**36,073**
01.01.-31.12.2016				
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
Closing balance	**7,574**	**28,066**	**758**	**36,398**

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

Provisions for liabilities and expected losses are related to potential claims PLN 29,387 thousand (principal liability plus interest liabilities and litigation costs) resulting from litigation.

8 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT.

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.

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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 2017 include:

Financial assets:

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

Financial liabilities:

- 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	31.12.2017	31.12.2016	CATEGORIES OF FINANCIAL INSTRUMENTS
Cash and cash equivalents	375,393	342,607	Loans and receivables
Loans granted	1,106,130	801,337	Loans and receivables
Trade receivables	217,333	314,853	Loans and receivables
Factoring receivables	23,255	28,736	Loans and receivables
Hedging derivatives with positive value	5,910	1,674	Hedging instruments
Derivative instruments with positive value	53,530	74,024	Assets at fair value through profit or loss
Cash pooling receivables	12,524	940	Loans and receivables
ASSETS	**1,794,075**	**1,564,171**	
Trade liabilities	(396,908)	(384,133)	Financial liabilities at amortised cost
Loans and borrowings	(1,426,041)	(1,405,436)	Financial liabilities at amortised cost
Debt securities – bonds issued	-	(160,382)	Financial liabilities at amortised cost
Factoring liabilities	(16,304)	(14,401)	Financial liabilities at amortised cost

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

CLASSES OF FINANCIAL INSTRUMENTS	31.12.2017	31.12.2016	CATEGORIES OF FINANCIAL INSTRUMENTS
Hedging derivatives with negative value	(1,956)	(7,852)	Hedging instruments
Derivative instruments with negative value	(41,713)	(119,083)	Liabilities at fair value through profit or loss
Cash pooling liabilities	(117,957)	(129,044)	Financial liabilities at amortised cost
LIABILITIES	**(2,000,879)**	**(2,220,331)**	

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

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.-31.12.2017	01.01.-31.12.2016	Categories of financial instruments
Interest income /(costs) including income / costs calculated using the effective interest rate method	**(4,497)**	**(18,189)**	
	45,854	36,706,	*Loans and receivables*
	(50,351)	(54,895)	*Financial liabilities at amortised cost*
Foreign exchange gains/(losses)	**(12,155)**	**(3,817)**	
	(12,155)	(3,817)	*Financial liabilities at amortised cost*
Recognition of impairment losses	**(3,256)**	**(9,420)**	*Loans and receivables*
Reversal of impairment losses	**4,026**	**2,173**	*Loans and receivables*
Income / costs on account of evaluation and use of derivatives	**89,441**	**(29,778)**	
	75,236	(30,666)	*Financial assets/liabilities at fair value through profit or loss*
	14,205	888	*Hedging instruments*
Gain / (loss) on the disposal of financial instruments	-	**62**	*Loans and receivables*
TOTAL	**73,559**	**(58,969)**	

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 valued, 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,

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- ✓ 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 valued 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 2017, 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/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 (6M EURIBOR)	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 31.12.2017	Amount transferred from equity and recognised in the statement of profit or loss (after income tax) in the period of 01.01-31.12.2017	Forecast period of cash flow occurrence / Expected date of impact on the financial result
Currency risk				
CIECH S.A. – Currency forward EUR/PLN	4,271	3,459	13,151	from 1 January 2018 to 31 December 2018
CIECH S.A. – Currency forward USD/RON	1,429	1,200	502	from 1 January 2018 to 30 November 2018
Interest rate risk				
CIECH S.A. – Interest Rate Swap (IRS) PLN	-	-	(1,043)	Closed designation
CIECH S.A. – Interest Rate Swap (IRS) EUR	(1,746)	(1,413)	(1,104)	from 1 January 2018 to 25 November 2020
TOTAL	**3,954**	**3,246**	**11,506**	

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Transactions designated to hedge accounting / risks hedged	Fair value as at the reporting date	Amount recognised in equity (after income tax) as at 31.12.2016	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
Currency risk				
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
Interest rate risk				
CIECH S.A. – Interest Rate Swap (IRS) PLN 80 million	(1,241)	(1,005)	(1,070)	from 1 January 2017 to 5 December 2017
CIECH S.A. – Interest Rate Swap (IRS) EUR 70 million	(2,691)	(2,180)	(806)	from 1 January 2017 to 25 November 2020
TOTAL	**(6,178)**	**(5,120)**	**718**	

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 75% of net exposure to currencies exchange rate change by using derivatives and 100% exposure to interest rate risk.

In 2017, 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

Interest rate risk

CIECH S.A. finances its activity mainly through term loans and – until the end of 2017 – 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 and redeemed at the end of 2017, with a total nominal value of PLN 320 million (current debt amounts to PLN 0 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 2017, the debt amounted to PLN 0) 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 2017, 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 hedged indebtedness of nominal value of PLN 80 million and was concluded in March 2013. Following the repayment of the bonds, the transaction no longer exists as at 31 December 2017,
- 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 statement of financial position items (without derivative instruments) exposed to interest rate risk:

Total carrying amount	31.12.2017	31.12.2016
Fixed interest rate instruments	**(3,945)**	**254,989**
Financial assets	92,177	254,989
Financial liabilities	(96,122)	-
Floating interest rate instruments	**(46,006)**	**(650 417)**
Financial assets	1,401,870	1,044,445
Financial liabilities*	(1,447,876)	(1,694,862)

**including PLN 80 million hedged by IRS (applicable to 2016), EUR 70 million hedged by IRS, PLN 1,045 million hedged by CIRS – IRS transaction isolated as part of decomposition of CIRS.*

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

	Statement of profit or loss		Equity*	
	increase by 100 bp	decrease by 100 bp	increase by 100 bp	decrease by 100 bp
31.12.2017				
Floating interest rate instruments	(460)	460		
Interest rate swap transactions (IRS)			10,412	(10,862)
Cash flows sensitivity (net)	**(460)**	**460**	**10,412**	**(10,862)**
31.12.2016				
Floating interest rate instruments	(6,504)	6,504		
Interest rate swap transactions (IRS)			37,506	(39,426)
Cash flows sensitivity (net)	**(6,504)**	**6,504**	**37,506**	**(39,426)**

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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 2017 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 2017, 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 2017 due to financial instruments:

Exposure to currency risk in EUR (figures denominated in EUR)	31.12.2017	31.12.2016	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	61,192	49,726	x	
Trade and other receivables	13,380	9,035	x	
Cash including bank deposits	13,600	24,363	x	
Liabilities				
Trade and other liabilities	(13,760)	(13,919)	x	
Term loan liabilities	(69,673)	(69,673)	x	
Hedging instruments: Forward	(15,600)	(54,400)		x
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(246,665)	(246,781)	x	
Total exposure	**(257,526)**	**(301,649)**		

Exposure to currency risk in USD (figures denominated in USD)	31.12.2017	31.12.2016	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Trade and other receivables	12,624	15,325	x	
Cash including bank deposits	9,538	1,302	x	
Liabilities				
Trade and other liabilities	(3,048)	(3,851)	x	
Hedging instruments: Forward*	(5,600)	(33,800)		x
Total exposure	**13,514**	**(21,024)**		

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

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 31 December 2017.

figures denominated in EUR	PLN '000*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
Analysis of sensitivity to EUR exchange rate changes – 2017			
Currency balance sheet items	(2,419)	(2,419)	-
Hedging instruments: Forward	(156)	-	(156)
Analysis of sensitivity to EUR exchange rate changes – 2016			
Currency balance sheet items	(2,472)	(2,472)	-
Hedging instruments: Forward	(544)	-	(544)

** 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
Analysis of sensitivity to USD exchange rate changes – 2017			
Currency balance sheet items	191	191	-
Hedging instruments: Forward	(56)	-	(56)
Analysis of sensitivity to USD exchange rate changes – 2016			
Currency balance sheet items	128	128	-
Hedging instruments: Forward	(338)	-	(338)

** 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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

	31.12.2017	31.12.2016
Cash and cash equivalents	375,393	342,607
Loans granted	1,106,130	801,337
Trade receivables	217,333	314,853
Factoring receivables	23,255	28,736
Cash pooling receivables	12,524	940
Assets due to valuation of derivatives	59,440	75,698
TOTAL	**1,794,075**	**1,564,171**

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.

	31.12.2017		31.12.2016	
	Trade receivables and factoring receivables (gross value)	Impairment loss	Trade receivables and factoring receivables (gross value)	Impairment loss
Not overdue	206,555	(1,635)	225,896	(4,166)
Up to 1 month	31,753	-	53,582	-
1-3 months	738	-	58,708	-
3-6 months	2,660	-	9,665	(96)
6-12 months	565	(42)	20	(20)
Over 1 year	11,487	(11,487)	12,006	(12,006)
TOTAL	**253,758**	**(13,164)**	**359,877**	**(16,288)**

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)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Poland	115,675	204,590	850,906	581,348
European Union	59,800	70,810	255,224	219,989
Other European countries	16,350	21,478	-	-
North America	54	105	-	-
South America	117	1,374	-	-
Africa	3,779	2,852	-	-
Asia	44,819	42,380	-	-
TOTAL	**240,594**	**343,589**	**1,106,130**	**801,337**

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Soda segment	183,968	207,542	-	-
Organic segment	43,778	124,245	-	-
Transport segment	4,589	3,045	-	-
Silicates and Glass segment	5,106	1,858	-	-
Other activities	3,153	6,899	1,106,130	801,337
TOTAL	**240,594**	**343,589**	**1,106,130**	**801,337**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

Liquidity risk

CIECH S.A. is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due 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 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 settlement of liabilities under the loan agreements conditions.

The CIECH S.A.'s debt financing is ensured by term loans. 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 (as at 31 December 2017, the loan was utilised in the amount of PLN 0).

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

31.12.2017	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Trade liabilities	(396,908)	(396,908)	(396,908)	-	-	-	-
Loans and borrowings	(1,426,041)	(1,510,252)	(15,713)	(312,039)	(226,365)	(956,135)	-
Factoring liabilities	(16,304)	(16,304)	(16,304)	-	-	-	-
Cash pooling liabilities	(117,957)	(117,957)	(117,957)	-	-	-	-
Derivative instruments with negative value	(41,713)	(44,307)	-	(819)	(43,488)	-	-
Hedging derivatives with negative value	(1,956)	(1,592)	(393)	(385)	(814)	-	-
Total financial liabilities	**(2,000,879)**	**(2,087,320)**	**(547,275)**	**(313,243)**	**(270,667)**	**(956,135)**	**-**

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)	(128,659)	-	-	(30,133)	(98,526)	-
Hedging derivatives with negative value	(7,852)	(7,526)	(2,888)	(2,674)	(1,069)	(895)	-
Total financial liabilities	**(2,220,331)**	**(2,370,227)**	**(552,557)**	**(247,001)**	**(268,342)**	**(1,302,327)**	**-**

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.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

8.4. DETERMINATION OF FAIR VALUE

The following list presents the fair value of financial instruments.

	31.12.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	375,393	375,393	342,607	342,607
Loans granted	1,106,130	1,106,130	801,337	801,337
Trade receivables	217,333	217,333	314,853	314,853
Assets due to valuation of derivatives	59,440	59,440	75,698	75,698
Cash pooling receivables	12,524	12,524	940	940
Factoring receivables	23,255	23,255	28,736	28 736
ASSETS	**1,794,075**	**1,794,075**	**1,564,171**	**1 564 171**
Loans and borrowings	(1,426, 041)	(1,431,752)	(1,405,436)	(1,353,264)
Debt securities issues	-	-	(160,382)	(160,000)
Trade liabilities	(396,908)	(396,908)	(384,133)	(384,133)
Liabilities due to valuation of derivatives	(43,669)	(43,669)	(126,935)	(126,935)
Cash pooling liabilities	(117,957)	(117,957)	(129,044)	(129,044)
Factoring liabilities	(16,304)	(16,304)	(14,401)	(14,401)
LIABILITIES	**(2,000,879)**	**(2,006,590)**	**(2,220,331)**	**(2,167,777)**

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.

Measurement 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. values derivatives at fair value by using valuation 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

	31.12.2017	31.12.2016
	Level 2	Level 2
ASSETS	**59,440**	**75,698**
Hedging instruments	5,910	1,674
Derivatives at fair value through profit or loss	53,530	74,024
LIABILITIES	**(43,669)**	**(126,935)**
Hedging instruments	(1,956)	(7,852)
Derivatives at fair value through profit or loss	(41,713)	(119,083)
TOTAL	**15,771**	**(51,237)**

As at 31 June 2017, CIECH S.A. held the following types of financial instruments valued 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 CIRS contract is not designated to hedge accounting.

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. The input data for the method is the market data for interest rates and cross currency basis-swaps quotations provided by Reuters.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

Fair value of financial instruments	Other long-term investments	Short-term investments	Other long-term liabilities	Trade and other liabilities	TOTAL
31.12.2017					
IRS EUR	210	-	(620)	(1,336)	(1,746)
CIRS	34,876	18,654	(40,908)	(805)	11,817
Forward EUR/PLN	-	4,271	-	-	4,271
Forward USD /RON	-	1,429	-	-	1,429
TOTAL	**35,086**	**24,354**	**(41,528)**	**(2,141)**	**15,771**
31.12.2016					
IRS PLN	-	-	-	(1,241)	**(1,241)**
IRS EUR	58	-	(1,506)	(1,243)	**(2,691)**
CIRS	55,569	18,455	(119,083)	-	**(45,059)**
Forward EUR/PLN	967	649	-	-	**1,616**
Forward USD /RON	-	-	(340)	(3,522)	**(3,862)**
TOTAL	**56,594**	**19,104**	**(120,929)**	**(6,006)**	**(51,237)**

The above financial instruments were classified at level 2 of the fair value hierarchy. In 2017, 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. has taken out term and working capital loans whose book value, as at 31 December 2017, amounts to PLN 1,329,919 thousand, and whose fair value amounts to PLN 1,335,630 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 valued at amortised cost other than loans and financial liabilities excluded from the scope of IAS 39), the fair value is close to the book value.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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:

	31.12.2017	31.12.2016
Change of liabilities presented in statement of financial position	**(199,337)**	**348,713**
Change of financial liabilities	150,864	(61,700)
Change of income tax liabilities	1,552	(2 075)
Change of liabilities applying to non-current assets	(12,457)	2,063
Change of liabilities - compensation	23,884	-
Valuation of derivatives	83,268	(81 923)
Other	-	(580)
Change of liabilities applying to non-current assets	**47,774**	**204,498**

	31.12.2017	31.12.2016
Receivables change presented in statement of financial position	**113,946**	**(62,720)**
Change of income tax receivables	(807)	613
Reclasification of receivables from cashpooling	11,585	(16,078)
Receivables change due to Company liquidation	-	(2 931)
Receivables change - compensation	(4,598)	-
Receivables change - conversion to a loan	(64,849)	(21 525)
Other	-	(1 795)
Receivables change presented in statement of cash flow	**55,277**	**(104,436)**

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 valued 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 2017, 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 the CIECH S.A.

As at 31 December 2017, 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

	31.12.2017	31.12.2016
Contingent assets	**18,864**	**18,864**
Other contingent receivables*	18,864	18,864
Other contingent liabilities	**511,416**	**653,142**
Guarantees and sureties granted**	511,416	647,482
Other	-	5,660

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

*** Including:*

- *guarantee granted up to the amount of 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 72,650 thousand.*
- *guarantees and sureties for liabilities of subsidiaries which were described in detail below.*

As at 31 December 2017, contingent liabilities amounted to PLN 511,416 thousand and decreased as compared to 31 December 2016 by PLN 141,726 thousand. This change resulted primarily from:

- expiry of guarantees related to the issued domestic bonds (redeemed on 6 December 2017) in the amount of PLN 88,000 thousand,
- expiry on 12 March 2017 of a guarantee in the amount of PLN 44,240 thousand (EUR 10,000 thousand) for certain obligations and warranties made by Infrastruktura Kapuściska S.A. in liquidation, as a part of the agreement for sale and transfer of TDI assets on BASF,
- Expiry of potential liabilities in CIECH S.A. regarding employee claims in the amount of PLN 5,660 thousand.

Sureties and guarantees granted as at 31 December 2017

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Financial terms, including guarantee fee due to the Company; guarantee period	Principal
	currency	PLN		
CIECH S.A.				
Landesamt fuer Geologie und Bergwesen Sachsen-Anhalt	EUR 3,933 thousand	16,405 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Soda Deutschland (subsidiary)
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	6,256 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability. Liabilities incurred and outstanding by 31.12.2018	CIECH Trading S.A. (subsidiary)
Siemens Industrial Turbo- machinery s.r.o	1,753 EUR '000	7,312 thousand	Commission of 0.4% p.a. of the guaranteed liability, lease instalments outstanding by 30.04.2019	CIECH Energy Deutschalnd GmbH (subsidiary)

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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		
VITROBUDOWA Sp. z o.o.	PLN 67,035 thousand	67,035 thousand	Commission of 1.5% p.a. of the guaranteed liability; 90 calendar days from signing the final acceptance report	CIECH Vitrosilicon S.A. (subsidiary)
Total amount of guarantees and sureties granted				**PLN 115,008 thousand**
Selected subsidiaries in Poland, Germany and Romania				
Banks: Bank Handlowy w Warszawie S.A., Bank Millennium S.A., BZWBK S.A., Bank PKO BP S.A., Credit Agricole Bank Polska S.a., HSBC Bank Polska S.A., ICBC (Europe) S.A. Branch in Poland	PLN 1,618,789 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,045,031 thousand and revolving loan in the amount of PLN 250,000 thousand) EUR 87,091 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 69,673 thousand)	1,982,039 thousand	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit; 31.12.2023	CIECH S.A. (parent Company)
Total amount of guarantees and sureties granted				**PLN 1,982,039 thousand**

Letters of support

As at 31 September 2017, CIECH S.A. was the obliged party in the letter of support (Patronatserklärung) regarding CIECH Soda Deutschland GmbH&Co. KG seated in Staßfurt (CSD) granted to RWE Gasspeicher GmbH ("RWE") relating to liabilities of CSD resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CSD received payments of EUR 39.5 million from RWE by 31 December 2017. In the letter of support, CIECH S.A. has committed, among other things, to ensure that CSD will have sufficient funds to fulfil its financial commitments against RWE resulting from the above-mentioned agreement.

Tax audits

In 2017, the tax audit in CIECH S.A. concerning the year 2013 was completed. The aim of the audit was to review the accuracy of the declared tax base and the correctness of calculations and payments of corporate income tax. The Company received the Audit report. The irregularities identified concerned the overestimation of tax deductible expenses by PLN 25 million and underestimation of revenue by PLN 9 million. The Company submitted objections to the Audit report. In response to the objections submitted, the auditors maintained their position on key issues (of significant value), while acknowledging the Company's position or its additional explanations on other issues. Next, the control proceedings were conducted as a result of which the Head of the Mazovian Customs and Tax Office issued a Decision in which he determined the amount of tax liability at PLN 1.8 million (after taking into account the tax loss incurred in the audited year). The Company appealed against the Decision. If the Head of the Tax Administration Chamber in Warsaw upholds the findings contained in the Decision, the Company may be obliged to pay the estimated amount together with default interest from 1 April 2014.

The Management Board of the Company and its tax advisors do not agree with the findings presented in the Audit report and the Decision. As at the date of preparation of the financial statements, the appeal against the Decision is being considered by the Head of the Tax Administration Chamber in Warsaw.

In 2017, the Company was subject to follow-up activities resulting from CIT inspections for 2010 in the form of a hearing before the Regional Administrative Court in Warsaw. The Regional Administrative Court fully agreed with the Company's position. The Company received a written justification for the judgment after the balance sheet date. By the date of the financial statements, the Company has no knowledge of whether the Head of the Tax Administration Chamber in Warsaw appealed to the Supreme Administrative Court.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

CIECH S.A. estimated that the potential impact on the income tax imposition (in the form of additional tax liabilities or the lack of the delivery of assets deferred income tax calculated on tax losses) in view of the above described the issues would be PLN 20.2 million if it has ceased to be probable that CIECH will be able to maintain adopted by the tax interpretations before tax authorities.

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 S.A.) is presented below:

CIECH SA TRANSACTIONS WITH RELETED ENTITIES	Subsidiary	Affiliates	Other related	TOTAL
01.01.-31.12.2017				
Sales revenues	742,921	44,445	-	787,366
Financial income:	265,749	288	-	266,037
Dividends	*127,587*	*288*	-	*127,875*
Purchase of products, goods, materials and services:	1,351,421	13,002	3,807	1,368,230
Kulczyk Holding S.A.	-	-	*758*	*758*
Financial expenses	19,289	-	-	19,289
31.12.2017				
Receivables:	118,986	2,909	939	122,834
Kulczyk Holding S.A.	-	-	-	-
Loans granted	1,106,130	-	-	1,106,130
Trade and other liabilities:	410,247	1,593	-	411,840
Kulczyk Holding S.A.	-	-	-	-
Recived loans	96,122	-	-	96,122
01.01.-31.12.2016				
Sales revenues	635,964	46,940	-	682,904
Financial income:	205,668	166	-	205,834
Dividends	*157,257*	*166*	-	*157,423*
Purchase of products, goods, materials and services:	1,281,717	7,694	3,798	1,293,209
Kulczyk Holding S.A.	-	-	*698*	*698*
Financial expenses	27,853	-	-	27,853
31.12.2016				
Receivables:	193,859	3,030	863	197,752
Kulczyk Holding S.A.	-	-	*180*	*180*
Loans granted	801,337	-	-	801,337
Trade and other liabilities:	456,778	1,077	872	458,727
Kulczyk Holding S.A.	-	-	*858*	*858*
Recived loans	442	-	-	442

Terms of transactions with related entities

Material sales to and purchases from related entities were, to the best of the Company's knowledge and belief, carried out on terms reflecting 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 2017 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

According to the best judgment of CIECH S.A. in 2017, 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

Purchase of a customer base

In 2017, CIECH S.A. purchased a sodium customer base and a calcium chloride customer base from CIECH Trading S.A. The prices were set on the basis of valuations carried out by independent experts.

Changes in the share capital of companies

Pursuant to resolution of the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. of 28 February 2017 on the increase of the share capital, CIECH S.A., in accordance with the declaration dated 3 March 2017, took up 90,000 new shares in CIECH R&D Sp. z o.o. with the nominal value of PLN 50 each. Shares in CIECH R&D Sp. z o.o. taken up by CIECH S.A. were covered in whole with a cash contribution in the amount of PLN 4,500 thousand, constituting the equivalent of the total nominal price of new shares in CIECH R&D Sp. z o.o. Following the above, the share capital of the Company, registered by the Court on 8 May 2017, increased to PLN 40,000 thousand and is divided into 800,000 shares with the nominal value of PLN 50 each. CIECH S.A. remains the sole shareholder of the Company.

On 26 October 2017, the Extraordinary Shareholders' Meeting of JANIKOSODA S.A. adopted resolution No 1 on increasing the Company's share capital, pursuant to which:

1) the share capital is to be increased by the amount of PLN 7,800 thousand, i.e. from PLN 36,530 thousand to PLN 44,330 thousand;
2) the share capital was to be increased by way of issue of 260 million series E bearer shares with the nominal value of PLN 0.03 each;
3) the issue price of series E shares was to amount to PLN 0.30 per share;
4) the shares in the increased share capital of JANIKOSODA S.A. were to be taken up by way of an offer placed by JANIKOSODA S.A. and accepted by CIECH S.A. with its registered office in Warsaw.

The agreement on taking up 260 million series "E" shares in JANIKOSODA S.A., with the nominal value of PLN 0.03 each, by CIECH S.A. was concluded on 26 October 2017. The shares were taken up by CIECH S.A. at the issue price of PLN 0.30 per share and the share premium (agio) was allocated to the Company's supplementary capital. The total issue price of the series "D" shares was PLN 78,000 thousand. CIECH acquired the ownership title to series "E" shares on 22 November 2017 (the date of registration of the increase of the Company's share capital by the District Court).

On 9 November 2017, the Extraordinary General Meeting of Ciech Nieruchomości S.A. resolved to increase the Company's share capital, i.e.:

- the Company's share capital was increased by PLN 18,000 thousand, i.e. from PLN 148 thousand to PLN 18,148 thousand by way of issue of 900 million series D bearer shares with the nominal value of PLN 0.02 per share and issue price of PLN 0.02 per share,
- the issue of series D shares was addressed to CIECH S.A.,
- the pre-emptive right to series D shares held by the sole shareholder of the Company was waived,
- series D shares were taken up by CIECH S.A. in consideration for cash contribution; the agreement on the subscription of shares through a private placement was signed on 9 November 2017. On 3 January 2018, the Court registered the increase of the Company's share capital.

9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

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 2017 and in the comparable period. In the years 2016-2017, 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.

	2017	2016
Maciej Tybura	**4,119**	**3,701**
Artur Król	**2,921**	**1,375**
Artur Osuchowski	**2,923**	**2,805**
Dariusz Krawczyk	969	5,003
TOTAL	**10,932**	**12,884**

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 recevied from CIECH S.A. in 2017	Remuneration recevied from CIECH S.A. in 2016
Sebastian Kulczyk	**-***	**38***
Piotr Augustyniak	**158**	**102**
Dominik Libicki	**117**	**83**
Tomasz Mikołajczak	**144**	**128**
Mariusz Nowak	**144**	**102**
Artur Olech	**144**	**102**
Wojciech Stramski	0	19
TOTAL	**707**	**574**

**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, as of 1 November 2017 Members of the Supervisory Board are entitled to a monthly gross remuneration computed as a percentage of the calculation base. The calculation base is the average monthly remuneration in the sector of enterprises with profit distributions for the month preceding the calculation, announced by the President of the Central Statistical Office. This remuneration is paid in the following amount:

- to the Chairman of the Supervisory Board – 400% of the calculation base,
- to the Deputy Chairman – 350% of the calculation base,
- to a Board Member – 300% of the calculation base.

The Chairman of the Audit Committee is entitled to an additional gross monthly remuneration amounting to 150% of the remuneration payable to a Member of the Supervisory Board. Members of the Audit Committee are entitled to an additional gross monthly remuneration amounting to 100% of the remuneration payable to a Member of the Supervisory Board.

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 2017 to 31 December 2017 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:

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2017 (in PLN thousand)

	31.12.2017*	31.12.2016*
Audit of the annual financial statements	102	97
Review of the semi-annual report	83	83
Other services	203	3,269
Other certifying services	1	1
Tax advisory services	156**	328
TOTAL	**545**	**3,778**

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

*** The amount refers to the Group's verification services of transfer pricing documentation for 2011-2015. The contract was signed before the entry into force of restrictions on the commissioning of additional services to the auditor and was performed by the end of 2017.*

9.5. EVENTS AFTER THE BALANCE SHEET DATE

On 9 January 2018, negotiations related to an annexe to the loans agreement were completed. As a result, the following documents were signed:

- an annexe amending and restating the senior and revolving loans agreement for up to PLN 1,590 million of 29 October 2015, concluded by and between, inter alia, CIECH S.A., its selected subsidiaries, Bank Handlowy w Warszawie S.A. as agent, Powszechna Kasa Oszczędności Bank Polski S.A. as security agent and certain other financial institutions
- an annexe amending and restating the intercreditor agreement of 28 November 2012, concluded by and between, inter alia, CIECH S.A., its selected subsidiaries, Bank Handlowy w Warszawie S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. as security agent,
- the deed of release of collateral.

Detailed information about the annexes signed was published in Current Report No 1/2018.

On 6th Management Board of CIECH S.A. appointed on March 12th 2018, Mr. Krzysztof Szlaga as a Member of the Management Board of CIECH S.A.

STATEMENT OF THE MANAGEMENT BOARD

These financial statements of CIECH S.A. for the financial year ended 31 December 2017 were approved by the Company's Management Board in the Company's registered office on 26 March 2018.

Warsaw, 26 March 2018

(signed on the polish original)

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

(signed on the polish original)

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

(signed on the polish original)

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

(signed on the polish original)

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Krzysztof Szlaga – Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Katarzyna Rybacka – Chief Accountant of CIECH Spółka Akcyjna