
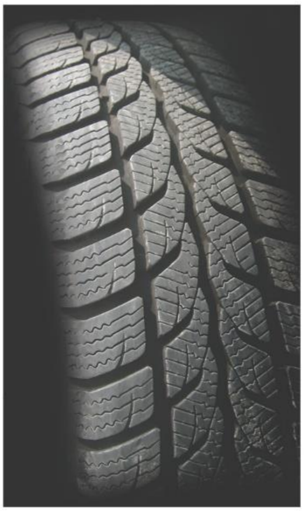

EXTENDED CONSOLIDATED QUARTERLY REPORT

of the CIECH Group for three quarters of 2018




CIECH GROUP — SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	9 months ended 30.09.2018	9 months ended 30.09.2017	9 months ended 30.09.2018	9 months ended 30.09.2017
Sales revenues	2,701,906	2,617,650	635,219	614,963
Operating profit/(loss)	286,608	381,443	67,382	89,612
Profit/(loss) before tax	262,736	332,668	61,769	78,153
Net profit / (loss) for the year	199,724	256,309	46,955	60,214
Net profit/(loss) attributable to shareholders of the parent company	199,335	255,947	46,864	60,129
Net profit/(loss) attributed to non-controlling interest	389	362	91	85
Other comprehensive income net of tax	16,634	13,830	3,911	3,249
Total comprehensive income	216,358	270,139	50,866	63,463
Cash flows from operating activities	352,769	366,689	82,936	86,146
Cash flows from investment activities	(468,070)	(255,648)	(110,043)	(60,059)
Cash flows from financial activities	(207,606)	(5,626)	(48,808)	(1,322)
Total net cash flows	(322,907)	105,415	(75,915)	24,765
Earnings (loss) per ordinary share (in PLN/EUR)	3.78	4.86	0.89	1.14
	as at 30.09.2018	as at 31.12.2017	as at 30.09.2018	as at 31.12.2017
Total assets	4,672,271	4,643,511	1,093,850	1,113,311
Non-current liabilities	1,614,365	1,369,282	377,948	328,294
Current liabilities	1,056,340	1,089,584	247,305	261,235
Total equity	2,001,566	2,184,645	468,597	523,782
Equity attributable to shareholders of the parent	2,004,009	2,187,596	469,169	524,490
Non-controlling interest	(2,443)	(2,951)	(572)	(708)
Share capital	287,614	287,614	67,335	68,957

CIECH S.A. — SELECTED SEPARATE FINANCIAL DATA

SELECTED FINANCIAL DATA	in PLN thousand		in EUR thousand	
	9 months ended 30.09.2018	9 months ended 30.09.2017	9 months ended 30.09.2018	9 months ended 30.09.2017
Sales revenues	1,787,413	1,763,202	420,222	414,228
Operating profit/(loss)	117,157	175,845	27,544	41,311
Profit/(loss) before tax	92,193	213,186	21,675	50,084
Net profit / (loss) for the period	72,449	175,576	17,033	41,248
Other comprehensive income net of tax	(3,248)	9,124	(764)	2,143
Total comprehensive income	69,201	184,700	16,269	43,391
Cash flows from operating activities	15,259	208,911	3,587	49,079
Cash flows from investment activities	(125,129)	(138,651)	(29,418)	(32,573)
Cash flows from financial activities	(196,605)	12,060	(46,222)	2,833
Total net cash flows	(306,475)	82,320	(72,053)	19,339
	as at 30.09.2018	as at 31.12.2017	as at 30.09.2018	as at 31.12.2017
Total assets	3,556,955	3,652,664	832,737	875,749
Non-current liabilities	1,437,050	1,172,446	336,435	281,101
Current liabilities	914,107	931,190	214,006	223,259
Total equity	1,205,798	1,549,028	282,296	371,389
Share capital	287,614	287,614	67,335	68,957

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

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

as at 30.09.2018	as at 31.12.2017	9 months ended 30.09.2018	9 months ended 30.09.2017
1 EUR = 4.2714 PLN	1 EUR = 4.1709 PLN	1 EUR = 4.2535 PLN	1 EUR = 4.2566 PLN

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018

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

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EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	01.01.-30.09.2018	01.01.-30.09.2017	01.07.-30.09.2018	01.07.-30.09.2017
CONTINUING OPERATIONS				
Sales revenues	**2,701,906**	**2,617,650**	**882,731**	**836,290**
Cost of sales	(2,121,926)	(1,982,180)	(717,006)	(640,340)
Gross profit/(loss) on sales	**579,980**	**635,470**	**165,725**	**195,950**
Other operating income	59,948	61,575	12,803	29,126
Selling costs	(204,878)	(189,497)	(70,792)	(60,089)
General and administrative expenses	(113,720)	(98,445)	(34,371)	(33,247)
Other operating expenses	(34,722)	(27,660)	(13,034)	(8,874)
Operating profit/(loss)	**286,608**	**381,443**	**60,331**	**122,866**
Financial income	14,203	6,372	(7,113)	3,023
Financial expenses	(38,266)	(55,309)	(13,741)	(11,220)
Net financial income/(expenses)	**(24,063)**	**(48,937)**	**(20,854)**	**(8,197)**
Share of profit / (loss) of equity-accounted investees	191	162	178	(12)
Profit/(loss) before tax	**262,736**	**332,668**	**39,655**	**114,657**
Income tax	(63,012)	(76,359)	(12,740)	(29,502)
Net profit/(loss) on continuing operations	**199,724**	**256,309**	**26,915**	**85,155**
DISCONTINUED OPERATIONS				
Net profit/(loss) on discontinued operations	-	-	-	-
Net profit / (loss) for the year	**199,724**	**256,309**	**26,915**	**85,155**
including:				
Net profit/(loss) attributable to shareholders of the parent company	199,335	255,947	26,843	85,003
Net profit/(loss) attributed to non-controlling interest	389	362	72	152
Earnings per share (in PLN):				
Basic	3.78	4.86	0.51	1.62
Diluted	3.78	4.86	0.51	1.62

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

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	01.01.-30.09.2018	01.01.-30.09.2017	01.07.-30.09.2018	01.07.-30.09.2017
Net profit / (loss)	**199,724**	**256,309**	**26,915**	**85,155**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	**13,761**	**23,306**	**35,971**	**(3,713)**
Currency translation differences (foreign companies)	4,966	(11,662)	(12,133)	2,607
Cash flow hedge reserve	9,601	34,966	48,095	(6,322)
Costs of hedging reserve	(806)	-	9	-
Other components of other comprehensive income	-	2	-	2
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	**-**	**-**	**-**	**-**
Income tax attributable to other comprehensive income	**2,873**	**(9,476)**	**(7,258)**	**3,188**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	2,873	(9,476)	(7,258)	3,188
Other comprehensive income net of tax	**16,634**	**13,830**	**28,713**	**(525)**
Comprehensive income including attributable to:	**216,358**	**270,139**	**55,628**	**84,630**
Shareholders of the parent company	215,850	269,824	55,639	84,462
Non-controlling interest	508	315	(11)	168

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

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	30.09.2018	31.12.2017
ASSETS		
Property, plant and equipment	2,791,498	2,712,252
Right of perpetual usufruct	29,752	30,069
Intangible assets, including:	371,843	169,758
- goodwill	*178,907*	*61,373*
Investment property	38,797	44,268
Non-current receivables	68,625	81,678
Investments in associates and jointly-controlled entities measured under the equity method	5,196	5,095
Long-term financial assets	44,503	54,432
Deferred income tax assets	81,454	107,411
Total non-current assets	**3,431,668**	**3,204,963**
Inventory	404,957	364,517
Short-term financial assets	62,972	57,979
Income tax receivables	14,542	13,244
Trade and other receivables	588,906	509,824
Cash and cash equivalents	168,311	489,754
Non-current assets held for sale	915	3,230
Total current assets	**1,240,603**	**1,438,548**
Total assets	**4,672,271**	**4,643,511**
EQUITY AND LIABILITIES		
Share capital	287,614	287,614
Share premium	470,846	470,846
Cash flow hedge reserve	24,124	10,021
Costs of hedging reserve	(6,046)	-
Actuarial gains	311	311
Other reserve capitals	78,521	78,521
Currency translation reserve	(68,004)	(73,630)
Retained earnings	1,216,643	1,413,913
Equity attributable to shareholders of the parent	**2,004,009**	**2,187,596**
Non-controlling interest	(2,443)	(2,951)
Total equity	**2,001,566**	**2,184,645**
Loans, borrowings and other debt instruments	1,340,684	1,130,482
Finance lease liabilities	17,274	20,145
Other non-current liabilities	123,793	103,567
Employee benefits reserve	11,028	10,789
Other provisions	80,132	71,812
Deferred income tax liability	41,454	32,487
Total non-current liabilities	**1,614,365**	**1,369,282**
Loans, borrowings and other debt instruments	213,612	199,437
Finance lease liabilities	3,430	4,743
Trade and other liabilities	722,416	758,581
Income tax liabilities	42,078	47,959
Employee benefits reserve	611	968
Other provisions	74,193	77,896
Total current liabilities	**1,056,340**	**1,089,584**
Total liabilities	**2,670,705**	**2,458,866**
Total equity and liabilities	**4,672,271**	**4,643,511**

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

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	01.01.-30.09.2018	01.01.-30.09.2017
Cash flows from operating activities		
Net profit/(loss) for the period	**199,724**	**256,309**
Adjustments		
Amortisation/depreciation	198,002	181,777
Recognition of impairment allowances	2,973	639
Foreign exchange (profit) /loss	(519)	5,731
Investment property revaluation	-	(843)
(Profit) / loss on investment activities	(14,281)	4,482
(Profit) / loss on disposal of property, plant and equipment	(165)	(5,159)
Dividends and interest	37,808	20,910
Income tax	63,012	76,359
(Profit) / loss on the settlement of construction contracts (caverns)	(2,322)	(2,077)
Share of (profit) / loss on equity accounted investees	(191)	(162)
Change in liabilities due to loan arrangement fee	(2,538)	1,958
Valuation of derivatives	57,323	13,018
Ineffective portion of hedge accounting	989	(1,619)
Other adjustments	(4,776)	(4,791)
Cash from operating activities before changes in working capital and provisions	**535,039**	**546,532**
Change in receivables	(67,895)	(816)
Change in inventory	(16,327)	(46,618)
Change in current liabilities	(63,265)	(61,932)
Change in provisions and employee benefits	2,208	(11,219)
Cash generated from operating activities	**389,760**	**425,947**
Interest paid	(20,063)	(25,823)
(Profit) / loss on the settlement of construction contracts (caverns)	19,349	(1,285)
Income tax (paid)/returned	(31,056)	(32,150)
Expenses for reserch	(5,221)	-
Net cash from operating activities	**352,769**	**366,689**
Cash flows from investment activities		
Disposal of a subsidiary	-	454
Disposal of intangible assets and property, plant and equipment	2,595	7,954
Disposal of investment property	14,380	-
Dividends received	593	246
Interest received	4,630	3,395
Subsidies received	1,619	1,090
Proceeds from repaid borrowings	-	7,049
Acquisition of a subsidiary (after deduction of acquired cash)	(159,721)	-
Acquisition of intangible assets and property, plant and equipment	(308,697)	(265,773)
Acquisition of financial assets	(120)	-
Acquisition of investment property	(153)	(1,368)
Development expenditures	(23,154)	(8,689)
Other outflows	(42)	(6)
Net cash from investment activities	**(468,070)**	**(255,648)**
Proceeds from loans and borrowings	454,394	-
Dividends paid to parent company	(395,249)	-
Repayment of loans and borrowings	(262,117)	(438)
Payments of finance lease liabilities	(4,575)	(5,188)
Other financial outflows	(59)	-
Net cash from financial activities	**(207,606)**	**(5,626)**
Total net cash flows	**(322,907)**	**105,415**
Cash and cash equivalents as at the beginning of the period	**489,754**	**414,369**
Impact of foreign exchange differences	*1,464*	*2,081*
Cash and cash equivalents as at the end of the period	**168,311**	**521,865**

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

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

CONDENSED STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company										
	Share capital	Share premium	Cash flow hedge reserve	Costs of hedging reserve	Other reserve capitals	Actuarial gains	Currency translation reserve	Retained earnings	**Equity attributable to shareholders of the parent**	Non-controlling interest	**Total equity**
31.12.2017	**287,614**	**470,846**	**10,021**	**-**	**78,521**	**311**	**(73,630)**	**1,413,913**	**2,187,596**	**(2,951)**	**2,184,645**
Changes in accounting policies	-	-	2,408	(5,240)	-	-	-	(1,356)	**(4,188)**	**-**	**(4,188)**
01.01.2018	**287,614**	**470,846**	**12,429**	**(5,240)**	**78,521**	**311**	**(73,630)**	**1,412,557**	**2,183,408**	**(2,951)**	**2,180,457**
Transactions with the owners	**-**	**-**	**-**		**-**	**-**	**-**	**(395,249)**	**(395,249)**	**-**	**(395,249)**
Dividend	-	-	-		-	-	-	(395,249)	**(395,249)**	-	(395,249)
Total comprehensive income for the period	**-**	**-**	**11,695**	**(806)**	**-**	**-**	**5,626**	**199,335**	**215,850**	**508**	**216,358**
Net profit / (loss) for the period	-	-	-	-	-	-	-	199,335	199,335	389	199,724
Other comprehensive income	-	-	11,695	(806)		-	5,626	-	16,515	119	16,634
30.09.2018	**287,614**	**470,846**	**24,124**	**(6,046)**	**78,521**	**311**	**(68,004)**	**1,216,643**	**2,004,009**	**(2,443)**	**2,001,566**
01.01.2017	**287,614**	**470,846**	**(45,306)**		**78,521**	**989**	**(46,336)**	**1,020,499**	**1,766,827**	**(3,335)**	**1,763,492**
Total comprehensive income for the period	**-**	**-**	**27,010**	**-**	**-**	**-**	**(13,135)**	**255,949**	**269,824**	**315**	**270,139**
Net profit / (loss) for the period	-	-	-	-	-	-	-	255,947	255,947	362	256,309
Other comprehensive income	-	-	27,010	-	-	-	(13,135)	2	13,877	(47)	13,830
30.09.2017	**287,614**	**470,846**	**(18,296)**	**-**	**78,521**	**989**	**(59,471)**	**1,276,448**	**2,036,651**	**(3,020)**	**2,033,631**

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

2 EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

2.1. BASIS FOR PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP

These interim condensed consolidated financial statements were prepared in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" as approved by the European Union and the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State (Journal of Laws 2018.757 of 2018). These financial statements present the financial position of the CIECH Group as at 30 September 2018 and as at 31 December 2017, results of the Group's operations and cash flows for the period of 9 months ended 30 September 2018 and 30 September 2017, and were approved by the Management Board of CIECH S.A. on 21 November 2018.

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

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

Acquisition of Proplan Plant Protection Company, S.L. was initially accounted for provisionally, as permitted by IFRS 3 "Business Combinations". This company was included in consolidation as at 26 July 2018 on the basis of estimated valuation of its assets and liabilities. Following the completion of the current fair value measurement of the company's identifiable assets, liabilities and contingent liabilities, any adjustments resulting from the completed initial provisional accounting will be included in the consolidated financial statements as at the acquisition date and the subsequent balance sheet dates.

The Management Board of CIECH S.A. represents that to the best of its knowledge these interim consolidated financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group's financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the Directors' Report for the period of 9 months ended 30 September 2018 contains a true image of the Group's developments, achievements, and condition, including the description of major risks and threats.

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

2.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH Group's accounting principles are described in the Consolidated Financial Statements of the CIECH Group for the year 2017, published on 26 March 2018. The aforementioned Financial Statement include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data presented, except for the adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers*. Moreover, in 2018 CIECH Group changed its approach to recognising the costs of severance payments for key management personnel.

2.2.1. CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 1 January 2018, the CIECH Group adopted new financial reporting standards, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

Implementation of IFRS 9

For the purpose of the initial application of IFRS 9, the CIECH Group did not restate previous periods' figures. Any differences between the previous carrying amount of financial assets and liabilities and their carrying amount at the beginning of the annual reporting period that includes the date of initial application of IFRS 9 were recognised by the Group in the opening retained earnings of the annual reporting period that includes the date of initial application of IFRS 9, i.e. as at 1 January 2018.

IFRS 9 introduced a new impairment model for financial assets based on the concept of „expected credit losses”, changes to the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

Classification and measurement of financial instruments

Financial assets

In accordance with IFRS 9, on initial recognition a financial asset may be classified into the following measurement categories:

1. financial assets measured at amortised cost;
2. financial assets measured at fair value through other comprehensive income;
3. financial assets measured at fair value through profit or loss.

A financial asset is classified into one of above measurement categories on initial recognition in the balance sheet on the basis of the Group’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Upon initial recognition of equity instruments not held for trading (or on the day of initial application of IFRS 9), the Group could have made an irrevocable decision to designate individual investments in equity instruments as measured at fair value through other comprehensive income. Other equity instruments are measured at fair value through profit or loss.

At initial recognition, an analysis was carried out to determine if a financial instrument contains an embedded derivative. Derivative instrument embedded in the hybrid contract, the host of which is a financial asset within the scope of IFRS 9, is not bifurcated and the hybrid contract is recognised in accordance with the MSSF 9 requirements for classification of financial assets. Derivative instrument embedded in the hybrid contract, the host of which is not a financial asset within the scope of IFRS 9, is assessed in order to determine whether it should be bifurcated.
Financial assets may be reclassified if, and only if, the Group changes its business model for managing financial assets. In such a case, all financial assets affected by the business model change are subject to reclassification.

Based on the review of financial assets held by the Group after 31 December 2017, the CIECH Group:

1. determined and allocated groups of financial assets to the appropriate business model on the basis of the assessment of the applied way of managing the financial asset portfolios by:
   a) reviewing and assessing relevant and objective qualitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (in particular, the reasons of sales of the financial assets from certain portfolios that occurred in the past);
   b) reviewing and assessing relevant and objective quantitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (e.g. the value of sales of the financial assets from certain portfolios that occurred, if any, in previous reporting periods and the frequency of those sales);
   c) analysis of expectations regarding the value and frequency of sales from certain portfolios;
2. determined, through identifying and analysing the contractual terms of financial assets with economic characteristics of debts instruments, as a result of which the financial asset may not meet the SPPI criterion, whether these contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, i.e. whether they are consistent with the SPPI criterion.

Financial assets with the characteristics of debt instruments

Following the analysis, the Group concluded that the implementation of IFRS 9 will not change the classification and measurement of financial assets held with economic characteristics of a debt instrument. Trade receivables pending transfer to the factor under non-recourse factoring arrangements could be an exception. These receivables are held by the Group in order to transfer the entire balance of trade receivables agreed with the factor to the factor. The Group manages trade receivables that are designated to be transferred to the factor under non-recourse factoring arrangements with a view to obtaining cash flows through the sale of assets – obtaining contractual cash flows is not an integral part of the business model's objective. Therefore, in accordance with IFRS 9, the Group classified these receivables as financial assets measured at fair value through profit or loss – however, due to the relatively short period of holding the receivables to be transferred to the factor in the balance sheet, the impact of the change in their classification on the financial position of the Group was deemed immaterial.

Equity instruments

The Group hold equity instruments (shares) which are classified as financial assets pursuant to IAS 39 and IFRS 9. Pursuant to IAS 39, the Group measured the equity instruments held at cost less impairment losses. The net present carrying amount of these instruments is close to zero.

Pursuant to IFRS 9, the CIECH Group classified the equity instruments (shares) held as measured at fair value through profit or loss. However, as at the date of implementation of IFRS 9, the estimated fair value of the equity instruments held was close to zero. Therefore, the impact of the change in their classification on the Group's financial position was deemed immaterial.

The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

Classes of financial assets	Categories of financial assets and measurement method according to IAS 39	Business model according to IFRS 9	SPPI Criterion	Reclassification	Categories of financial assets and measurement method according to IFRS 9
Cash and cash equivalents	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Bank deposits (their value is included in cash and cash equivalents)	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Loans granted	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Trade receivables	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Factoring receivables (transferred to the factor)	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Derivative instruments designated as hedging instruments	Hedging instruments	Other business model	Not applicable	None	Hedging instruments

Impairment of financial assets

Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate losses. Instead, entities are obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition.

Upon acquisition or granting of a financial asset, the Group is obliged to keep an allowance in the amount of a 12-month ECL. In the event of significant increase in credit risk since the initial recognition of the asset, the Group is obliged to calculate lifetime expected credit losses (the so-called Stage 2). Such an approach will result in the earlier recognition of credit losses which will cause an increase in loss allowance and therefore it will also affect profit or loss.

Trade receivables and contract assets arising from transactions within the scope of IFRS 15 are exceptions to this rule. For these categories of assets, the Group chose a simplified approach whereby lifetime expected credit losses are estimated from the moment of initial recognition of exposures.

Following the analysis of financial instruments held, the CIECH Group calculated allowances based on the expected credit loss model for the following classes of financial instruments:

1. Trade receivables,
2. Factoring receivables
3. Contract assets from transactions within the scope of IFRS 15,
4. Loans granted,
5. Term deposits, cash.

Hedge accounting

The CIECH Group decided to move to IFRS 9 as regards hedge accounting, as of 1 January 2018. The Group took advantage of the option offered by IFRS 9 and applied the prospective approach from the date of initial application of IFRS 9.

IFRS 9 requires the Group to ensure that its hedging relationships are compliant with the risk management strategy applied by the Group and its objectives. IFRS 9 introduces new requirements with regard to, among others, the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the Standard).

With respect to hedging relationships applied by the Group, IFRS 9 had a material impact on the following two issues:

1. The time value of the gas purchase option, which was left outside hedge accounting by the Group in accordance with IAS 39, was recognised in a separate component of equity as a cost of hedging during the option's life (reclassification from retained earnings to the cost of hedging).
2. The Group applied a new approach to the basis currency spread for CIRS transactions, excluded it from hedge accounting and recognised it as a cost of hedging in a separate component of equity.

Implementation of IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" is effective for annual periods beginning on or after 1 January 2018. The CIECH Group decided to apply IFRS 15 retrospectively with the recognition of the cumulative effect of the initial application of this IFRS as an adjustment to the initial balance of retained earnings in 2018.

The standard introduces uniform requirements for all entities with respect to recognition of revenue from contracts with customers based on the so-called 5-step model:

1. identifying the contract;
2. identifying performance obligations;
3. determining the transaction price;
4. allocating the transaction price to performance obligations;
5. satisfying the performance obligation.

This standard requires entities to evaluate contracts with customers and to identify elements in them that constitute separate performance obligations as defined in IFRS 15. For contracts that contain more than one performance obligation, the expected consideration will be allocated to each of the contracts in successive steps and the revenue will be recognised when (or as) the performance obligation is satisfied. The obligation to identify the performance obligations also applies to contracts where the contract is assumed to consist of only one element (e.g. sale of a product) when settled with the customer.

Based on the analysis of the impact of IFRS 15 on the consolidated financial statements of the CIECH Group, the following areas were identified and adjusted in order to implement the standard. Due to the immateriality of other adjustments, only the value of non-cash consideration was adjusted as at 1 January 2018.

Non-cash consideration

Under construction services agreements, in addition to the consideration in cash, the Group receives from the customer the raw materials extracted during the performance of construction works, which are then used by the Group in the production process to manufacture its products. Until the end of 2017, the revenue from gratuitous use of the raw material was not recognised in the financial statements.

In accordance with IFRS 15, in the case of contracts where the customer agreed to pay consideration in a non-cash form, the non-cash consideration is recognised at the transaction price. The Group measures the non-cash consideration at fair value. As a result, revenue to be recognised from the performance of a given agreement will be higher by the fair value of non-cash consideration. The recognition requirements for assets received remain unchanged.

The assets received are initially recognised at the amount and at the time determined in accordance with the standard applicable to the given type of asset, i.e. inventory.

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As at 1 January 2018, the value of revenues from non-cash consideration amounted to PLN 2,156 thousand (the impact on equity after deferred tax amounted to PLN 1,489 thousand).

Consignment warehouses

The Group enters into agreements with customers under which it undertakes to deliver its products to the customer's warehouses. Under the agreements, customers are supplied with finished products to be used in production. Products in the raw material warehouse remain the property of the Group until they are released for production to the customer. However, all risks related to the possibility of losing or damaging raw materials are transferred to the customer upon delivery of the raw materials to the warehouse. The Group undertakes to deliver appropriate quantities of raw materials to the raw materials warehouse in accordance with the customer's order, and the customer inspects the quantity of raw materials in the raw materials warehouse in terms of frequency and volume of deliveries.

The new IFRS 15 guidelines concerning the determination of the moment of revenue recognition, i.e. the transfer of control, resulted in a change in the moment of recognition of revenue from the sale of products transferred to raw material warehouses. Control over the raw materials is transferred to the customer upon their acceptance into storage and revenue is recognised at this point.

Due to the immateriality of adjustments related to consignment warehouses, the Group decided not to introduce them as at 1 January 2018. Revenue from sales of products delivered to raw material warehouses was recognised in accordance with IFRS 15 in period from January to September of 2018.

Exclusive production

In the silicates and glass segment, some of the sales agreements concern specific products manufactured exclusively for a particular customer. The customer declares the frequency and quantity of products to be received, however, the customer may not refuse to accept the batch of products dispatched. If the customer fails to collect the products within the specified deadline, it bears the storage costs. In accordance with IFRS 15, the Group recognizes revenue from the sale of exclusive production before the customer physically receives the products, whereas in accordance with IAS 18, the revenue was recognized at the moment of transferring the products to the customer.

Due to the immateriality of adjustments related to exclusive production, the Group decided not to introduce them as at 1 January 2018. Revenue from sales of products manufactured exclusively for a particular customer was recognised in accordance with IFRS 15 in period from January to September of 2018.

<u>Impact of the implementation of IFRS 9 and IFRS 15 on the statement of financial position of the CIECH Group as at 1 January 2018</u>

	As at 31.12.2017 before adjustments	IFRS 9 adjustments	IFRS 15 adjustments	As at 01.01.2018 (data restated, unaudited)
ASSETS				
Non-current receivables	81,678	(1,531)	2,156	82,303
Deferred income tax assets	107,411	1,568	-	108,979
Total non-current assets	**3,204,963**	**37**	**2,156**	**3,207,156**
Trade and other receivables	509,824	(5,143)	-	504,681
Cash and cash equivalents	489,754	(571)	-	489,183
Total current assets	**1,438,548**	**(5,714)**	**-**	**1,432,834**
Total assets	**4,643,511**	**(5,677)**	**2,156**	**4,639 990**
EQUITY AND LIABILITIES				
Cash flow hedge	10,021	2,408	-	12,429
Hedging costs	-	(5,240)	-	(5,240)
Reatined earning	1,413,913	(2,845)	1,489	1,412,557
Equity attributable to shareholders of the parent	**2,187,596**	**(5,677)**	**1,489**	**2,183,408**
Non-controlling interest	(2,951)	-	-	(2,951)
Total equity	**2,184,645**	**(5,677)**	**1,489**	**2,180,457**
Deferred income tax liability	32,487	-	667	33,154

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	As at 31.12.2017 before adjustments	IFRS 9 adjustments	IFRS 15 adjustments	As at 01.01.2018 (data restated, unaudited)
Total non-current liabilities	**1,369,282**	**-**	**667**	**1,369,949**
Total liabilities	**2,458,866**	**-**	**667**	**2,459,533**
Total equity and lliabilities	**4,643,511**	**(5,677)**	**2,156**	**4,639,990**

The tables below summarise the impact of the application of IFRS 15 on the Group's consolidated financial statements for the period ended 30 September 2018. In order to ensure comparability of financial data presented in different periods, the Group presented below a reconciliation of data prepared in accordance with IFRS 15 with data which would have been prepared had IAS 11 and IAS 18 been in force in 2018.

	01.01.-30.09.2018 according to IFRS 15	Non-Cash consideration	Exclusive production	Consignment warehouses	01.01.-30.09.2018 according to IAS 18/IAS 11
CONTINUING OPERATIONS					
Sales revenues	**2,701,906**	**(2,288)**	**(2,203)**	**(7,153)**	**2,690,262**
Cost of sales	(2,121,926)	1,676	1,412	5,732	(2,113,106)
Gross profit/(loss) on sales	**579,980**	**(612)**	**(791)**	**(1,421)**	**577,156**
Other operating income	57,036	-		-	57,036
Selling costs	(204,878)	-	187	**200**	(204,491)
General and administrative expenses	(113,720)	-		-	(113,720)
Other operating expenses	(31,810)	-		-	(31,810)
Operating profit/(loss)	**286,608**	**(612)**	**(604)**	**(1,221)**	**284,171**
Financial income	14,203	-		-	14,203
Financial expenses	(38,266)	-		-	(38,266)
Net financial income/(expenses)	**(24,063)**	**-**	**-**	**-**	**(24,063)**
Share of profit / (loss) of equity-accounted investees	191	-		-	191
Profit/(loss) before tax	**262,736**	**(612)**	**(604)**	**(1,221)**	**260,299**
Income tax	(63,012)	**106**	115	**178**	(62,613)
Net profit/(loss) on continuing operations	**199,724**	**(506)**	**(489)**	**(1,043)**	**197,686**

	30.09.2018 according to IFRS 15	Non-Cash consideration	Exclusive production	Consignment warehouses	30.09.2018 according to IAS 18/IAS 11
ASSETS					
Non-current receivables	68,625	**(2,772)**			65,853
Deferred income tax assets	81,454	-		178	81,632
Total non-current assets	**3,431,668**	**(2,772)**	**-**	**178**	**3,429,074**
Inventory	404,957	-	1,412	5,732	412,101
Trade and other receivables	588,906	-	(2,203)	(7,153)	579,550
Total current assets	**1,240,603**	-	**(791)**	**(1,421)**	**1,238,391**
Total assets	**4,672,271**	**(2,772)**	**(791)**	**(1,243)**	**4,667,465**
EQUITY AND LIABILITIES		-			
Currency translation reserve	(68,004)	(3)			(68,007)
Retained earnings	1,216,643	**(1,995)**	(489)	(1,043)	1,213,116
Equity attributable to shareholders of the parent	**2,004,009**	**(1,998)**	**(489)**	**(1,043)**	**2,000,479**
Non-controlling interest	(2,443)	-			(2,443)
Total equity	**2,001,566**	**(1,998)**	**(489)**	**(1,043)**	**1,998,036**
Deferred income tax liability	41,454	**(774)**	(115)		40,565

	30.09.2018 according to IFRS 15	Non-Cash consideration	Exclusive production	Consignment warehouses	30.09.2018 according to IAS 18/IAS 11
Total non-current liabilities	**1,614,365**	**(774)**	**(115)**	**-**	**1,613,476**
Trade and other liabilities	722,416	-	(187)	(200)	722,029
Total current liabilities	**1,056,340**	**-**	**(187)**	**(200)**	**1,055,953**
Total liabilities	**2,670,705**	**(774)**	**(302)**	**(200)**	**2,669,429**
Total equity and liabilities	**4,672,271**	**(2,772)**	**(791)**	**(1,243)**	**4,667,465**

The CIECH Group intends to adopt amendments to the IFRS that are published but not effective as at the date of publication of this report in accordance with their effective date. The estimated impact of amendments and impact of new IFRSs on the consolidated financial statements of the CIECH Group was presented in the Consolidated Financial Statements of the CIECH Group for the year 2017, published on 26 March 2018.

2.3. FUNCTIONAL AND REPORTING CURRENCY

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

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

NBP exchange rate as at the end day of the reporting period	30.09.2018[1]	31.12.2017[2]
EUR	4.2714	4.1709
RON	0.9157	0.8953
Average NBP rate for the reporting period	9 months ended 30.09.2018[3]	9 months ended 30.09.2017[4]
EUR	4.2535	4.2566
RON	0.9141	0.9348

[1] NBP's average foreign exchange rates table applicable as at 30 September 2018.

[2] NBP's average foreign exchange rates table applicable as at 31 December 2017.

[3] According to the exchange rate constituting the arithmetic mean of average exchange rates determined by NBP on the last day of each month of the period from 1 January 2018 to 30 September 2018.

[4] According to the exchange rate constituting the arithmetic mean of average exchange rates determined by NBP on the last day of each month of the period from 1 January 2017 to 30 September 2017.

2.4. SEASONALITY AND CYCLICALITY OF ACTIVITY OF THE CIECH GROUP

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

2.5. SEGMENT REPORTING

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.
Information for a given operating segment may include sales of products and goods also included in the core product range of other divisions. Such items, however, are not significant for those divisions' management reporting.

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

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Reporting segments are identical to operating segments. Revenues and costs, assets and liabilities of segments are recognised and measured in a manner consistent with the method used in the consolidated financial statements. Information on the CIECH Group geographical areas is established based on the Group's assets location.

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

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

	01.01.-30.09.2018	01.01.-30.09.2017
Net profit/(loss) on continuing operations	199,724	256,309
Income tax	63,012	76,359
Share of profit / (loss) of equity-accounted investees	(191)	(162)
Financial expenses	38,266	55,309
Financial income	(14,203)	(6,372)
Amortisation/depreciation	198,002	181,777
EBITDA on continued operations	**484,610**	**563,220**

	01.01.-30.09.2018	01.01.-30.09.2017
EBITDA on continued operations	**484,610**	**563,220**
One-offs including:	(12,744)	(6,223)
Impairment (a)	(429)	1,550
Cash items (b)	(15,341)	(1,992)
Non-cash items (without impairment) (c)	3,026	(5,781)
Adjusted EBITDA from continuing operations	**471,866**	**556,997**

(a) Impairment losses are associated with the recognition/reversal of impairment write-downs of assets value.
(b) Cash items include, among others, gain/loss of the sale of property, plant and equipment and other items (including costs associated with discontinued operations, fees and compensations).
(c) Non-cash items include: fair value measurement of investment properties, costs of liquidation of inventories and property, plant and equipment, the costs of suspended investments, environmental provisions, provisions for liabilities and compensation, costs of unused production capacity and other items (including extraordinary costs and other provisions).

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

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OPERATING SEGMENTS OF THE CIECH GROUP

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

OPERATING SEGMENTS 01.01.-30.09.2018	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	1,760,648	629,385	184,013	11,349	116,511	-	-	2,701,906
Revenue from inter-segment transactions	40,762	297	81	97,031	26,903	-	(165,074)	-
Total sales revenues	**1,801,410**	**629,682**	**184,094**	**108,380**	**143,414**	**-**	**(165,074)**	**2,701,906**
Cost of sales	(1,332,597)	(530,015)	(142,310)	(97,619)	(116,926)	-	97,541	(2,121,926)
Gross profit /(loss) on sales	**468,813**	**99,667**	**41,784**	**10,761**	**26,488**	**-**	**(67,533)**	**579,980**
Selling costs	(185,298)	(52,637)	(23,829)	(2,996)	(8,597)	(374)	68,853	(204,878)
General and administrative expenses	(41,564)	(16,872)	(3,459)	(3,225)	(3,859)	(47,087)	2,346	(113,720)
Result on management of receivables	(187)	721	(38)	(123)	163	-	-	536
Result on other operating activities	21,009	(8,684)	(1,274)	(267)	15,227	1,493	(2,814)	24,690
Operating profit /(loss)	**262,773**	**22,195**	**13,184**	**4,150**	**29,422**	**(45,968)**	**852**	**286,608**
Exchange differences and interest on trade settlements	(3,451)	(14,255)	169	(281)	(1,130)	-	-	(18,948)
Group borrowing costs	-	-	-	-	-	(22,290)	-	(22,290)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	17,175	-	17,175
Share of profit / (loss) of equity-accounted investees	191	-	-	-	-	-	-	191
Profit /(loss) before tax	**259,513**	**7,940**	**13,353**	**3,869**	**28,292**	**(51,083)**	**852**	**262,736**
Income tax	-	-	-	-	-	-	-	(63,012)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**199,724**
Amortization/depreciation	149,626	23,176	14,876	4,328	2,166	3,830	-	198,002
EBITDA	412,399	45,371	28,060	8,478	31,588	(42,138)	852	484,610
Adjusted EBITDA*	415,116	45,554	28,231	8,668	18,051	(44,604)	850	471,866

**Adjusted EBITDA for the 9-month period ended 30 September 2018 is calculated as EBITDA adjusted for untypical one-off events: disposal of non-financial assets: PLN 14.5 million; fines and compensations: PLN 2.1 million; liquidation of fixed assets: PLN -1 million; change in impairment losses on assets: PLN 0.4 million; change in provisions: PLN -1.8 million; other: PLN -1.5 million.*

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OPERATING SEGMENTS 01.01.-30.09.2017	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	1,759,993	620,275	167,714	8,723	60,945	-	-	2,617,650
Revenue from inter-segment transactions	35,692	1,760	7	83,322	25,895	-	(146,676)	-
Total sales revenues	**1,795,685**	**622,035**	**167,721**	**92,045**	**86,840**	**-**	**(146,676)**	**2,617,650**
Cost of sales	(1,258,153)	(527,892)	(132,195)	(81,205)	(62,839)	-	80,104	(1,982,180)
Gross profit /(loss) on sales	**537,532**	**94,143**	**35,526**	**10,840**	**24,001**	**-**	**(66,572)**	**635,470**
Selling costs	(175,579)	(46,097)	(20,725)	(2,301)	(8,312)	(187)	63,704	(189,497)
General and administrative expenses	(43,636)	(13,260)	(3,349)	(2,402)	(3,795)	(33,642)	1,639	(98,445)
Result on management of receivables	3,756	1,156	89	45	(277)	-	-	4,769
Result on other operating activities	34,080	(5,954)	149	65	1,640	(405)	(429)	29,146
Operating profit /(loss)	**356,153**	**29,988**	**11,690**	**6,247**	**13,257**	**(34,234)**	**(1,658)**	**381,443**
Exchange differences and interest on trade settlements	(12,596)	(8,647)	(179)	(120)	246	-	-	(21,296)
Group borrowing costs	-	-	-	-	-	(25,389)	-	(25,389)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(2,252)	-	(2,252)
Share of profit / (loss) of equity-accounted investees	162	-	-	-	-	-	-	162
Profit /(loss) before tax	**343,719**	**21,341**	**11,511**	**6,127**	**13,503**	**(61,875)**	**(1,658)**	**332,668**
Income tax	-	-	-	-	-	-	-	(76,359)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**256,309**
Amortization/depreciation	134,823	22,475	14,569	4,423	1,820	3,667	-	181,777
EBITDA	490,976	52,463	26,259	10,670	15,077	(30,567)	(1,658)	563,220
Adjusted EBITDA*	485,909	52,276	26,180	10,581	14,318	(30,611)	(1,656)	556,997

**Adjusted EBITDA for the 9-month period ended 30 September 2017 is calculated as EBITDA adjusted for untypical one-off events: valuation of investment properties to fair value: PLN 0.8 million; fines and compensations received: PLN 1.8 million; change in impairment losses on assets: PLN -1.6 million; change in provisions: PLN 5.3 million; other: PLN -0.1 million.*

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ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Soda segment	2,786,729	2,686,089	217,906	229,225
Organic segment	863,214	577,815	150,188	122,413
Silicates and glass segment	168,655	162,562	24,587	31,021
Transport segment	70,455	61,345	12,679	12,070
Other operations segment	97,959	110,002	17,377	25,026
Corporate functions - reconciliation item	738,378	1,080,556	2,301,866	2,071,535
Eliminations (consolidation adjustments)	(53,119)	(34,858)	(53,898)	(32,424)
TOTAL	**4,672,271**	**4,643,511**	**2,670,705**	**2,458,866**

INFORMATION ON GEOGRAPHICAL AREAS

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
30.09.2018				
Poland	2,198,689	81,454	905,136	3,185,279
European Union (excluding Poland)	1,118,066	-	255,573	1,373,639
Other European countries	-	-	52,200	52,200
Africa	-	-	9,273	9,273
Asia	-	-	51,057	51,057
Other regions	-	-	823	823
TOTAL	**3,316,755**	**81,454**	**1,274,062**	**4,672,271**
31.12.2017				
Poland	2,178,433	107,411	1,067,014	3,352,858
European Union (excluding Poland)	875,457	-	321,984	1,197,441
Other European countries	-	-	35,286	35,286
Africa	-	-	3,779	3,779
Asia	-	-	53,590	53,590
Other regions	-	-	557	557
TOTAL	**3,053,890**	**107,411**	**1,482,210**	**4,643,511**

SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-30.09.2018	01.01.-30.09.2017	Dynamics 2018/2017
Poland	1,057,468	1,084,839	(2.5%)
European Union (excluding Poland)	1,166,779	1,126,685	3.6%
Germany	496,053	460,311	7.8%
Romania	98,234	108,986	(9.9%)
Czech Republic	110,000	112,560	(2.3%)
Italy	59,866	59,705	0.3%
The Netherlands	85,391	87,404	(2.3%)
Finland	48,507	43,956	10.4%
Sweden	50,022	55,231	(9.4%)
Belgium	22,816	27,872	(18.1%)
United Kingdom	34,713	36,446	(4.8%)
Denmark	18,440	18,495	(0.3%)
France	8,031	26,580	(69.8%)
Luxembourg	16,431	8,572	91.7%
Lithuania	11,939	13,799	(13.5%)

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN ’000)

	01.01.-30.09.2018	01.01.-30.09.2017	Dynamics 2018/2017
Other EU countries	106,336	66,768	59.3%
Other European countries	215,664	185,311	16.4%
Switzerland	95,831	79,327	20.8%
Norway	25,870	29,063	(11.0%)
Russia	31,099	17,575	77.0%
Other European countries	62,864	59,346	5.9%
Africa	42,907	45,481	(5.7%)
Asia	179,454	137,769	30.3%
India	97,725	94,486	3.4%
Singapore	9,752	11,744	(17.0%)
Bangladesh	11,945	2,764	332.1%
Hong Kong	14,110	6,797	107.6%
Turkey	8,630	9,333	(7.5%)
Other Asian countries	37,292	12,645	194.9%
Other regions	24,823	16,684	48.8%
Cash flow hedge adjustment	14,811	20,881	(29.1%)
TOTAL	**2,701,906**	**2,617,650**	**3.2%**

2.6. PROVISIONS AND IMPAIRMENT ALLOWANCES ON ASSETS

During the first three quarters and in the third quarter of 2018, the following changes in provisions and impairment allowances on assets were recognised in the consolidated financial statements of the CIECH Group.

PROVISIONS FOR EMPLOYEE BENEFITS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.–30.09.2018					
Long-term	10,789	247	(111)	103	**11,028**
Short-term	968	258	(615)	-	**611**
01.01.–30.09.2017					
Long-term	10,752	286	(217)	(146)	**10,675**
Short-term	1,194	402	(729)	-	**867**
01.07.–30.09.2018					
Long-term	11,156	30	(62)	(96)	**11,028**
Short-term	670	174	(233)	-	**611**
01.07.–30.09.2017					
Long-term	10,647	94	(144)	78	**10,675**
Short-term	898	221	(252)	-	**867**

CHANGE IN OTHER LONG-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.–30.09.2018					
Provision for liabilities	1,047	-	-	-	1,047
Provision for environmental protection	70,765	-	(91)	1,911	72,585
Provision for expected losses	-	-	-	6,500	6,500
TOTAL	**71,812**	**-**	**(91)**	**8,411**	**80,132**

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CHANGE IN OTHER LONG-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.–30.09.2017					
Provision for liabilities	6,547	-	(5,500)	-	1,047
Provision for environmental protection	77,737	-	-	(1,186)	76,551
TOTAL	**84,284**	**-**	**(5,500)**	**(1,186)**	**77,598**
01.07.–30.09.2018					
Provision for liabilities	1,047	-	-	-	1,047
Provision for environmental protection	73,854	-	-	(1,269)	72,585
Provision for expected losses	6,500	-	-	-	6,500
TOTAL	**81,401**	**-**	**-**	**(1,269)**	**80,132**
01.07.–30.09.2017					
Provision for liabilities	6,547	-	(5,500)	-	1,047
Provision for environmental protection	75,109	-	-	1,442	76,551
TOTAL	**81,656**	**-**	**(5,500)**	**1,442**	**77,598**

CHANGE IN OTHER SHORT-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.–30.09.2018					
Provision for restructuring	-	265	-	-	265
Provision for compensation	5,138	534	(206)	-	5,466
Provision for liabilities	22,376	3,281	(728)	415	25,344
Provision for environmental protection	951	116	(1,122)	172	117
Provision for expected losses	48,793	69	-	(6,190)	42,672
Provision for bonuses	610	136	(449)	2	299
Other provisions	28	-	-	2	30
TOTAL	**77,896**	**4,401**	**(2,505)**	**(5,599)**	**74,193**
01.01.–30.09.2017					
Provision for compensation	9,337	161	(1,554)	(202)	7,742
Provision for liabilities	26,598	1,765	(1,849)	(576)	25,938
Provision for environmental protection	2,391	-	(1,694)	-	697
Provision for expected losses	46,507	2,669	-	(290)	48,886
Provision for bonuses	3,661	763	(2,160)	(128)	2 136
Other provisions	292	-	(251)	(11)	30
TOTAL	**88,786**	**5,358**	**(7,508)**	**(1,207)**	**85,429**
01.07.–30.09.2018					
Provision for restructuring	-	265	-	-	265
Provision for compensation	5,101	378	(13)	-	5,466
Provision for liabilities	24,726	1,105	(91)	(396)	25,344
Provision for environmental protection	132	-	(184)	169	117
Provision for expected losses	42,965	(14)	-	(279)	42,672
Provision for bonuses	270	136	(114)	7	299
Other provisions	350	-	-	(320)	30
TOTAL	**73,544**	**1,870**	**(402)**	**(819)**	**74,193**

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CHANGE IN OTHER SHORT-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.07.–30.09.2017					
Provision for compensation	8,827	150	(1,033)	(202)	7,742
Provision for liabilities	25,869	25	(292)	336	25,938
Provision for environmental protection	1,460	-	(763)	-	697
Provision for expected losses	47,643	991	-	252	48,886
Provision for bonuses	2,188	(1)	(67)	16	2,136
Other provisions	30	-	-	-	30
TOTAL	**86,017**	**1,165**	**(2,155)**	**402**	**85,429**

CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
01.01.-30.09.2018						
Property, plant and equipment	6,981	-	2	-	(375)	6,608
Intangible assets, including:	445,791	-	-	-	10,198	455,989
Goodwill	*402,416*	-	-	-	*9,229*	*411,645*
Long-term financial assets	1,342	1,531	-	-	-	1,342
Inventories	37,987	-	1,956	(5,937)	1,017	35,023
Short-term financial assets	24,532	-	3,420	-	-	27,952
Trade and other receivables	44,613	5,143	21,649	(2,438)	1,705	70,672
Cash and cash equivalents	-	571	14	(358)	1	229
TOTAL	**561,246**	**7,246**	**27,041**	**(8,771)**	**12,582**	**599,344**
01.01.-30.09.2017						
Property, plant and equipment	5,933	-	2,937	-	(1,473)	7,397
Intangible assets, including:	473,807	-	-	-	(12,933)	460,874
Goodwill	*427,885*	-	-	-	*(11,718)*	*416,167*
Long-term financial assets	1,343	-	-	-	-	1,343
Inventories	38,218	-	3,570	(1,938)	(330)	39,520
Short-term financial assets	24,601	-	-	(910)	-	23,691
Trade and other receivables	57,938	-	14,682	(6,761)	(2,073)	63,786
TOTAL	**601,840**	**-**	**21,189**	**(9,609)**	**(16,809)**	**596,611**
01.07.-30.09.2018						
Property, plant and equipment	6,801	-	-	-	(193)	6,608
Intangible assets, including:	465,306	-	-	-	(9,317)	455,989
Goodwill	*420,095*	-	-	-	*(8,450)*	*411,645*
Long-term financial assets	1,342	-	-	-	-	1,342
Inventories	36,107	-	323	(1,489)	82	35,023
Short-term financial assets	26,619	-	1,333	-	-	27,952
Trade and other receivables	65,464	-	5,346	(842)	704	70,672
Cash and cash equivalents	272	-	(41)	-	(2)	229
TOTAL	**603,446**	**-**	**6,961**	**(2,306)**	**(8,757)**	**599,344**
01.07.-30.09.2017						
Property, plant and equipment	7,655	-	(4)	-	(254)	7,397
Intangible assets, including:	453,033	-	-	-	7,841	460,874
Goodwill	*409,121*	-	-	-	*7,046*	*416,167*
Long-term financial assets	1,343	-	-	-	-	1,343

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Opening balance adjustment*	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
Inventories	38,083	-	1,676	(329)	90	39,520
Short-term financial assets	24,601	-	-	(910)	-	23,691
Trade and other receivables	64,121	-	416	(787)	36	63,786
TOTAL	**588,836**	**-**	**2,088**	**(2,026)**	**7,713**	**596,611**

**IFRS 9 implementation adjustment.*

2.7. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-30.09.2018	01.01.-30.09.2017
Current income tax	(25,064)	(29,059)
Deferred tax	(37,948)	(47,300)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(63,012)**	**(76,359)**

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	30.09.2018			31.12.2017		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	1,736	148,613	(146,877)	2,199	140,234	(138,035)
Intangible assets	8,457	333	8,124	12,258	333	11,925
Right of perpetual usufruct	-	5,073	(5,073)	-	5,074	(5,074)
Investment property	2,003	1,760	243	2,003	1,761	242
Financial assets	656	18,999	(18,343)	700	16,983	(16,283)
Inventory	1,346	1,826	(480)	2,123	2,077	46
Trade and other receivables	3,999	26,418	(22,419)	2,448	30,172	(27,724)
Provisions for employee benefits	2,654	31	2,623	2,673	31	2,642
Other provisions	17,690	-	17,690	20,007	-	20,007
Tax losses carried forward	53,554	-	53,554	84,999	-	84,999
Foreign exchange differences	2,337	271	2,066	3,664	20	3,644
Liabilities	55,612	320	55,292	46,927	810	46,117
Special economic zone	136,928	-	136,928	132,535	-	132,535
Other	183	1,306	(1,123)	2,952	752	2,200
Cash and cash equivalents	97	-	97	-	-	-
Deferred tax assets/liability	**287,252**	**204,950**	**82,302**	**315,488**	**198,247**	**117,241**
Set - off of deferred tax assets/ liability	(163,496)	(163,496)	-	(165,760)	(165,760)	-
Unrecognized deferred tax assets	(42,302)	-	(42,302)	(42,317)	-	(42,317)
Deferred tax assets/liability recognised in the statement of financial position	**81,454**	**41,454**	**40,000**	**107,411**	**32,487**	**74,924**

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

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

2.8. INFORMATION ON FAIR VALUE OF FINANCIAL INSTRUMENTS

2.8.1. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 September 2018, the CIECH Group held the following types of financial instruments measured at fair value:

- futures contracts for the purchase of CO_2 certificates concluded by CIECH Soda Polska S.A., hedging the cost of purchase of CO_2 units in 2018 and 2019 — Level 1, according to the fair value hierarchy,
- concluded by the parent company, CIECH S.A.: interest rate swap contracts, CIRS (currency and interest rate swap) contract EUR/PLN — Level 2, according to the fair value hierarchy,
- currency forward EUR/PLN concluded by CIECH Vitrosilicon S.A. — Level 2, according to the fair value hierarchy,
- isolated option instruments (acquired call options) embedded in the gas supply contract concluded by CIECH Energy Deutschland GmbH on 1 August 2016, hedging the cost of gas purchased in 2016–2020 — Level 2, according to the fair value hierarchy,
- currency forwards EUR/PLN and USD/RON concluded by CIECH S.A. — Level 2, according to the fair value hierarchy.

During three quarters of 2018, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

As compared to the previous reporting period, the CIECH Group has not made any changes in methods of measurement of financial instruments held. The descriptions of methods of measurement to fair value was presented in item 8.4 of the Consolidated Financial Statements of the CIECH Group for 2017, published on 26 March 2018.

In the consolidated financial statements, all financial instruments concluded were designated for hedge accounting, and details of the designation were presented in item 8.2 of the Consolidated Financial Statements of the CIECH Group for 2017, published on 26 March 2018.

In the separate financial statements, all financial instruments, except for CIRS contracts, were designated for hedge accounting, and details of the designation were presented in item 8.2 of the CIECH S.A.'s Financial Statements for 2017, published on 26 March 2018.

Fair value of derivative instruments and embedded instruments

	Cash and cash equivalents	Longterm financial assets	Short-term financial assets	Other long-term liabilities	Trade and other liabilities	TOTAL
30.09.2018						
IRS EUR	-	9	-	(286)	(550)	**(827)**
CIRS	-	22,548	16,796	(47,139)	(2,173)	**(9,968)**
Forward EUR/PLN	-	-	1,712	-	-	**1,712**
Forward USD /RON	-	17	-	-	(844)	**(827)**
Embedded derivatives	-	10,886	21,797	-	-	**32,683**
Futures contracts	22,572	-	-	-	-	**22,572**
TOTAL	**22,572**	**33,460**	**40,305**	**(47,425)**	**(3,567)**	**45,345**
31.12.2017						
IRS EUR	-	210	-	(620)	(1,336)	**(1,746)**
CIRS	-	34,876	18,654	(40,908)	(805)	**11,817**
Forward EUR/PLN	-	-	4,668	-	-	**4,668**
Forward USD /RON	-	-	1,429	-	-	**1,429**
Embedded derivatives	-	8,576	7,141	-	-	**15,717**
Futures contracts	11,458	-	-	-	-	**11,458**
TOTAL	**11,458**	**43,662**	**31,892**	**(41,528)**	**(2,141)**	**43,343**

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2.8.2. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The CIECH Group has taken out term and revolving loans whose book value, as at 30 September 2018, amounts to PLN 1,554,295 thousand, and whose fair value amounts to PLN 1,500,252 thousand (Level 2 of fair value hierarchy). The Group concluded that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates.

In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash and cash equivalents, loans and receivables, financial liabilities measured at amortised cost other than loans and bonds and financial liabilities excluded from the scope of IFRS 9), the fair value is close to the book value.

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

In the period from 1 January to 30 September 2018, the CIECH Group carried out the following transactions increasing and decreasing the gross value of property, plant and equipment:

01.01.–30.09.2018	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**79,737**	**1,154,203**	**2,919,663**	**107,552**	**46,055**	**342,673**	**4,649,883**
Purchase	-	12,383	16,212	1,676	3,689	248,119	282,079
Reclassification	-	48,188	60,694	(936)	4,720	(146,238)	(33,572)
Capitalised borrowing costs	-	-	-	-	-	4,619	4,619
Exchange differences	1,872	5,503	22,058	411	264	2,719	32,827
Sales	-	-	(1,680)	(238)	-	-	(1,918)
Liquidation	-	(1,413)	(8,899)	(124)	(1,321)	-	(11,757)
Other	-	-	(2,299)	-	-	-	(2,299)
Gross value of property, plant and equipment at the end of the period	**81,609**	**1,218,864**	**3,006,070**	**108,679**	**53,441**	**451,892**	**4,920,555**
01.01.-30.09.2017							
Gross value of property, plant and equipment at the beginning of the period	**84,579**	**1,083,972**	**2,717,796**	**101,559**	**46,304**	**340,585**	**4,374,795**
Purchase	304	980	32,842	3,541	1,318	223,398	262,383
Reclassification	-	66,496	144 ,625	88	(2,025)	(254,028)	(44,844)
Capitalised borrowing costs	-	-	-	-	-	12,218	12,218
Exchange differences	(2,368)	(7,262)	(27,711)	(572)	(323)	(1,637)	(39,873)
Sales	-	(295)	(268)	(18)	(32)	(616)	(1,229)
Liquidation	-	(40)	(4,131)	(89)	(795)	-	(5,055)
Gross value of property, plant and equipment at the end of the period	**82,515**	**1,143,851**	**2,863,153**	**104,509**	**44,447**	**319,920**	**4,558,395**

Purchases of property, plant and equipment were made with own financial resources or in the form of a finance lease. As at 30 September 2018, commitments to purchase property, plant and equipment amounted to PLN 184,830 thousand (PLN 79,908 thousand as at 31 December 2017). The increase in the value of property, plant and equipment is related to investment projects carried out in the CIECH Group, mainly in the production companies of the Group.

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

During the period covered by these financial statements, no loan agreement was called to maturity and there were no violations of payment terms for repayment of principal or interest due in relation to financial liabilities recognised in the statement of financial position.

All information concerning the financing conditions, which results from the agreements and arrangements with the banks, has been presented in the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2017, published on 26 March 2018.

On 9 January 2018, an Annex to the Facilities Agreement was signed. The most important changes effected under the Annex to the Facilities Agreement include:

- the extension of the maturity of the term and revolving loans from 25 November 2020 to 31 December 2022;
- a change of the outstanding amounts under the term loan by changing the share of the amounts disbursed in PLN and in EUR from PLN 1,045,031 thousand and EUR 69,673 thousand to PLN 1,212,520 thousand and EUR 30,000 thousand, respectively;
- a change in the repayment schedule of the term loan by replacing it with depreciation of the term loan amounting to 26.12% of the original amount lent on 30 December 2021 and 26.12% of the original amount lent under the term loan on 30 September 2022, and the repayment of the remaining amount of the term loan on 31 December 2022.

The entry into force of the Annex to the Facilities Agreement did not result in a change of the interest rate applicable to the loans provided thereunder.
Following the execution of the Annex, the package of collateral under the Facilities Agreement and Intercreditor Agreement, described in section 4.6 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2017, was limited to:

1) registered pledges over shares in CIECH Soda Polska S.A. and CIECH Sarzyna S.A.;
2) a registered pledge over a collection of moveable assets and property rights of CIECH S.A.;
3) financial pledges over rights to the funds credited to the bank accounts of CIECH S.A., CIECH Soda Polska S.A. and CIECH Sarzyna S.A.;
4) a pledge over shares in CIECH Energy Deutschland GmbH;
5) an interest pledge agreement related to CIECH Soda Deutschland GmbH & Co. KG;
6) a pledge over the bank accounts of Ciech Soda Romania S.A.;
7) a pledge over shares in Ciech Soda Romania S.A.;
8) representations on submission to enforcement under Article 777 of the Polish Code of Civil Procedure made by the CIECH S.A., CIECH Soda Polska S.A. and CIECH Sarzyna S.A.; and
9) guarantees granted by CIECH Soda Polska S.A., CIECH Sarzyna S.A., CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH and CIECH Soda Romania S.A.

Certain other security interests that were established to secure the receivables of the financial institutions under the Facilities Agreement have been released, and the other members of the CIECH Group that are obligors under the finance documentation have been released from the relevant obligations.

On 28 August 2018, an overdraft facility agreement was signed by CIECH S.A. and Bank Pekao S.A. in the amount of PLN 50,000 thousand. The agreement was concluded for a period of 1 year, i.e. until 28 August 2019. A drawn-down amount of the facility will bear interest at the 1M WIBOR rate plus the bank’s margin. The facility is intended to finance the Company’s day-to-day operations. No collateral was established for this facility. The terms and conditions of the agreement do not differ from standard terms used for facility agreements.

On 29 August 2018, overdraft facility agreements were signed by CIECH S.A. and Bank Millennium S.A. in the amount of PLN 50,000 thousand and EUR 10,000 thousand. The agreements were concluded for a period of 1 year, i.e. until 29 August 2019. Drawn-down amounts of the facilities will bear interest at the 1M WIBOR and 1M EURIBOR rate, respectively, plus the bank’s margin. The facility is intended to finance the Company’s day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

2.11. INFORMATION ON TRANSACTIONS WITH RELATED ENTITIES

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

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

TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED ENTITIES	01.01.–30.09.2018	01.01.–30.09.2017
Revenues from sales of products and services, including:	3,037	3,653
Kulczyk Holding S.A.	-	*8*
Revenues from sales of goods and materials	76,354	77,062
Financial income	492	750
Purchase of products, goods and materials	-	27
Purchase of services, including:	22,055	30,183
Kulczyk Holding S.A.	*425*	*2,565*
Other operating expenses, including:	440	*1,463*
Kulczyk Holding S.A.	-	*406*
Financial expenses	4	1,074
	30.09.2018	31.12.2017
Receivables	12,612	18,792
Impairment allowances of receivables and loans	287	1
Liabilities	2,241	5,135

Terms of transactions with related entities

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

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

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

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

2.13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES INCLUDING GUARANTEES AND SURETIES

	30.09.2018	31.12.2017
Contingent assets	**23,527**	**23,527**
Other contingent receivables*	23,527	23,527
Contingent liabilities	**537,015**	**568,733**
Guarantees and sureties granted**	370,166	396,408
Other***	166,849	172,325

** Including:*

- *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.*
- *CIECH Soda Polska S.A. recognised a contingent asset in the amount of PLN 4,663 thousand – it is the value of energy efficiency certificates received from the President of the Energy Regulatory Office in 2017 that have not been recorded yet in the account kept by the Polish Power Exchange.*

*** Including:*

- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 338,130 thousand,*

- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand – contingent liability in the amount of PLN 32,037 thousand.*

*** Including mainly:*

- *contingent liability in the SDC Group relating to environmental protection in the amount of PLN 15,556 thousand (EUR 3,642 thousand),*
- *contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 36,474 thousand,*
- *contingent liabilities in CIECH Soda Polska S.A. resulting from blank promissory notes for the National Fund for Environmental Protection and Water Management relating to grants received in the amount of PLN 45,393 thousand,*
- *contingent liabilities in CIECH Sarzyna S.A. resulting from promissory notes: relating to grants received for the construction of an innovative MCPA and MCPP-P substance production installation in the amount of PLN 39,997 thousand; relating to a grant received for developing and testing a group of agrochemical preparations in the amount of PLN 14,645 thousand,*
- *contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for investment projects aimed at developing and optimising production processes in the amount of PLN 13,385 thousand.*

As at 30 September 2018, contingent liabilities amounted to PLN 537,015 thousand and decreased as compared to 31 December 2017 by PLN 31,718 thousand. The change resulted mainly from repayment of a part of debt on account of loans and changes in the level of guarantees granted, as well as from signing annexes for subsidies received.

Other guarantees and sureties granted are described in item 9.2 Consolidated financial statements of the CIECH Group for 2017.

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

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

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

The dividend record date was set respectively for 2 July 2018 and the dividend was paid on 31 August 2018.

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.

2.15. INFORMATION ON POST-BALANCE-SHEET EVENTS

On 10 October 2018, a tripartite agreement was concluded between the CIECH S.A., CIECH Soda Polska S.A. and Inowrocławskie Kopalnie Soli "SOLINO" S.A. The subject matter of the agreement is the construction by IKS Solino of a brine pipeline to connect the maneuvering tank owned by IKS Solino in Inowrocław – Mątwy with the Production Plant of CIECH Soda Polska S.A. in Janikowo. IKS Solino agreed to construct the connection by 30 June 2021. The agreement also regulates issues related to the establishment of transmission easements and the legal status of the existing industrial infrastructure for the purposes of implementing the project.

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

3 OTHER NOTES TO THE CONSOLIDATED QUARTERLY REPORT

3.1. DESCRIPTION OF THE CIECH GROUP'S ORGANISATION

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

Parent company	**CIECH Spółka Akcyjna**
Registered office	Warsaw
Address	ul. Wspólna 62, 00-684 Warsaw
KRS (National Court Register number)	0000011687 (District Court for the capital city of Warsaw in Warsaw 12th Commercial Division of the National Court Register)
Statistical identification number (REGON)	011179878
Tax ID No (NIP)	118-00-19-377
BDO Registry Number	000015168
Website	www.ciechgroup.com
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Ultimate parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

As at 30 September 2018, the CIECH Group comprised 38 business entities, including:

- the parent company,
- 32 subsidiaries, of which:
  - 23 domestic subsidiaries,
  - 9 foreign subsidiaries,
- 2 domestic affiliates,
- 1 foreign affiliate,
- 1 jointly controlled domestic entity,
- 1 jointly controlled foreign entity.

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

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN ’000)

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

Company name	Registered office	Segment	Business	Share in equity as at 30.09.2018 / % of votes at the GMS	Share in equity as at 30.09.2017 / % of votes at the GMS
Parent company					
CIECH S.A.	Warsaw	Soda, Organic, Silicates and Glass, Transport, Other	Sales of chemical products manufactured within the CIECH Group, sales of chemical products purchased from third-party producers, holding activities, managing a portfolio of subsidiaries, provision of support services (in the area of sales, manufacturing, purchases, finance, IT, HR and in the legal area) for selected companies in the Group, financial activities in the form of direct lending to the companies in the Group.	-	-
Fully consolidated direct and indirect subsidiaries					
CIECH R&D Sp. z o.o.	Warsaw	Other	Research and developments activities, granting licenses to the CIECH Group companies to use the trademarks: “Ciech”, “Ciech Trading” and “Sól Kujawska naturalna czysta”.	100%	100%
CIECH Trading S.A.	Warsaw	Soda, Other	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of feed additives and fodder, wholesale and distribution of acids, bases and other liquid chemicals.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, Silicates and Glass	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	98.74%	98.74%
CIECH Vitrosilicon S.A.*	Iłowa	Silicates and Glass	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.	100%	100%
CIECH Transclean Sp. z o.o.	Bydgoszcz	Other	Since 2017, the Company has not carried out any operating activities.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Organic	Manufacture of organic and other inorganic chemicals.	100%	100%
Ciech Group Financing AB	Stockholm, Sweden	Other	Financing activities.	100%	100%
Verbis ETA Sp. z o.o.	Warsaw	Other	General partner of Verbis ETA Sp. z o.o. SKA.	100%	100%
Verbis ETA Sp. z o.o. SKA	Warsaw	Other	Financing activities, direct lending to the CIECH Group companies.	100%	100%
CIECH Cerium Sp. z o.o. SK	Warsaw	Other	Financing activities.	100%	100%
Beta Cerium Sp. z o.o.**	Warsaw	Other	Financing activities, leasing of non-current assets to the CIECH Group companies.	100%	100%
Vasco Polska Sp. z o.o.	Inowrocław	Other	Utilisation of post-soda lime in the restoration of degraded land.	90%	90%
Bosten S.A.	Warsaw	Other	Research and developments activities.	100%	-
CIECH Nieruchomości S.A.***	Warsaw	Other	Real property agency, real property management.	100%	100%
Proplan Plant Protection Company S.L.	Madrid, Spain	Organic	Production of crop protection chemicals	100%	-

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

Company name	Registered office	Segment	Business	Share in equity as at 30.09.2018 / % of votes at the GMS	Share in equity as at 30.09.2017 / % of votes at the GMS
CIECH Finance Group					
CIECH Finance Sp. z o.o.	Warsaw	Other	Implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies), carrying out purchases of selected raw materials.	100%	100%
JANIKOSODA S.A.	Warsaw	Other	Since March 2017, the Company has not carried out any operating activities.	100%	100%
CIECH Soda Polska Group					
CIECH Soda Polska S.A.	Inowrocław	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Cargo Sp. z o.o.	Inowrocław	Transport	Freight transport services.	100%	100%
Cerium Sp. z o.o.	Warsaw	Other	General partner of CIECH Cerium Sp. z o.o. SKA.	100%	100%
Gamma Finanse Sp. z o.o.****	Warsaw	Other	Financing activities.	100%	100%
Cerium Finance Sp. z o.o.	Warsaw	Other	Conducting financial activities, in particular comprising direct granting of loans and leasing of non-current assets to the CIECH Group companies.	100%	100%
CIECH Sarzyna Group					
CIECH Sarzyna S.A.	Nowa Sarzyna	Organic	Manufacture of resins, manufacture of pesticides and other chemical products.	100%	100%
Verbis KAPPA Sp. z o.o.	Nowa Sarzyna	Organic	General partner of Verbis KAPPA Sp. z o.o. SKA, other financial intermediation.	100%	100%
Verbis KAPPA Sp. z o.o. SKA	Nowa Sarzyna	Organic	Other financial intermediation.	100%	100%
Algete Sp. z o.o.	Nowa Sarzyna	Organic	Granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business.	100%	100%
SDC Group					
SDC GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda		100%	100%
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda		100%	100%
Kaverngesellschaft Stassfurt GbmH*****	Stassfurt, Germany	Soda		50%	50%

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

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

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

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

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

3.2. INFORMATION ON NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATES

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

The total share of data of subsidiaries not covered by consolidation under the full method, due to their irrelevance, in relation to the total values of the CIECH Group for the period from 1 January 2018 to 30 September 2018 does not exceed 1% of total consolidated assets of the Group and 2% of consolidated net revenues from sales of goods and products and financial operations.

Aggregated data of associates and jointly-controlled which were not measured under the equity method for the period from 1 January 2018 to 30 September 2018 did not exceed 2% of the total consolidated equity of the CIECH Group.

3.3. SIGNIFICANT EFFECTS OF CHANGES TO THE ORGANISATIONAL STRUCTURE OF THE CIECH GROUP DURING THREE QUARTERS OF 2018

Acquisition of Proplan Plant Protection Company, S.L.

On 26 July 2018 CIECH S.A. acquired 100% of shares in Proplan Plant Protection Company S.L. ("Proplan") and obtained control of the supplier of crop protection products. The purchase price determined in the share purchase agreement has been set at EUR 44.5 million.

Proplan manufactures and sells generic crop protection products. It operates in the European market, mostly in Spain, and on other continents – mainly in Australia and Africa. In 2017, Proplan earned revenues of approximately EUR 16 million, with high operating profitability. Proplan holds a portfolio of more than 120 product registrations and significant intellectual property assets. Owing to this acquisition, CIECH S.A. has gained access to new sales markets where Proplan operates, and has acquired a portfolio of active substances and 120 product registrations.

Potential synergies from the acquisition of Proplan by CIECH S.A. include mutual exchange of portfolios of products available in their home markets and access to R&D infrastructure.

The above are the key factors comprising the goodwill recognised as a result of this transaction.

Proplan's revenue since the acquisition date, included in the consolidated statement of comprehensive income for the reporting period, amounts to PLN 9,353 thousand, and Proplan's profit amounts to PLN 676 thousand.

If the transaction was executed as at 1 January 2018, the Management Board estimates that the consolidated revenue would amount to PLN 2,745,484 thousand, and the consolidated net profit for the period to PLN 204,270 thousand.

The Group incurred costs related to the transaction, mainly legal costs and due diligence. The costs related to the transaction were recognized as a result of the current period.

Consideration transferred

The Group made a preliminary determination of the consideration transferred in settlement of the Proplan's acquisition, qualifying as consideration transferred the following elements:

- EUR 40,053 thousand paid in cash at the acquisition date (90% of the purchase price from the share purchase agreement),
- EUR 3,614 thousand of discounted deferred payment (the remaining 10% of the purchase price), payable in cash in 4 installments of EUR 1,115 thousand on subsequent anniversaries (in 2019-2022 respectively) of the takeover of control over Proplan (nominal value of EUR 4,461 thousand) and
- EUR 3,706 thousand of discounted conditional deferred payment depending on Proplan's results for 2018 and 2019, payable respectively in 2019 and 2020 (current estimation of nominal payments is EUR 4,270 thousand).

The total amount of the consideration transferred initially included in the purchase settlement is EUR 47 373 thousand.

Fair value of receivables acquired

The gross value of contractual receivables amounts to EUR 3,901 thousand (PLN 16,746 thousand). It was estimated that an inflow of receivables in the amount of EUR 245 thousand (PLN 1,052 thousand) is not expected.

Receivables comprise mainly trade receivables (EUR 3,504 thousand or PLN 15,042 thousand), while other receivables comprise mainly public law receivables and other prepayments and accrued income.

Fair value of acquired assets and liabilities

The following table presents the preliminary estimation of the fair values of the acquired net assets of Proplan divided into main categories.

ASSETS	Fair value as at 26.07.2018 (in thousands of EUR)
Non-current assets	
Intangible assets	14,201
Property, plant and equipment	79
Non-current receivables	19
Current assets	-
Inventory	5,348
Trade and other receivables	3,656
Cash and cash equivalents	2,956
Total assets	**26,259**
LIABILITIES	
Non-current liabilities	
Loans, borrowings and other debt instruments	2,088
Current liabilities	-
Loans, borrowings and other debt instruments	2,035
Trade and other liabilities	1,807
Other provisions	92
Total liabilities	**6,022**
NET ASSETS	**20,237**

Goodwill

Based on the preliminary findings regarding consideration transferred and fair values of the acquired net assets, the goodwill was determined as follows:

Calculation of goodwill		Value (in thousands of EUR)
Purchase price, including:	+	47,373
- transferred payment		*40,053*
- deferred payments		*7,320*
Net value of assets and liabilities	-	20,237
Goodwill		**27,136**
The EUR exchange rate as of the day preceding the transaction day, i.e. 25.07.2018		*4.3035*
Goodwill in PLN		**116,780**

Goodwill was recognised in the consolidated statement of financial position under intangible assets.

The above accounting was preceded by a preliminary assessment of the completeness of the identified assets and liabilities acquired as part of the transaction in question and verification of the methods and assumptions adopted to determine their fair values. The accounting is provisional. The Company is in the process of allocating the purchase price together with a full analysis of Proplan's net assets, including in particular the valuation of its registrations of crop protection products and arrangements for determining the value of consideration transferred. The values adopted to the above calculations are preliminary estimates obtained during the ongoing valuation of intangible assets. The final accounting for the acquisition of Proplan and disclosure of all required information should be completed within one year from the transaction date. It is the Company's intention to complete this task as soon as possible, while maintaining full reliability of the process.

If CIECH S.A. becomes aware of facts and circumstances that existed at the acquisition date, these amounts will be restated retrospectively in the next consolidated financial statements.

Changes in the share capital of companies

On 3 January 2018, the Court registered the increase of the share capital of Ciech Nieruchomości S.A. The Company's share capital was increased by PLN 18,000 thousand by way of issue of 900 million series D bearer shares with the nominal value and issue price of PLN 0.02 per share. CIECH SA acquired series D shares in exchange for cash, thus control over the Company changed from indirect to direct. At present, CIECH S.A. holds 99.18% of this Company's share capital.

At the general meeting of partners of CIECH Cerium Sp. z o.o. Sp. k., it was decided to express consent for CIECH S.A. to make a new contribution in the amount of PLN 150 thousand, therefore the current contribution of CIECH S.A. amounts to PLN 625 thousand.

3.4. THE MOST IMPORTANT EVENTS IN THE CIECH GROUP DURING THREE QUARTERS OF 2018

Execution of annexes to a facility agreement

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.

On 6 April 2018, amendments to the above facility agreement came into effect. For more detailed information, see section 2.10 of this report.

Acquisition of shares in Proplan Plant Protection Company, S.L.

On 28 May 2018, CIECH S.A. signed an agreement whereby the Company undertook to acquire 18,750 shares representing 75% of share capital of Proplan Plant Protection Company, S.L. Proplan manufactures and sells generic crop protection products. It operates in the European market, mostly in Spain, and on other continents – mainly in Australia and Africa.
On 28 May 2018, CIECH S.A. also signed the shareholders' agreement in relation to the remaining 6,250 shares representing 25% of the share capital of Proplan, which was to enter into force upon closing of the Transaction.
The transaction was finally closed by transferring the title to 100% of shares in Proplan in the form of a sale agreement which was concluded on 26 July 2018. The purchase price of the shares amounted to EUR 44,615 thousand (PLN 191,519 thousand measured at the exchange rate effective on the transaction closing date). For details on the terms of closing the transaction, see section 2.15 of this report.

Execution of facility agreements

On 28 August 2018, an overdraft facility agreement was signed by CIECH S.A. and Bank Pekao S.A. in the amount of PLN 50,000 thousand. The agreement was concluded for a period of 1 year, i.e. until 28 August 2019. A drawn-down amount of the facility will bear interest at the 1M WIBOR rate plus the bank's margin.

Appointment of a new Member of the Management Board

On 6 March 2018, the Supervisory Board of CIECH S.A. appointed Mr Krzysztof Szlaga as a Member of the Management Board of CIECH SA with effect from 12 March 2018.

Execution of a significant contract by a subsidiary

On 30 March 2018, CIECH Soda Polska S.A., as a result of negotiations conducted, signed an agreement for the supply of power coal with Polska Grupa Górnicza S.A. The estimated value of the agreement in the period of 5 years may amount to approx.
PLN 340,000 thousand.

Agreement with the auditor

On 16 April 2018, the Supervisory Board of CIECH S.A. resolved to extend the agreement with PricewarterhouseCoopers Sp. z o.o. for the audit of the statutory financial statements of CIECH S.A. and the consolidated financial statements of the CIECH Group for the years 2018–2019. The agreement will be concluded for a period necessary to perform the obligations specified therein.

Commencement of the implementation stage of an investment project

On 27 April 2018, the Management Board of CIECH S.A. made a decision to proceed with the implementation stage of a project whose subject matter is the construction of an evaporated salt production plant in Germany. The value of the project is estimated at about EUR 100 million, and the approximate time of its implementation is 2 to 3 years. The estimated production capacity of the plant is approx. 450 thousand tons of salt per annum.

Decision on dividend payment

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

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

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

Appointment of the Supervisory Board

On 24 July 2018, Mr Sebastian Kulczyk was appointed to the office of the Chairman of the Supervisory Board of CIECH S.A., Mr Tomasz Mikołajczak was appointed to the office of the Deputy Chairman, and Mr Mariusz Nowak was appointed to hold the office of the Secretary of the Supervisory Board. At

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The facility is intended to finance the Company’s day-to-day operations. No collateral was established for this facility. The terms and conditions of the agreement do not differ from standard terms used for facility agreements.

On 29 August 2018, overdraft facility agreements were signed by CIECH S.A. and Bank Millennium S.A. in the amount of PLN 50,000 thousand and EUR 10,000 thousand. The agreements were concluded for a period of 1 year, i.e. until 29 August 2019. Drawn-down amounts of the facilities will bear interest at the 1M WIBOR and 1M EURIBOR rate, respectively, plus the bank’s margin. The facility is intended to finance the Company’s day-to-day operations. The facility is secured with a package of collateral shared with the lenders of the consortium loan (agreement dated 9 January 2018) and with a surety issued by selected subsidiaries of CIECH S.A. The terms and conditions of the agreement do not differ from standard terms used facility agreements.

the same time, Mr Piotr Augustyniak, Mr Mariusz Nowak and Mr Artur Olech became members of the Audit Committee. Mr Piotr Augustyniak was elected by the members of the Audit Committee as its Chairman. Furthermore, the Supervisory Board of CIECH S.A. adopted a resolution on the appointment of the following members of the Remuneration Committee: Mr Tomasz Mikołajczak, Mr Mariusz Nowak and Mr Dawid Jakubowicz.

Changes in the Management Board

On 10 August 2018, Mr Artur Król submitted his resignation from the Management Board of CIECH S.A.

On 10 September 2018, Mr Maciej Tybura submitted his resignation from the Management Board of CIECH S.A. At the same time, the Supervisory Board delegated Mr Dawid Jakubowicz to temporarily perform the function of the President of the Management Board for a period of 3 months.

On 10 September, the Supervisory Board of CIECH S.A. appointed Mr Mirosław Skowron to the office of member of the Management Board. Mr Mirosław Skowron will be responsible for matters related to production, energy and maintenance.

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

3.5.1. BASIC FINANCIAL DATA

During three quarters of 2018, the CIECH Group earned net profit from continuing operations of PLN 199,724 thousand, net cash decreased by PLN 322,907 thousand and the balance sheet total as at the end of the third quarter of 2018 amounted to PLN 4,672,271 thousand. The table below presents selected financial data and basic financial ratios for the three quarters of 2018 and 2017.

Selected financial data

	01.01.-30.09.2018	01.01.-30.09.2017	Change 2018/2017
CONTINUING OPERATIONS			
Sales revenues	**2,701,906**	**2,617,650**	**3.2%**
Cost of sales	(2,121,926)	(1,982,180)	(7.1%)
Gross profit/(loss) on sales	**579,980**	**635,470**	**(8.7%)**
Selling costs	(204,878)	(189,497)	(8.1%)
General and administrative expenses	(113,720)	(98,445)	(15.5%)
Other operating income/expense	25,226	33,915	(25.6%)
Operating profit/(loss)	**286,608**	**381,443**	(24.9%)
Net financial income/expenses	(24,063)	(48,937)	50.8%
Share of profit of equity-accounted investees	191	162	17.9%
Income tax	(63,012)	(76,359)	17.5%
Net profit/(loss) on continuing operations	**199,724**	**256,309**	**(22.1%)**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	-	-	-
Net profit / (loss)	**199,724**	**256,309**	**(22.1%)**
including:			
Net profit/(loss) attributed to non-controlling interest	389	362	7.5%
Net profit/(loss) attributable to shareholders of the parent company	199,335	255,947	(22.1%)
EBITDA from continuing operations	484,610	563,220	(14.0%)
Adjusted EBITDA from continuing operations*	471,866	556,997	(15.3%)

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

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

3.5.2. SALES REVENUES

Consolidated net sales revenues from continued operations of the CIECH Group for three quarters of 2018 amounted to PLN 2,701,906 thousand. Compared to the corresponding period of the previous year, revenues increased by PLN 84,256 thousand.

The **positive** contributors to the presented sales revenues were as follows:
- increase in soda prices on the so-called overseas markets (dollar prices),
- higher sales of dry salt (higher volumes and prices),
- higher sales of silicates in CIECH Vitrosilicon S.A., resulting from the conversion of one of the furnaces for production of packaging into a furnace for production of silicates in the first quarter of 2018,
- higher sales prices for products based on oil-derivative products sold in the organic segment, as a result of higher prices of oil based raw materials,
- higher result on energy in the German power plant, as a result of the increase in electricity prices and higher remuneration received from the network operator due to the settlement of the vNNe mechanism for 2017.

The **negative** contributors to the presented sales revenues were as follows:
- lower volumes of soda sales due to slightly lower soda production and high sales in the first quarter of 2017 (sales of stocks),
- slight decline in prices of soda sold on European markets due to pressure from competitors,
- lower sales of crop protection products (mainly the effect of weather conditions – a long winter, short growing season, drought – and successful pre-season sales),
- lower volume of sales of wet salt,
- lower revenues from the sale of packaging glass as a result of switching one of the furnaces for the production of packaging for the furnace for the production of silicates.

During three quarters of 2018, the CIECH Group's activities were focused on four business segments: soda, organic, silicates and glass, and on the transport segment. These segments generate in total more than 90% of the Group's sales revenues. The structure of sales revenues, by business segment, has not changed significantly in comparison with 2017. Invariably, the largest share in revenues was attributed to the sales of soda segment products, i.e. 66.7%.

Sales revenues — business segments

	01.01.-30.09.2018	01.01.-30.09.2017	Change 2018/2017	Change %
Soda segment, including:	**1,801,410**	**1,795,685**	**5,725**	**0.3%**
Dense soda ash	965,817	1,021,196	(55,379)	(5.4%)
Light soda ash	373,555	361,874	11,681	3.2%
Salt	135,060	127,500	7,560	5.9%
Sodium bicarbonate	120,676	120,062	614	0.5%
Energy	111,259	71,805	39,454	54.9%
Gas*	2,382	2,843	(461)	(16.2%)
Calcium chloride	18,552	17,539	1,013	5.8%
Other products	33,347	37,174	(3,827)	(10.3%)
Revenues from inter-segment transactions	40,762	35,692	5,070	14.2%
Organic segment, including:	**629,681**	**622,035**	**7,646**	**1.2%**
Resins	251,986	241,648	10,338	4.3%
Polyurethane foams	237,015	223,962	13,053	5.8%
Crop protection chemicals	121,672	146,994	(25,322)	(17.2%)
Other	18,711	7,671	11,040	143.9%
Revenues from inter-segment transactions	297	1,760	(1,463)	(83.1%)
Silicates and Glass segment, including:	**184,094**	**167,721**	**16,373**	**9.8%**
Sodium silicates	119,729	99,923	19,806	19.8%
Potassium silicates	4,234	4,754	(520)	(10.9%)
Container glass	59,136	62,502	(3,366)	(5.4%)
Other	914	535	379	70.8%
Revenues from inter-segment transactions	81	7	74	1057.1%

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

	01.01.-30.09.2018	01.01.-30.09.2017	Change 2018/2017	Change %
Transport segment, including:	**108,380**	**92,045**	**16,335**	**17.7%**
Transport services	11,349	8,723	2,626	30.1%
Revenues from inter-segment transactions	97,031	83,322	13,709	16.5%
Other segment, including:	**143,415**	**86,840**	**56,575**	**65.1%**
Revenues from third parties	116,512	60,945	55,567	91.2%
Revenues from inter-segment transactions	26,903	25,895	1,008	3.9%
Consolidation adjustments	**(165,074)**	**(146,676)**	**(18,398)**	**(12.5%)**
TOTAL	**2,701,906**	**2,617,650**	**84,256**	**3.2%**

** Resale of surpluses of the gas purchased.*
Source: CIECH S.A.

The higher value of revenues from energy sales was attributable, among others, to the remuneration received from the network operator on account of settlement of the vNNe mechanism for 2017, at a higher level than the revenue reserve recognised as at the end of 2017. Under the vNNe mechanism, i.e. the "avoided grid charges" mechanism, operators of the distribution grids pay remuneration to local energy producers who, by supplying energy to the grid, ensure that network operators do not have to bear the costs of long-distance transmission (they do not have to pay for grid load and transmission of energy from upstream grids). The amount of remuneration is determined by the power grid operator. The operator makes the settlement several months after the end of the calendar year.

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

After three quarters of 2018, gross profit on sales amounted to PLN 579,980 thousand, whereas in the same period of the previous year it amounted to PLN 635,470 thousand. The operating profit amounted to PLN 286,608 thousand, in the comparable period it amounted to PLN 381,443 thousand.

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

- Continuation of good economic situation throughout the European Union, especially in the Eurozone.
- Strong increase in domestic sales of construction and assembly production by 19.8% in the period from January to September 2018 in comparison to the same period of the previous year (the chemical industry produces many raw materials and semi-finished products used in this production).
- Balancing of the European market of sodium carbonate (demand and supply balance) with a tendency to increase in demand.
- Increase in soda prices on the so-called overseas markets (dollar prices).
- Higher sales of dry salt (higher volumes and prices).
- Higher sales of silicates and changing the product structure in packaging towards higher-margin products.
- Higher result at the energy plant in Germany as a result of higher remuneration received from the network operator due to the settlement of the vNNe mechanism for 2017 (details in the further part of the report).

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

- Slight decrease in sodium carbonate prices since the beginning of 2018 on European markets due to supply pressure from Turkey.
- Lower sales of soda and wet salt.
- Continuing high prices of raw energy resources used in production of sodium carbonate (coal, natural gas) and prices of CO_2 units, as well as the increase in electricity prices.
- Lower sales of crop protection products.
- Continuing high prices of crude oil and, consequently, higher prices of raw materials for the organic industry (partially offset by an increase in prices of finished products).
- Increase in general and administrative expenses resulting, among other things, from the recognition in the results for the third quarter of a portion of costs related to the acquisition of Proplan Plant Protection Company, S.L.

The EBIT margin for the three quarters of 2018 amounted to 10.6% (14.6% in the prior year), and the EBITDA margin amounted to 17.9% (21.5% in the prior year). The EBIT margin (excluding one-off events) for three quarters of 2018 amounted to 10.1% (14.3% in the prior year), and the EBITDA margin (excluding one-off events) amounted to 17.5% (21.3% in the prior year).

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

3.5.4. FINANCING ACTIVITIES AND NET PROFIT/LOSS

Financial income for the three quarters of 2018 amounted to PLN 14,203 thousand and increased compared to the corresponding period of the previous year, when it amounted to PLN 6,372 thousand.
Financial expenses for the three quarters of 2018 amounted to PLN 38,266 thousand and decreased compared to the corresponding period of the previous year, when it amounted to PLN 55,309 thousand**.** The area of financing activities was mainly affected by foreign exchange gains, commissions and interest on loans.

The consolidated net profit for the three quarters of 2018 amounted to PLN 199,724 thousand (of which PLN 199,335 thousand was a net profit attributable to the shareholders of the parent company and PLN 389 thousand as the profit of non-controlling shares). The lower operating profit was partially offset by the lower loss on financing activities as compared to the previous year.

3.5.5. ASSET POSITION OF THE CIECH GROUP

Basic consolidated balance sheet data

	30.09.2018	31.12.2017	Change 2018/2017
Total assets	**4,672,271**	**4,643,511**	**0.6%**
Total non-current assets	3,431,668	3,204,963	7.1%
Total current assets	1,240,603	1,438,548	(13.8%)
Inventory	404,957	364,517	11.1%
Current receivables	603,448	523,068	15.4%
Cash and cash equivalents	168,311	489,754	(65.6%)
Short-term financial assets	62,972	57,979	8.6%
Non-current assets held for sale	915	3,230	(71.7%)
Total equity	**2,001,566**	**2,184,645**	**(8.4%)**
Equity attributable to shareholders of the parent	2,004,009	2,187,596	(8.4%)
Non-controlling interest	(2,443)	(2,951)	17.2%
Total non-current liabilities	1,614,365	1,369,282	17.9%
Total current liabilities	1,056,340	1,089,584	(3.1%)

Assets

As at the end of the third quarter of 2018, the Group's non-current assets amounted to PLN 3,431,668 thousand. As compared to the balance as at 31 December 2017, the value of non-current assets increased by PLN 226,705 thousand. This change resulted from higher value of property, plant and equipment and of intangible assets, offset by lower balance of financial assets following a change in the valuation of derivative instruments. The increase in intangible assets is related to the acquisition of Proplan Plant Protection Company, S.L. in July 2018.

The Group's current assets amounted to PLN 1,240,603 thousand as at 30 September 2018. The largest components of non-current assets included: short-term receivables accounting for 47.5%, inventory accounting for 32.6% as well as cash and cash equivalents accounting for 13.6% of total current assets. Compared to the end of December 2017, the value of current assets decreased by PLN 197,945 thousand. This change resulted from, among other factors:

- increase in inventories resulting mainly from an increase in inventories in the soda and the organic segment,
- higher balance of trade receivables and factoring receivables which have not been settled as at the balance sheet date,
- decrease in cash in connection with the distribution of dividends and the acquisition of Proplan Plant Protection Company, S.L.,
- decrease in assets held for sale following the disposal of a production plant EPI.

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

Capital resources

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

Liabilities

As at 30 September 2018, the CIECH Group's liabilities (total non-current and current) amounted to PLN 2,670,705 thousand, which is an increase compared to the end of December 2017 by PLN 211,839 thousand (i.e. by 8,6%).

The debt ratio amounted to 57,2% as at 30 September 2018 (at the end of December 2017 to 53.0%). The consolidated net debt of the Group amounted to PLN 1,438,942 thousand as at 30 September 2018 and increased in comparison to the balance as at the end of December 2017 by PLN 502,268 thousand.

Debt instruments currently used

The Group's sources of debt financing include: term loan, revolving credit, overdraft as well as lease liabilities. Additional information about the management of financial resources is provided in item 4.6. of the Management Board Report on Activities of the CIECH Group and CIECH S.A. in 2017, published on 26 March 2018, and in section 2.10 of this report.

3.5.6. CASH POSITION OF THE CIECH GROUP

	01.01.-30.09.2018	01.01.-30.09.2017	Change 2018/2017
Net cash from operating activities	352,769	366,689	(3.8%)
Net cash from investment activities	(468,070)	(255,648)	(83.1%)
Net cash from financial activities	(207,606)	(5,626)	(3590.1%)
Total net cash flows	**(322,907)**	**105,415**	**-**
Free cash flow	(115,301)	111,041	-

Total net cash flows in the three quarters of 2018 was negative and amounted to PLN 322,907 thousand. Compared to the same period of the previous year, the cash flows generated by the Group were lower by PLN 428,322 thousand. Cash flows from operating activities were positive. They amounted to PLN 352,769 thousand, but decreased as compared to the same period in 2017 by PLN 13,920 thousand.

During the three quarters of 2018, the net cash flows from investing activities were negative, which was mainly the result of expenses for an investment programme implemented by the Group and the acquisition of Proplan Plant Protection Company, S.L. in the third quarter. The balance of cash from financing activities was negative and amounted to PLN 207,606 thousand. It comprised mainly the distribution of dividend and funds obtained from working capital loans.

	01.01.-30.09.2018	01.01.-30.09.2017
Financial surplus ((net profit/(loss) on continuing operations + depreciation)	397,726	438,086
Other adjustments to net profit/(loss) on continuing operations	102,530	37,969
Adjusted financial surplus (1+2)	**500,256**	**476,055**
Change in working capital	(147,487)	(109,366)
Net cash from operating activities (3+4)	**352,769**	**366,689**
Net cash from investing activities	(468,070)	(255,648)
Free cash flow (5+6)	**(115,301)**	**111,041**

During the three quarters of 2018, the CIECH Group generated negative free cash flows i.e. it was unable to finance its capital expenditure with cash flows from operating activities.

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

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

Liquidity of the CIECH Group

Liquidity ratios as at 30 September 2018 decreased as compared to their level as at 31 December 2017. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.17 as at 30 September 2018, while the quick liquidity ratio amounted to 0.79

	30.09.2018	31.12.2017
Current ratio	1.17	1.32
Quick ratio	0.79	0.99

Working capital of the CIECH Group

As at the end of the third quarter of 2018, working capital, defined as the difference between current assets and short-term liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) was positive and amounted to PLN 194,220 thousand, which is an increase by PLN 158,506 thousand compared to of 2017.

	30.09.2018	31.12.2017
1. Current assets, including:	1,240,603	1,438,548
Inventory	404,957	364,517
Trade receivables and services and advances for deliveries	396,119	339,092
2. Cash and cash equivalents and short-term investments	231,283	547,733
3. Adjusted current assets (1-2)	**1,009,320**	**890,815**
4. Current liabilities, including:	1,056,340	1,089,584
Trade liabilities and advances taken	368,839	387,331
5. Short-term credits and other current financial liabilities*	241,240	234,483
6. Adjusted current liabilities (4-5)	**815,100**	**855,101**
7. Working capital including short-term credits(1-4)	**184,263**	**348,964**
8. Working capital (3-6)	**194,220**	**35,714**

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

The CIECH Group's profitability ratios

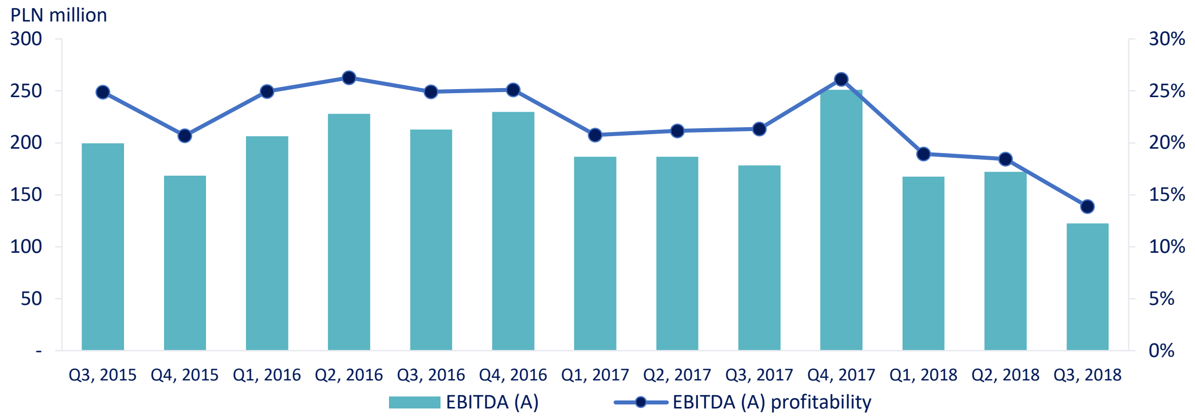
During the three quarters of 2018, profitability ratios of the CIECH Group in respect of the continuing operations were at a lower level than in the three quarters of 2017.

THE CIECH GROUP'S PROFITABILITY RATIOS

	01.01.-30.09.2018	01.01.-30.09.2017	Change 2018/2017
CONTINUING OPERATIONS			
Gross return on sales	21.5%	24.3%	(2.8) p.p.
Return on sales	9.7%	13.3%	(3.6) p.p.
EBIT margin	10.6%	14.6%	(4.1) p.p.
EBITDA margin	17.9%	21.5%	(3.6) p.p.
Adjusted EBIT margin	10.1%	14.3%	(4.1) p.p.
Adjusted EBITDA margin	17.5%	21.3%	(3.8) p.p.
Net return on sales (ROS)	7.4%	9.8%	(2.4) p.p.
Return on assets (ROA)	4.3%	5.6%	(1.4) p.p.
Return on equity (ROE)	10.0%	12.6%	(2.6) p.p.
Earnings/(loss) per share (in PLN) from continuing operations	3.78	4.86	(1.08)

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

PROFITABILITY LEVELS OF THE CIECH GROUP



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

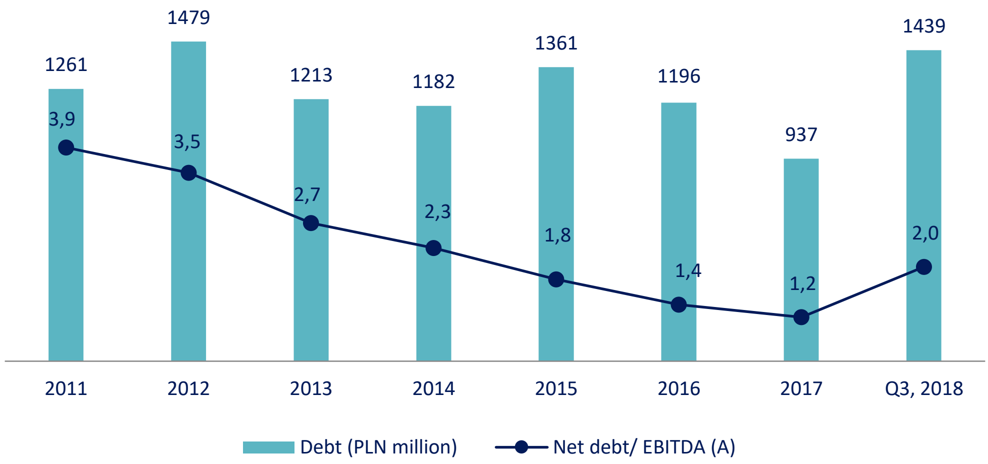
Indebtedness

The debt ratio increased in comparison to December 2017 and amounts to 57,2%. Also, the relative level of net debt changed as compared to the end of 2017 mainly due to lower balance of cash (distribution of dividends, acquisition of Proplan Plant Protection Company, S.L.).

	30.09.2018	31.12.2017
Loans, borrowings and other debt instruments	1,554,296	1,329,919
Finance lease liabilities	20,704	24,888
Factoring liabilities	20,631	28,162
Negative net valuation of derivatives	11,622	43,459
Gross debt	**1,607,253**	**1,426,428**
Cash and cash equivalents	168,311	489,754
Net debt	**1,438,942**	**936,674**

The CIECH Group's debt ratios

	30.09.2018	31.12.2017	Change 2018/2017
Debt ratio	57.2%	53.0%	3.8p.p.
Long term debt ratio	34.6%	29.5%	5.1p.p.
Debt to equity ratio	133.4%	112.6%	20.8p.p.
Equity to assets ratio	42.8%	47.0%	(4.2) p.p.
Gross debt	1,607,253	1,426,428	12.7%
Net debt	1,438,942	936,674	53.6%
EBITDA annualized	754,584	833,196	(9.4%)
Adjusted EBITDA (annualised)	724,838	809,969	(10.5%)
Net debt / EBITDA annualized	1.9	1.1	46.2%
Net debt / Adjusted EBITDA (annualised)	2.0	1.2	53.8%
Gross debt / EBITDA annualised	2.1	1.7	16.6%
Gross debt / Adjusted EBITDA (annualised)	2.2	1.8	22.2%



Debt financing of the Group

The Group's debt financing is secured mainly through loans made available to CIECH S.A. under the Facilities Agreement dated 29 October 2015: On 6 April 2018, provisions of the annex to the agreement signed on 9 January 2018 came into effect. Pursuant to this annex, debt financing is based on:

- term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 30 September 2018 was PLN 1,340,662 thousand),
- revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 30 September 2018 was PLN 140,000 thousand).

For information about the annex to the facilities agreement, see item 2.10 hereof.

In addition, the Group finances its current operations with overdraft facilities contracted in the third quarter of 2018, in the following amounts:

- PLN 50,000 thousand, with Bank Pekao S.A.,
- PLN 50,000 thousand and EUR 10,000 thousand, with Bank Millennium S.A.

Factors and events that may affect future performance

In the opinion of the Management Board of CIECH S.A. in further months of 2018 the trends observed in the past few months will continue. Pursuant to the Strategy, the CIECH Group will focus on the following actions conducive to further development:

- further development of the soda segment, including through a focus on the development of specialist products;
- further actions aimed at optimising the utilisation level of capacity in all production companies of the Group;
- increasing the efficiency of the Agro area in CIECH Sarzyna S.A., actions aimed at registering new products;
- continuous process of improving business and operational processes in all companies of the CIECH Group.

One should also keep in mind that the financial performance of the CIECH Group is affected by both the situation on main markets of the Group’s operations and the global macroeconomic situation. Factors that may affect financial results in the future include:

- economic situation in Poland and the entire European Union (including in particular glass industry, chemical and plastic products industries, furniture industry, agriculture, construction industry, food industry, paint industry and automotive industry),
- weather conditions in agriculture,
- prices of energy resources (coal, natural gas) and furnace fuel (coke, anthracite), electricity prices, prices of CO_2 certificates,
- prices of petrochemical products (derivatives of oil prices),
- changes in the exchange rates of the Polish and Romanian currencies against EUR and USD.

3.6. SIGNIFICANT RISK FACTORS

In connection with its operations, the CIECH Group is exposed to a number of risks, including financial risks. The most important risk factors are presented in details in item 3.4 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2017, published on 26 March 2018.

During the three quarters of 2018, no new risks occurred, and the previously identified factors have not changed significantly. Moreover, there were no significant changes in relation to the Group’s risk management policy.

Exposure to currency risk

The table below presents the estimated currency exposure of the CIECH Group in EUR and USD as at 30 September 2018 due to financial instruments (for EUR – excluding figures of the SDC Group, Ciech Group Financing AB and Proplan Plant Protection Company, S.L., because EUR is their functional currency):

Exposure to currency risk	EUR (’000)	USD (’000)	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	58,400	-	x	
Trade and other receivables	19,248	18,634	x	
Cash including bank deposits	16,768	1,049	x	
Liabilities				
Trade and other liabilities	(17,099)	(2,635)	x	
Term loan liabilities	(30,000)	-		x
Hedging instruments: Forward	(11,900)	(32,615)		x
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(246,606)	-		x
Total exposure	**(211,189)**	**(15,567)**		

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

The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 30 September 2018.

Analysis of sensitivity to foreign exchange rate changes – EUR	(’000 PLN)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
EUR			
Currency balance sheet items	**473**	773	(300)
Hedging instruments: Forward and CIRS	**(2,585)**	-	(2,585)
USD			
Currency balance sheet items	**170**	170	-
Hedging instruments: Forward	**(326)**	-	(326)

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

The CIECH Group applies hedge accounting. Changes resulting from the introduction of IFRS 9 Financial Instruments are described in section 2.2.1 of this report.

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

The CIECH Group did not publish any forecasts for 2018.

3.8. FACTORS AFFECTING THE CIECH GROUP’S RESULTS WITH PARTICULAR FOCUS ON THE NEXT QUARTER

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

Costs of energy resources (coal, gas, coke, anthracite) and labour, interest rates and other macroeconomic factors also have a significant impact on the Group’s operations. Due to the fact that a significant portion of the Group’s revenue and expenses is generated in foreign currencies, changes in exchange rates also affect its financial performance.

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

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

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

According to the data of the Central Statistical Office, the sold industrial output at constant prices during the first 9 months of 2018 increased by 6.0% as compared with the corresponding period of the previous year (in 2017 — an increase by 5.9%). In the current year, the relevant dynamics of production in the industries of significant importance to the Group’s activities (as receiving or target markets) were: chemicals and chemical products (increase by 2.9%); rubber and plastic products (increase by 6.0%); manufacture of motor vehicles (increase by 2.7%); manufacture of furniture (increase by 6.9%); manufacture of food (increase by 4.1%); construction and assembly production (increase by 19.8%).

After last year's clear acceleration of the Polish economic growth (GDP growth rate of 4.8%), the very good economic situation in Poland continues in 2018 (the European Commission projects that GDP growth will amount to 4.6%). A slight slowdown is expected in the following year and the European Commission projects a GDP growth rate of +3.7%. Similar trends should be expected in the chemical industry which usually develops similarly to the economy as a whole.

Economic situation in Europe and in the world

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

According to forecasts by the International Monetary Fund, in 2018 the global economy is growing at a rate similar to the one recorded in the previous year (GDP growth of 3.7%), and next year this growth rate is expected to continue. The largest Asian economies grow relatively quickly (India, China, and ASEAN countries, for which the GDP growth indicators in 2018–2019 should be, respectively: 7.3%–7.4%; 6.6%–6.2%; 5.3%–5.2%). Among large economies, the relatively weaker conditions are observed in Brazil, Russia and Japan (expected GDP growth rates in 2018 of 1.4%, 1.7% and 1.0% respectively). According to the IMF, a clear acceleration in 2019 can be expected in Latin America (especially in Brazil) and sub-Saharan Africa (Nigeria, South Africa).

The European Union, on the other hand, the current good economic situation is expected to gradually slow down slightly (GDP growth by 2.1% in 2018 and 2.0% in 2019, according to the European Commission's forecasts).

For the chemical sector, the American Chemical Chamber (ACC) expects that this year the growth rate of global chemicals production will increase for another year in a row (and will amount to 3.2% in 2018 compared to 2.5% in 2017). According to ACC, chemical production in North America is expected to grow by 3.4% this year. After an exceptionally good 2017, the European Union's chemical industry in 2018 and 2019 is expected to show a certain slowdown in the rate of growth (expected chemical production dynamics of 1.5% according to the European Chemical Industry Council – CEFIC).

As regards the European construction sector, the production rate is expected to decline over the next 2–3 years (compared to the steadily growing dynamics over the past few years). According to Euroconstruct (after the previous year’s strong increase in construction output in Western Europe and Central Europe – by 3.9%), in 2018 and 2019 the European construction sector can grow by 2.7% and 1.9% respectively. Much more optimistic forecasts are made for Central Europe, and particularly for Poland. Euroconstruct expects that in 2018–2019 the rate of growth of construction output in Poland will slightly accelerate to 9.9% and 10% respectively.

OTHER FACTORS AFFECTING THE CIECH GROUP'S ACTIVITIES

Factors	Description
Economic situation on raw material market	Due to the fact that costs of raw materials account for a large share of total costs of the Group, the situation on certain raw material markets (availability and price) significantly affect the CIECH Group's activities and financial performance. Price and availability of raw materials depends largely on economic and political developments across the globe. **Hard coal** – situation on the market depends on a number of macroeconomic factors. The largest producer of hard coal in the European Union is Poland, but EU's import of coal (primarily from Russia, Columbia, USA and Australia) is nearly two times higher than production. Most of the coal imported to the EU is power coal, i.e. coal used by the CIECH Group in the production of heat in soda plants in Poland. Despite the fact that the Group buys it usually from Polish mines, the price of hard coal in Poland depends on the European and global situation in the area of demand and supply. **Furnace fuel (coke/anthracite)** – coke prices depend primarily on prices of coking coal, from which it is produced. The largest global producer of coke is China which, at the same time, is one of the largest consumers of this raw material. In Europe, coke is produced mainly in Poland and the Czech Republic. In its business activity, the Group may also use anthracite as a substitute for coke. The main suppliers of anthracite for Europe are Ukraine and Russia. Due to rising prices of coke, in the three quarters of 2018 the Group used anthracite to a large extent. **Oil-derivative raw materials** – used primarily in the organic segment, are linked to oil prices. Oil prices depend primarily on macroeconomic and political factors which translate into global demand and supply situation.
Exchange rates of Polish zloty (PLN) and Romanian leu (RON) to euro (EUR) and US dollar (USD)	The CIECH Group's main source of exposure to foreign currency risk is related to EUR and USD in which export sales are denominated. Weakening of PLN and RON (in which significant costs are incurred) in relation to EUR and USD (in which a material portion of sales is made) has a positive impact on the CIECH Group's financial performance. The Group applies natural hedging and hedging instruments.
Volume of chemical production capacity on markets where the CIECH Group operates	In the sectors of mass chemical products, in which the CIECH Group operates, the capital expenditures are an important barrier to entry, and in the case of the soda segment – an easy access to natural resources. For this reason, in the scope of the most important segment of the CIECH Group, the soda segment, green field investments are rare and generally done outside Europe. The CIECH Group's business can be significantly affected by the extension of large sodium carbonate and sodium bicarbonate production capacity in Turkey. This has changed the current global supply and demand situation in the short-term, increasing the supply of soda in the market and decreasing prices in Europe and neighbouring regions which may have a negative impact on the Group's financial performance. On the other hand, it should be noted that the commissioning of new capacity in Turkey has been spread over 2017–2018 and coincides with strong demand and environmental constraints in the world's largest market, China.
Environmental requirements	**REACH system implementation** In accordance with the REACH regulation, the Group's companies selling substances in quantities exceeding 1 tonne p.a. have completed or plan to complete full registration of these substances by defined deadlines, which will enable them to continue their operations in the current scope. **Emission trading system** Production companies of the CIECH Group are included in the emission trading system. External analyses performed by the CIECH Group companies indicate that the amount of free CO_2 emission allowances in the 3rd settlement period (2013–2020) will be insufficient to cover the actual demand for this type of settlement units. In addition to the direct costs connected with the purchase of CO_2 emission allowances, the CIECH Group companies will bear higher costs of electricity due to their assumption of the costs of purchase of emission allowances from the producers.

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

The shares of CIECH S.A. are listed on Warsaw Stock Exchange and on Frankfurt Stock Exchange. The share capital of CIECH S.A. amounts to PLN 263,500,965 and is divided into 52,699,909 shares with a nominal value of PLN 5 each. The number of shares and their nominal value has not changed since the last reporting period.

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

SHAREHOLDERS

As of the date of publishing the previous financial statements (i.e. the date of publication of the Extended consolidated report of the CIECH Group for the first half of 2018, i.e. 5 September 2018), CIECH S.A. has not received any information about a change in interests held by shareholders in the total number of shares. Therefore, to the best knowledge of CIECH S.A., as at the day of approving these statements, shareholders holding significant blocks of shares (at least 5%) include the following entities:

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

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. with its registered office in Luxembourg*	**Ordinary bearer**	**26,952,052**	**26,952,052**	**51.14%**	**51.14%**
TFI PZU Funds**	Ordinary bearer	5,225,987	5,225,987	9.92%	9.92%
Nationale-Nederlanden Otwarty Fundusz Emerytalny***	Ordinary bearer	3,000,000	3,000,000	5.69%	5.69%
Other	Ordinary bearer	17,521,870	17,521,870	33.25%	33.25%

** 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 11 June 2018 provided by Shareholder under Article 69(1) of the Act on Public Offering (...) – purchase or disposal of a significant block of shares (CR 13/2018).*

**** on the basis of the list of entities holding at least 5% of votes at the Ordinary General 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 General Meeting of Shareholders of CIECH S.A. on 22 June 2018 (Current report 19/2018), Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter "NN") held 7.96% of the total number of votes on that General Meeting and 4.93% 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.*

3.10. CHANGES IN THE NUMBER OF SHARES IN CIECH S.A. HELD BY THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Mr Artur Osuchowski – Member of the Management Board of CIECH S.A., held 65,195 shares of CIECH S.A. as at 30 September 2018.

On 13 June 2018, Mr Sebastian Kulczyk – President of the Management Board of CIECH S.A., acquired indirectly 26,952,052 shares of CIECH S.A., representing 51.14% of the company's share capital. Other Management Board Members of CIECH S.A. and Supervisory Board Members of CIECH S.A. did not hold any shares of the Company.

Managers and supervisors of CIECH S.A. as at 30 September 2018 did not hold any shares in other companies of the CIECH Group and this situation did not change in the period from the publication of the Extended consolidated report of the CIECH Group for the first half of 2018, i.e. from 5 September 2018.

3.11. LITIGATION PENDING BEFORE A COURT, COMPETENT ARBITRATION AUTHORITY OR PUBLIC ADMINISTRATION AUTHORITY

3.11.1. SIGNIFICANT DISPUTED LIABILITIES OF THE CIECH GROUP

As at 30 September 2018, the CIECH Group did not have any significant disputed liabilities of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described in section 3.12 hereof.

3.11.2. SIGNIFICANT DISPUTED RECEIVABLES OF THE CIECH GROUP

As at 30 September 2018, the CIECH Group did not hold any significant disputed receivables of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies.

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

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

Letters of support

As at 30 September 2018, 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 44.3 million from RWE by 30 September 2018. 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

During three quarters of 2018, four companies from the CIECH Group were subject to tax proceedings. The aim of the proceedings (following the audits performed in the previous year) was to review the accuracy of the declared tax base and the correctness of calculations and payments of corporate income tax for the year 2015. The irregularities identified concern mainly the incorrect settlement of income from a participation in a partnership (this resulted in the reduction of the tax loss by PLN 313 million).

The Management Boards of the companies and their tax advisors do not agree with the findings presented in the audit reports and with responses to objections to the reports. However, if decisions are taken in which the findings contained in the responses to objections to the Report are included – after an appeal against the decision of the first instance authority – the decision of the Head of the Tax Administration Chamber is upheld, each of the companies may be required to pay tax liabilities in the total amount of PLN 15.1 million for 2015 together with default interest from 1 April 2016.

As at the date of the report, tax proceedings are pending in four companies and these companies have not received an Assessment decision by the date of the financial statements.

Another Polish company of the Ciech Group, which in 2017 appealed against the decision of the first instance authority determining the corporate income tax liability for 2013, received a decision of the second instance authority, in which the Head of the Tax Administration Chamber upheld the findings of the first instance authority decision. The company filed a complaint with the Provincial Administrative Court in Warsaw, however, paying the amount indicated in the Decision of the Head of the Tax Administration Chamber, i.e. PLN 1.8 million (after taking into account the tax loss incurred in the audited year) together with default interest from 1 April 2014.

In February 2018, one of the Polish companies of the Group received a written statement of reasons for the judgment issued by the Regional Administrative Court in 2017, in which the Provincial Administrative Court agreed in full with the position of the Company. The case concerned income tax for 2010. The Head of the Tax Administration Chamber did not appeal to the Supreme Administrative Court and thus the verdict became legally binding.

Tax audits concerning the corporate income tax were also commenced at three Polish companies of the CIECH Group in the period of 9 months of 2018 – for 2012 in one company (customs and fiscal audit), for 2015 in the second company (customs and fiscal audit) and for 2016 in the third company (tax audit). Until the date of this report, one of the companies where the audit was focused on CIT for 2012, received the audit findings. The auditors questioned a share capital increase in a subsidiary, and if the authorities uphold their position, the company may be required to pay a tax liability of PLN 43.7 million, together with default interest. This company was also subject to a customs and fiscal audit, converted into tax proceedings.

The Management Board of the Company and its tax advisors do not agree with the Audit findings. Based on the fact that the auditors challenged the correctness of the determination of revenues (and addressed the issue of determining tax costs related to the questioned problem only to a very limited extent), as well as the status of the case, i.e. the absence of any tax proceedings initiated and concluded by issuing a measurement decision, the Management Board considers that the risk of additional tax liabilities arising from findings made during the audit is not significant. However, if tax proceedings are initiated and the Head of the Tax Administration Chamber issues a relevant decision, an obligation may arise to pay the tax arrears estimated by the auditors. As at the date of publication of the report, both audits for 2015 and 2016, as well as tax proceedings concerning income tax settlements for 2012 are pending.

The Group estimated that the potential impact on income tax expense (in the form of additional tax liabilities or inability to realise a deferred income tax asset calculated for tax losses), in relation to the issues described above, would amount to PLN 136.3 million if it were no longer probable that the Group would be able to uphold its tax interpretations before the tax authorities.

As regards VAT, four CIECH Group companies were subject to customs and tax audits with respect to the reliability of declared tax bases and correctness of VAT calculation: in two for the fourth quarter of 2013, in one for December 2014 and in one for the period from January to June 2018. The audits in three of those companies concern in-kind contributions made by three other companies of the Ciech Group to the controlled companies. The customs and tax audits resulted in the issuing of audit findings. In accordance with the documents received, the authority challenged the deduction of VAT in the amount of about PLN 64.3 million. The companies disagree with the findings of the audit, pointing to a change in the tax authorities' approach to determining the VAT base when making in-kind contributions. However, in two cases the audited companies made adjustments to their transactions in the current period. Consequently, the other party to the transaction, i.e. the two companies making the in-kind contribution, made an adjustment (reduction) to the output VAT in their returns. In two companies, the customs and fiscal audits were converted into tax proceedings. If the auditors challenge the recognition of the VAT adjustment by the audited companies in the current period, there may be a risk that they will be required to pay interest. As at the date of publication of this report, one audit and two tax proceedings concerning VAT settlements are pending.

In addition, as a result of the ongoing audit of the German CIECH Group companies for the years 2007–2009 and 2010–2015, in case of a different assessment by the auditing authorities of economic events, an obligation may arise to recalculate and potentially increase the tax liability and to pay interest on tax arrears. At the time of publication of the financial statements, the audit result is not known.

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

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

QUARTERLY FINANCIAL INFORMATION
OF THE PARENT COMPANY
CIECH S.A.
FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2018

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

4 QUARTERLY FINANCIAL INFORMATION OF THE PARENT COMPANY, CIECH S.A.

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

	01.01.-30.09.2018	01.01.-30.09.2017	01.07.-30.09.2018	01.07.-30.09.2017
CONTINUING OPERATIONS				
Sales revenues	**1,787,413**	**1,763,202**	**579,385**	**573,815**
Cost of sales	(1,458,519)	(1,402,376)	(463,124)	(455,265)
Gross profit/(loss) on sales	**328,894**	**360,826**	**116,261**	**118,550**
Other operating income	7,723	2,660	728	499
Selling costs	(166,034)	(148,662)	(53,698)	(46,718)
General and administrative expenses	(47,595)	(37,912)	(13,897)	(12,993)
Other operating expenses	(5,831)	(1,067)	(1,305)	(282)
Operating profit/(loss)	**117,157**	**175,845**	**48,089**	**59,056**
Financial income	49,414	106,274	9,020	242
Financial expenses	(74,378)	(68,933)	11,613	(24,517)
Net financial income/(expenses)	**(24,964)**	**37,341**	**20,633**	**(24,275)**
Profit/(loss) before tax	**92,193**	**213,186**	**68,722**	**34,781**
Income tax	(19,744)	(37,610)	(13,808)	(7,794)
Net profit/(loss) on continuing operations	**72,449**	**175,576**	**54,914**	**26,987**
DISCONTINUED OPERATIONS				
Net profit/(loss) on discontinued operations	-	-	-	-
Net profit / (loss) for the period	**72,449**	**175,576**	**54,914**	**26,987**
Earnings/(loss) per share (in PLN):				
Basic	1.37	3.33	1.04	0.51
Diluted	1.37	3.33	1.04	0.51

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

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

	01.01.-30.09.2018	01.01.-30.09.2017	01.07.-30.09.2018	01.07.-30.09.2017
Net profit / (loss) for the period	**72,449**	**175,576**	**54,914**	**26,987**
Other comprehensive income before tax that may be reclassified to statement of profit or loss	**(3,926)**	**10,998**	**(2,322)**	**(856)**
Provision for the use of cash flow hedges	(3,926)	10,998	(2,322)	(856)
Income tax attributable to other comprehensive income	**678**	**(1,874)**	**984**	**325**
Income tax attributable to other comprehensive income that may be reclassified to statement of profit or loss	678	(1,874)	984	325
Other comprehensive income net of tax	**(3,248)**	**9,124**	**(1,338)**	**(531)**
TOTAL COMPREHENSIVE INCOME	**69,201**	**184,700**	**53,576**	**26,456**

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

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

	30.09.2018	31.12.2017
ASSETS		
Property, plant and equipment	12,722	13,880
Intangible assets	36,957	34,143
Long-term financial assets	2,036,559	1,864,137
Deferred income tax assets	20,153	40,247
Total non-current assets	**2,106,391**	**1,952,407**
Inventory	20,952	31,795
Short-term financial assets	932,815	1,012,304
Income tax receivables	997	-
Trade and other receivables	425,418	280,765
Cash and cash equivalents	70,382	375,393
Total current assets	**1,450,564**	**1,700,257**
Total assets	**3,556,955**	**3,652,664**
EQUITY AND LIABILITIES		
Share capital	287,614	287,614
Share premium	470,846	470,846
Provision for the use of cash flow hedges	(2)	3,246
Actuarial gains	121	121
Other reserve capitals	76,199	76,199
Retained earnings	371,020	711,002
Total equity	**1,205,798**	**1,549,028**
Loans, borrowings and other debt instruments	1,367,607	1,130,482
Other non-current liabilities	68,995	41,528
Employee benefits provisions	448	436
Total non-current liabilities	**1,437,050**	**1,172,446**
Loans, borrowings and other debt instruments	389,514	413,516
Trade and other liabilities	487,548	476,443
Income tax liabilities	-	4,758
Employee benefits provisions	328	400
Other provisions	36,717	36,073
Total current liabilities	**914,107**	**931,190**
Total liabilities	**2,351,157**	**2,103,636**
Total equity and liabilities	**3,556,955**	**3,652,664**

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

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

	01.01.-30.09.2018	01.01.-30.09.2017
Cash flows from operating activities		
Net profit /(loss) for the period	**72,449**	**175,576**
Amortisation/depreciation	6,365	3,667
Recognition of impairment allowances	10,908	3,782
Foreign exchange (profit) /loss	3,661	(2,506)
(Profit) / loss on disposal of property, plant and equipment	120	(95)
Dividends and interest	(8,649)	(24,705)
Income tax payable/(receivable)	19,744	37,610
Change in liabilities due to loan arrangement fee	(2,538)	1,958
Valuation of financial instruments	21,784	(28,815)
Other adjustments	(490)	-
Cash from operating activities before changes in working capital and provisions	**123,354**	**166,472**
Change in receivables	(107,484)	64,632
Change in inventory	10,843	4,404
Change in current liabilities	12,171	(2,194)
Change in provisions and employee benefits	584	(131)
Cash generated from operating activities	**39,468**	**233,183**
Interest paid	(21,472)	(23,162)
Income tax paid/returned	(2,737)	(1,110)
Net cash from operating activities	**15,259**	**208,911**
Cash flows from investment activities		
Disposal of a subsidiary	-	454
Disposal of intangible assets and property, plant and equipment	31	4
Dividends received	1,678	7,011
Interest received	17,396	7,914
Proceeds from cash-pooling facility	6,198	-
Proceeds from repaid borrowings	104,429	51,394
Acquisition of a subsidiary	(172,366)	-
Acquisition of intangible assets and property, plant and equipment	(20,597)	(9,365)
Expenditures on increase and extra contribution to capital	(150)	(4,500)
Borrowings paid out	(61,748)	(130,361)
Cash pooling expenditures	-	(61,202)
Net cash from investment activities	**(125,129)**	**(138,651)**
Cash flows from financial activities		
Proceeds from loans and borrowings	504,393	24,000
Dividends paid to shareholders	(395,249)	-
Repayment of loans and borrowings	(276,424)	(438)
Cash pooling expenditures	(29,325)	(11,502)
Net cash from financial activities	**(196,605)**	**12,060**
Total net cash flows	**(306,475)**	**82,320**
Cash and cash equivalents as at the beginning of the period	**375,393**	**342,607**
Impact of foreign exchange differences	*1,464*	*2,081*
Cash and cash equivalents as at the end of the period	**70,382**	**427,008**

EXTENDED CONSOLIDATED QUARTERLY REPORT OF THE CIECH GROUP FOR THREE QUARTERS OF 2018 (in PLN '000)

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

	Share capital	Share premium	Provision for the use of cash flow hedges	Other reserve capitals	Actuarial gains	Retained earnings	Total equity
31.12.2017	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**711,002**	**1,549,028**
Changes in accounting policies	-	-	-	-	-	(17,182)	(17,182)
01.01.2018	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**693,820**	**1,531,846**
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**(395,249)**	**(395,249)**
Dividend	-	-	-	-	-	(395,249)	(395,249)
Total comprehensive income	**-**	**-**	**(3,248)**	**-**	**-**	**72,449**	**69,201**
Net profit /(loss) for the period	-	-	-	-	-	72,449	72,449
Other comprehensive income	-	-	(3,248)	-	-	-	(3,248)
30.09.2018	**287,614**	**470,846**	**(2)**	**76,199**	**121**	**371,020**	**1,205,798**
01.01.2017	**287,614**	**470,846**	**(5,120)**	**76,199**	**132**	**467,095**	**1,296,766**
Total comprehensive income	**-**	**-**	**9,124**	**-**	**-**	**175,576**	**184,700**
Net profit /(loss) for the period	-	-	-	-	-	175,576	175,576
Other comprehensive income	-	-	9,124	-	-	-	9,124
30.09.2017	**287,614**	**470,846**	**4,004**	**76,199**	**132**	**642,671**	**1,481,466**

5 EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF CIECH S.A.

5.1. BASIS OF PREPARATION

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

These interim condensed separate financial statements were prepared in compliance with IAS 34 “Interim Financial Reporting” as approved by the European Union and the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State (Journal of Laws 2018.757 of 2018). These financial statements present the financial position of CIECH S.A. as at 30 September 2018 and as at 31 December 2017, results of the Company’s operations and cash flows for the period of 9 months ended 30 September 2018 and 30 September 2017, and were approved by the Management Board of CIECH S.A. on 21 November 2018.

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

The Management Board of CIECH S.A. declares that to the best of its knowledge these interim condensed separate financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of CIECH S.A.’s financial position and the results of operations.

These interim condensed separate financial statements should be read together with the interim condensed consolidated financial statements of the CIECH Group for the 9-month period ended 30 September 2018.

5.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH S.A.’s accounting principles are described in the Financial Statements of CIECH S.A. for 2017, published on 26 March 2018. The aforementioned Financial Statements include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data presented, except for the adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. Moreover, in 2018 CIECH S.A. changed its approach to recognising the costs of severance payments for key management personnel.

5.2.1. CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 1 January 2018, CIECH S.A. adopted new financial reporting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

Implementation of IFRS 9

For the purpose of the initial application of IFRS 9, CIECH S.A. did not restate previous periods' figures. Any differences between the previous carrying amount of financial assets and liabilities and their carrying amount at the beginning of the annual reporting period that includes the date of initial application of IFRS 9 were recognised by CIECH S.A. in the opening retained earnings of the annual reporting period that includes the date of initial application of IFRS 9, i.e. as at 1 January 2018.

IFRS 9 introduced a new impairment model for financial assets based on the concept of „expected credit losses”, changes to the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

Classification and measurement of financial instruments

Financial assets
In accordance with IFRS 9, on initial recognition a financial asset may be classified into the following measurement categories:
1. financial assets measured at amortised cost;
2. financial assets measured at fair value through other comprehensive income;
3. financial assets measured at fair value through profit or loss.

A financial asset is classified into one of above measurement categories on initial recognition in the balance sheet on the basis of the Company’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Upon initial recognition of equity instruments not held for trading (or on the day of initial application of IFRS 9), CIECH S.A. could have made an irrevocable decision to designate individual investments in equity instruments as measured at fair value through other comprehensive income. Other equity instruments are measured at fair value through profit or loss.

At initial recognition, an analysis must be carried out to determine if a financial instrument contains an embedded derivative. Derivative instrument embedded in the hybrid contract, the host of which is a financial asset within the scope of IFRS 9, is not bifurcated and the hybrid contract is recognised in accordance with the MSSF 9 requirements for classification of financial assets. Derivative instrument embedded in the hybrid contract, the host of which is not a financial asset within the scope of IFRS 9, is assessed in order to determine whether it should be bifurcated.

Financial assets may be reclassified only when the Company changes the financial asset management business model. In such a case, all financial assets affected by the business model change are subject to reclassification.

Based on the review of financial assets held by the Company after 31 December 2017, CIECH S.A.:
1. determined and allocated groups of financial assets to the appropriate business model on the basis of the assessment of the applied way of managing the financial asset portfolios by:
   a) reviewing and assessing relevant and objective qualitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (in particular, the reasons of sales of the financial assets from certain portfolios that occurred in the past);
   b) reviewing and assessing relevant and objective quantitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (e.g. the value of sales of the financial assets from certain portfolios that occurred, if any, in previous reporting periods and the frequency of those sales);
   c) analysis of expectations regarding the value and frequency of sales from certain portfolios;
2. determined, through identifying and analysing the contractual terms of financial assets with economic characteristics of debts instruments, as a result of which the financial asset may not meet the SPPI criterion, whether these contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, i.e. whether they are consistent with the SPPI criterion.

Financial assets with the characteristics of debt instruments
Following the analysis, the Company concluded that the implementation of IFRS 9 will not change the classification and measurement of financial assets held with economic characteristics of a debt instrument. Trade receivables pending transfer to the factor under non-recourse factoring arrangements could be an exception. These receivables are held by CIECH S.A. 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 classified these receivables as financial assets measured at fair value through profit or loss – however, due to the relatively short period of holding the receivables to be transferred to the factor in the balance sheet, the impact of the change in their classification on the financial position of the Company was deemed immaterial.

Equity instruments
CIECH S.A. holds equity instruments (shares) which constitute financial assets within the meaning of IAS 39 and IFRS 9. Pursuant to IAS 39, the Company measured the equity instruments held at cost less impairment losses. The net present carrying amount of these instruments is close to zero.

Pursuant to IFRS 9, CIECH S.A. classified the equity instruments (shares) held as measured at fair value through profit or loss. However, as at the date of implementation of IFRS 9, the estimated fair value of the equity instruments held was close to zero. Therefore, the impact of the change in their classification on CIECH S.A.’s financial position was deemed immaterial.

The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

Classes of financial assets	Categories of financial assets and measurement method according to IAS 39	Business model according to IFRS 9	SPPI Criterion	Reclassification	Categories of financial assets and measurement method according to IFRS 9
Cash and cash equivalents	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Bank deposits (their value is included in cash and cash equivalents)	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Loans granted	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Trade receivables	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Factoring receivables (transferred to the factor)	Loans and receivables – measured at amortised cost	Holding financial assets in order to collect contractual cash flows	Met	None	Financial assets measured at amortised cost
Derivatives	Financial assets measured at fair value through profit or loss	Other business model	Not applicable	None	Financial assets measured at fair value through profit or loss
Derivative instruments designated as hedging instruments	Hedging instruments	Other business model	Not applicable	None	Hedging instruments

Impairment of financial assets

Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate losses. Instead, entities are obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition.

Upon acquisition or granting of a financial asset, CIECH S.A. is obliged to keep an allowance in the amount of a 12-month ECL. In the event of significant increase in credit risk since the initial recognition of the asset, the Company is obliged to calculate lifetime expected credit losses (the so-called Stage 2). Such an approach will result in the earlier recognition of credit losses which will cause an increase in loss allowance and therefore it will also affect profit or loss.

Trade receivables are exceptions to this rule. For these categories of assets, the Company chose a simplified approach whereby lifetime expected credit losses are estimated from the moment of initial recognition of exposures.

Following the analysis of financial instruments held, CIECH S.A. calculated allowances based on the expected credit loss model for the following classes of financial instruments:

1. Trade receivables,
2. Factoring receivables,
3. Loans granted,
4. Term deposits, cash.

Hedge accounting

CIECH S.A. decided to move to IFRS 9 as regards hedge accounting, as of 1 January 2018. The Company took advantage of the option offered by IFRS 9 and applied the prospective approach from the date of initial application of IFRS 9. IFRS 9 requires the Company to ensure that its hedging relationships are compliant with the risk management strategy applied by the Company and its objectives. IFRS 9 introduces new requirements with regard to, among others, the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the Standard).

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Implementation of IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" is effective for annual periods beginning on or after 1 January 2018. CIECH S.A. decided to apply IFRS 15 retrospectively with the recognition of the cumulative effect of the initial application of this IFRS as an adjustment to the initial balance of retained earnings in 2018.

The standard introduces uniform requirements for all entities with respect to recognition of revenue from contracts with customers based on the so-called 5-step model:

1. Identifying the contract;
2. Identifying performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to performance obligations;
5. Satisfying the performance obligation.

This standard requires entities to evaluate contracts with customers and to identify elements in them that constitute separate performance obligations as defined in IFRS 15. For contracts that contain more than one performance obligation, the expected consideration will be allocated to each of the contracts in successive steps and the revenue will be recognised when (or as) the performance obligation is satisfied. The obligation to identify the performance obligations also applies to contracts where the contract is assumed to consist of only one element (e.g. sale of a product) when settled with the customer.

Based on the analysis of the impact of IFRS 15 on the financial statements of CIECH S.A., the following areas were identified and adjusted in order to implement the standard. However, due to the immateriality, no adjustments resulting from the implementation of IFRS 15 were made as at 1 January 2018.

Consignment warehouses

The Company enters into agreements with customers under which it undertakes to deliver its products to the customer's warehouses. Under the agreements, customers are supplied with raw materials to be used in production. Products in the raw material warehouse remain the property of the Company until they are released for production to the customer. However, all risks related to the possibility of losing or damaging raw materials are transferred to the customer upon delivery of the raw materials to the warehouse. The Company undertakes to deliver appropriate quantities of raw materials to the raw materials warehouse in accordance with the customer's order, and the customer inspects the quantity of raw materials in the raw materials warehouse in terms of frequency and volume of deliveries.

The new IFRS 15 guidelines concerning the determination of the moment of revenue recognition, i.e. the transfer of control, resulted in a change in the moment of recognition of revenue from the sale of products transferred to raw material warehouses. Control over the raw materials is transferred to the customer upon their acceptance into storage and revenue is recognised at this point.

Impact of the implementation of IFRS 9 on the statement of financial position of CIECH S.A. as at 1 January 2018

	As at 31.12.2017	IFRS 9 adjustments	As at 01.01.2018 (data restated, unaudited)
ASSETS			
Long-term financial assets	1,864,137	(1,740)	1,862,397
Deferred income tax assets	40,247	210	40,457
Total non-current assets	**1,952,407**	**(1,530)**	**1,950,877**
Short-term financial assets	1,012,304	(14,542)	997,762
Trade and other receivables	280,765	(620)	280,145
Cash and cash equivalents	375,393	(490)	374,903
Total current assets	**1,700,257**	**(15,652)**	**1,684,605**
Total assets	**3,652,664**	**(17,182)**	**3,635,482**
EQUITY AND LIABILITIES	-	-	-
Retained earnings	711,002	(17,182)	693,820
Total equity	**1,549,028**	**(17,182)**	**1,531,846**
Total non-current liabilities	**1,172,446**	-	**1,172,446**
Total liabilities	**2,103,636**	-	**2,103,636**
Total equity and liabilities	**3,652,664**	**(17,182)**	**3,635,482**

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The tables below summarise the impact of the application of IFRS 15 on the financial statements of CIECH S.A. for the period ended 30 September 2018. In order to ensure comparability of financial data presented in different periods, the Company presented below a reconciliation of data prepared in accordance with IFRS 15 with data which would have been prepared had IAS 11 and IAS 18 been in force in 2018.

	01.01.-30.09.2018 according to IFRS 15	Consignment warehouses	01.01.-30.09.2018 according to IAS 18
CONTINUING OPERATIONS			
Sales revenues	**1,787,413**	**(4,985)**	**1,782,428**
Cost of sales	(1,458,519)	4,049	(1,454,470)
Gross profit on sales	**328,894**	**(936)**	**327,958**
Other operating income	7,723	-	7,723
Selling costs	(166,034)	-	(166,034)
General and administrative expenses	(47,595)	-	(47,595)
Other operating expenses	(5,831)	-	(5,831)
Operating profit	**117,157**	**(936)**	**116,221**
Financial income	49,414	-	49,414
Financial expenses	(74,378)	-	(74,378)
Net financial income/(expenses)	**(24,964)**	**-**	**(24,964)**
Profit before tax	**92,193**	**(936)**	**91,257**
Income tax	(19,744)	178	(19,566)
Net profit on continuing operations	**72,449**	**(758)**	**71,691**

	30.09.2018 according to IFRS 15	Consignment warehouses	30.09.2018 according to IAS 18
ASSETS			
Deferred income tax assets	20,153	178	20,331
Total non-current assets	**2,106,391**	**178**	**2,106,569**
Inventory	20,952	4,049	25,001
Trade and other receivables	425,418	(4,985)	420,433
Total current assets	**1,450,564**	**(936)**	**1,449,628**
Total assets	**3,556,955**	**(758)**	**3,556,197**
EQUITY AND LIABILITIES	**-**	-	**-**
Retained earnings	371,020	(758)	370,262
Total equity	**1,205,798**	**(758)**	**1,205,040**
Total non-current liabilities	**1,437,050**	**-**	**1,437,050**
Total current liabilities	**914,107**	**-**	**914,107**
Total liabilities	**2,351,157**	**-**	**2,351,157**
Total equity and liabilities	**3,556,955**	**(758)**	**3,556,197**

CIECH S.A. intends to adopt amendments to the IFRS that are published but not effective as at the date of publication of this report in accordance with their effective date. The estimated impact of amendments and impact of new IFRSs on the financial statements of CIECH S.A. was presented in the Financial Statements of CIECH S.A. for the year 2017, published on 26 March 2018.

5.3. CHANGES IN ESTIMATES

In the presented periods, there were no significant revisions to the estimates.

RATIO CALCULATION METHODOLOGY

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

EBITDA (%)	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
Adjusted EBITDA (%)	EBITDA excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
Annualised EBITDA (%)	EBITDA for the 12-month period ended on the balance sheet date
gross return on sales	gross profit on sales for a given period / net revenues from sales of products, services, goods and materials for a given period
return on sales	profit for a given period / net revenues from sales of products, services, goods and materials for a given period
EBIT margin	operating profit for a given period / net revenues from sales of products, services, goods and materials for a given period
EBITDA margin	(operating profit + amortization/depreciation for a given period)/ net revenues from sales of products, services, goods and materials in a given period
adjusted EBIT margin	operating profit for a given period excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
adjusted EBITDA margin	EBITDA excluding one-off events, the more important of which were described in section 2.5 / net revenues from sales of products, services, goods and materials for a given period
net return on sales (ROS)	net profit for a given period / net revenues from sales of products, services, goods and materials for a given period
return on assets (ROA)	net profit for a given period/total assets at the end of a given period
return on equity (ROE)	net profit for a given period/total equity at the end of a given period
debt ratio	the ratio of current and non-current liabilities to total assets; measures the share of external funds in financing of a company's activity
long-term debt ratio	the ratio of non-current liabilities to total assets; measures the share of non-current liabilities in financing of company's activity
debt to equity ratio	the ratio of total liabilities to equity
equity to assets ratio	the ratio of equity to total assets; measures the share of equity in financing of a company's activity
net financial liabilities	liabilities from loans, bonds, borrowings (plus overdraft) and other debt instruments (finance lease + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities) less cash and cash equivalents
gross financial liabilities	liabilities from loans, bonds, borrowings (plus overdraft) and other debt instruments (finance lease + liabilities from negative valuation of derivatives calculated separately for each derivative + factoring liabilities)

REPRESENTATION OF THE MANAGEMENT BOARD

This Extended consolidated quarterly report of the CIECH Group for three quarters of 2018 was approved by the Management Board of CIECH S.A. at its registered office on 21 November 2018.

Warsaw, 21 November 2018

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Dawid Jakubowicz — President of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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

(signed on the polish original)

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Mirosław Skowron — 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