FINANCIAL STATEMENTS
of CIECH S.A. for 2019

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

CIECH S.A. – SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN 12 months ended 31.12.2019	in thousand PLN 12 months ended 31.12.2018	in thousand EUR 12 months ended 31.12.2019	in thousand EUR 12 months ended 31.12.2018
Sales revenues	2,286,065	2,418,534	531,421	566,813
Operating profit	109,972	112,279	25,564	26,314
Profit before tax	87,131	334,013	20,255	78,280
Net profit for the period	60,436	270,612	14,049	63,421
Other comprehensive income net of tax	69	(4,508)	16	(1,057)
Total comprehensive income	60,505	266,104	14,065	62,364
Cash flows from operating activities	(62,551)	64,232	(14,541)	15,054
Cash flows from investment activities	135,380	(268,087)	31,471	(62,829)
Cash flows from financial activities	42,089	(116,765)	9,784	(27,365)
Total net cash flows	114,918	(320,620)	26,714	(75,140)
Earnings (loss) per ordinary share (in PLN/EUR)	1.15	5.13	0.27	1.20
	as at 31.12.2019	as at 31.12.2018	as at 31.12.2019	as at 31.12.2018
Total assets	3,889,932	3,927,454	913,451	913,362
Total non-current liabilities	1,632,936	1,393,685	383,453	324,113
Total current liabilities	793,790	1,131,068	186,401	263,039
Total equity	1,463,206	1,402,701	343,597	326,210
Share capital	287,614	287,614	67,539	66,887

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

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

as at 31.12.2019	as at 31.12.2018	12 months ended 31.12.2019	12 months ended 31.12.2018
1 EUR = 4.2585 PLN	1 EUR = 4.3000 PLN	1 EUR = 4.3018 PLN	1 EUR = 4.2669 PLN

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STATEMENT OF PROFIT OR LOSS OF CIECH S.A.

	Note	01.01.-31.12.2019	01.01.-31.12.2018
CONTINUING OPERATIONS			
Sales revenues	*3.1*	**2,286,065**	**2,418,534**
Cost of sales	*3.2*	(1,942,809)	(2,029,456)
Gross profit on sales		**343,256**	**389,078**
Other operating income	*3.4*	26,903	4,154
Selling costs	*3.2*	(178,256)	(221,224)
General and administrative expenses	*3.2*	(76,984)	(55,688)
Other operating expenses	*3.4*	(4,947)	(4,041)
Operating profit		**109,972**	**112,279**
Financial income	*3.5*	88,495	343,552
Financial expenses	*3.5*	(111,336)	(121,818)
Net financial income/(expenses)		**(22,841)**	**221,734**
Profit before tax		**87,131**	**334,013**
Income tax	*4.1, 4.2*	(26,695)	(63,401)
Net profit on continuing operations		**60,436**	**270,612**
Net profit for the period		**60,436**	**270,612**
Earnings per share (in PLN):			
Basic		1.15	5.13
Diluted		1.15	5.13
Earnings per share (in PLN) from continuing operations:			
Basic		1.15	5.13
Diluted		1.15	5.13

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

STATEMENT OF OTHER COMPREHENSIVE INCOME OF CIECH S.A.

	Note	01.01.-31.12.2019	01.01.-31.12.2018
Net profit for the year		**60,436**	**270,612**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	3.6	**112**	**(5,345)**
Cash flow hedge reserve	3.6	112	(5,345)
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	3.6	**(59)**	**(136)**
Actuarial gains		(59)	(136)
Income tax attributable to other comprehensive income	4.1	**16**	**973**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	4.1	5	947
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	4.1	11	26
Other comprehensive income net of tax		**69**	**(4,508)**
TOTAL COMPREHENSIVE INCOME		**60,505**	**266,104**

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

STATEMENT OF FINANCIAL POSITION OF CIECH S.A.

	Note	31.12.2019	31.12.2018
ASSETS			
Property, plant and equipment	5.1	14,131	13,551
Intangible assets	5.3	54,414	46,057
Long-term financial assets	5.4	2,416,967	2,339,188
Deferred income tax assets	4.3	2,166	25,514
Rights to use an asset	5.2	29,336	-
Total non-current assets		**2,517,014**	**2,424,310**
Inventory	5.5	30,694	41,019
Short-term financial assets	5.7	794,231	1,006,464
Trade and other receivables	5.6	378,010	400,673
Cash and cash equivalents	5.8	169,983	54,988
Total current assets		**1,372,918**	**1,503,144**
Total assets		**3,889,932**	**3,927,454**
EQUITY AND LIABILITIES			
Share capital	6.2	287,614	287,614
Share premium		470,846	470,846
Cash flow hedge reserve	8.2	(1,035)	(1,152)
Actuarial gains		(37)	11
Other reserve capitals	6.2	76,199	76,199
Retained earnings		629,619	569,183
Total equity		**1,463,206**	**1,402,701**
Loans, borrowings and other debt instruments	7.1	1,580,756	1,333,695
Lease liabilities	7.4	24,405	-
Other non-current liabilities	7.2	26,686	59,416
Employee benefits reserve	7.5	1,089	574
Total non-current liabilities		**1,632,936**	**1,393,685**
Loans, borrowings and other debt instruments	7.1	301,762	493,601
Lease liabilities	7.4	5,035	-
Trade and other liabilities	7.3	451,356	532,895
Income tax liabilities		-	867
Employee benefits reserve	7.5	2,312	421
Other provisions	7.6	33,325	103,284
Total current liabilities		**793,790**	**1,131,068**
Total liabilities		**2,426,726**	**2,524,753**
Total equity and liabilities		**3,889,932**	**3,927,454**

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

STATEMENT OF CASH FLOWS OF CIECH S.A.

	Note	01.01.-31.12.2019	01.01.-31.12.2018
Cash flows from operating activities			
Net profit for the period		**60,436**	**270,612**
Amortisation/depreciation		13,433	8,627
Recognition of impairment allowances		12,836	(309,183)
Foreign exchange (profit) /loss		2,335	7,062
(Profit) / loss on investment activities		-	82
(Profit) / loss on disposal of property, plant and equipment		(32)	(30)
Dividends and interest		8,342	(5,645)
Income tax		26,695	63,401
Change in liabilities due to loan arrangement fee		606	(1,702)
Value of derivatives		(9,867)	27,276
Other		-	691
Cash from operating activities before changes in working capital and provisions		**114,784**	**61,191**
Change in receivables	*9.1*	23,418	(13,141)
Change in inventory		10,325	(9,224)
Change in current liabilities	*9.1*	(81,054)	48,499
Change in provisions and employee benefits	*9.1*	(1,156)	23,670
Cash generated from operating activities		**66,317**	**110,995**
Interest paid		(78,990)	(40,856)
Income tax (paid)		(49,878)	(5,907)
Net cash from operating activities		**(62,551)**	**64,232**
Cash flows from investment activities			
Disposal of a subsidiary		-	69
Disposal of intangible assets and property, plant and equipment		34	36
Dividends received		5,268	1,678
Interest received		18,607	23,981
Cash pooling inflows		39,853	-
Proceeds from repaid borrowings		293,388	136,428
Acquisition of a subsidiary		(4,867)	(172,371)
Acquisition of intangible assets and property, plant and equipment		(19,893)	(28,607)
Raise capital expenditures and extra charge on capital		(13,780)	(8,180)
Borrowings paid out		(183,230)	(187,270)
Cash pooling outflows		-	(33,851)
Net cash from investment activities		**135,380**	**(268,087)**
Cash flows from financial activities			
Proceeds from loans and borrowings		261,701	649,072
Cash pooling inflows		42,317	-
Dividends paid to parent company		-	(395,249)
Repayment of loans and borrowings		(256,500)	(334,515)
Cash pooling outflows		-	(36,073)
Payment of lease liabilities		(5,429)	-
Net cash from financial activities		**42,089**	**(116,765)**
Total net cash flows		**114,918**	**(320,620)**
Cash and cash equivalents as at the beginning of the period		**54,988**	**375,393**
Impact of foreign exchange differences		*77*	*215*
Cash and cash equivalents as at the end of the period	*5.8*	**169,983**	**54,988**

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

STATEMENT OF CHANGES IN EQUITY OF CIECH S.A.

	Share capital	Share premium	Cash flow hedge reserve	Other reserve capitals	Actuarial gains	Retained earnings	**Total equity**
Note	*6.2*		*8.2*	*6.2*			
01.01.2019	**287,614**	**470,846**	**(1,152)**	**76,199**	**11**	**569,183**	**1,402,701**
Total comprehensive income for the period	**-**	**-**	**117**	-	(48)	**60,436**	**60,505**
Net profit / (loss) for the period	-	-	-	-	-	60,436	60,436
Other comprehensive income	-	-	117	-	(48)	-	69
31.12.2019	**287,614**	**470,846**	**(1,035)**	**76,199**	**(37)**	**629,619**	**1,463,206**
01.01.2018	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**711,002**	**1,549,028**
OB correction due to IFRS 9	-	-	-	-	-	(17,182)	(17,182)
01.01.2018	**287,614**	**470,846**	**3,246**	**76,199**	**121**	**693,820**	**1,531,846**
Transactions with owners	**-**	**-**	**-**	-	-	**(395,249)**	**(395,249)**
Dividend payment	-	-	-	-	-	(395,249)	(395,249)
Total comprehensive income for the period	**-**	**-**	**(4,398)**	-	(110)	**270,612**	**266,104**
Net profit / (loss) for the period	-	-	-	-	-	270,612	270,612
Other comprehensive income	-	-	(4,398)	-	(110)	-	(4,508)
31.12.2018	**287,614**	**470,846**	**(1,152)**	**76,199**	**11**	**569,183**	**1,402,701**

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

1 GENERAL INFORMATION

1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

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

CIECH S.A. is a holding company that manages and provides support services to its subsidiaries — domestic and foreign manufacturing, trade and service companies of the CIECH Group. The CIECH Group is an international, professionally managed group with a well-established position of a leader of the chemical sector in Central and Eastern Europe. It manufactures products which are used in the production of articles necessary in everyday life of people all over the world – state-of-the-art products of the highest, world quality. Taking advantage of the support of a reliable strategic investor – Kulczyk Investments – it implements the strategy of global development.

Key products manufactured by the CIECH Group include: sodium carbonate, sodium bicarbonate, evaporated salt, epoxy and polyester resins, agrochemical products, polyurethane foams, lanterns and jars, sodium and potassium silicates. The core sales market for the CIECH Group is the European Union, including mainly Poland, Germany and Central Eastern European countries. Products manufactured by the CIECH Group are also exported to overseas markets and sold mainly to customers in India, North Africa and the Middle East.

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

1.2.1. REPRESENTATIONS OF THE MANAGEMENT BOARD

These financial statements of CIECH S.A. for the period from 1 January 2019 to 31 December 2019, including comparative data, were approved by the Management Board of CIECH S.A. on 31 March 2020.

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

The Management Board of CIECH S.A. represents that to the best of its knowledge these separate financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of CIECH S.A.'s financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the Directors' report on operations of the CIECH Group and CIECH S.A. in 2019 contains a true image of the Company's developments, achievements, and condition, including the description of major risks and threats.

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

1.2.2. BASIS OF PREPARATION

On 31 January 2007, the Extraordinary General Meeting of Shareholders of CIECH S.A. adopted resolution No 4, concerning the preparation of separate financial statements in accordance with International Financial Reporting Standards as approved by the European Union. Due to the adopted resolution, since 2007 the reports of CIECH S.A. have been prepared in accordance with the IFRS using the valuation of assets and liabilities and the measurement of net profit/loss. Major accounting principles applied in the preparation of these financial statements are listed in note 1.4. These principles have been applied on a continuous basis in all presented periods, except for changes described in the financial statements.

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

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

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

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

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

1.3. FUNCTIONAL AND REPORTING CURRENCY

The Polish zloty (PLN) is the functional currency of CIECH S.A., and the reporting currency of these financial statements. Unless stated otherwise, all financial data in these financial statements have been presented in thousands of Polish zlotys (PLN '000). CIECH S.A. has Branches (in Romania and Germany) whose accounting records are kept in local currencies (RON and EUR). For the purpose of preparing the financial statements of CIECH S.A., accounting records of the Branch in Romania are translated using the transaction exchange rates and the accounting records of the Branch in Germany – at the average NBP rate for a given period. Due to an insignificant value of transactions, translation at this exchange rate does not result in a material distortion of results.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

1.4. ACCOUNTING POLICIES

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

Note	Title	Accounting principles	Judgements and estimates
3.1.	Sales revenues	x	
3.2.	Cost of sales	x	
3.4.; 3.5.	Other income and expenses	x	x
4.1.	Income tax	x	
4.3.	Deferred income tax	x	x
5.1.	Property, plant and equipment	x	x
5.2.	Right-of-use assets	x	x
5.3.	Intangible assets	x	x
5.4.	Long-term financial assets	x	x
5.5.	Inventories	x	x
5.6.	Short-term receivables	x	x
5.7.	Short-term financial assets	x	x
5.8.	Cash and cash equivalents	x	x
6.2.	Equity	x	
7.2.	Other non-current liabilities	x	x
7.3.	Current trade and other liabilities	x	x
7.4.	Leases	x	x
7.5.	Provisions for employee benefits	x	x
7.6.	Other provisions	x	x
8.1.	Financial instruments	x	x
8.2.	Financial instruments designated for hedge accounting	x	x
9.2.	Information on changes in contingent assets and liabilities and other matters	x	x

1.5. CHANGES IN ACCOUNTING POLICIES AND THE SCOPE OF DISCLOSURES

Apart from the changes in accounting policies resulting from the entry into force of new standards, amendments to standards and interpretations, CIECH S.A. changed the manner of accounting for the disposal of inventories – from the FIFO method to the weighted average method.

The amendments to IFRS that became effective as of 1 January 2019, concerning the application IFRS 16, had an impact on these financial statements of CIECH S.A. They are presented below, together with other amendments to IAS/IFRS and their potential impact on the Company's financial statements:

New Standards, amendments to Standards and Interpretations:		
Approved by the IASB for application after 1 January 2019	Impact on the financial statements	Effective year in the EU
IFRS 16 "Leases"	Impact on the financial statements described in Section 1.5.1	2019
Amendments to IFRS 9 "Financial instruments" – prepayment features with negative compensation	No material impact on the financial statements	2019
Amendments to IAS 28 "Investments in associates" – measurement of long-term investments	No material impact on the financial statements	2019
Annual Improvements to IFRSs, 2015–2017 Cycle	No material impact on the financial statements	2019
Amendments to IAS 19 "Employee benefits" – amendments to defined benefit plans	No material impact on the financial statements	2019
IFRIC 23 "Uncertainty over income tax treatments"	The Company analyses issues related to the recognition of income tax on an ongoing basis – if there are significant uncertainties as to the tax treatment of	2019

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

New Standards, amendments to Standards and Interpretations:		
	transactions, their estimated effects are recognised in the financial statements	
Approved by the IASB for application after 1 January 2020	**Impact on the financial statements**	**Effective year in the EU**
Amendments to references to the Conceptual Framework in IFRSs	No material impact on the financial statements is estimated	2020
Amendments to IFRS 3 "Business Combinations" – definition of a business – not yet endorsed by the EU	No material impact on the financial statements is estimated	2020
Amendments to IAS 1 and IAS 8 – definition of "material"	No material impact on the financial statements is estimated	2020
Amendments to IFRS 9, IAS 39 and IFRS 7 in response to the IBOR reform – modification of IFRS and IAS so that the expected reform of benchmark rates does not result in the termination of hedge accounting.	The Company analyses issues related to the expected reform of benchmark rates – if there are any changes, their estimated effects will be recognised in the financial statements	2020
IFRS 14 "Regulatory deferral accounts"	No material impact on the financial statements is estimated	2020
Amendments to IFRS 10 and IAS 28 concerning sales or contributions of assets between an investor and its associate / joint venture	No material impact on the financial statements is estimated	2020
Approved by the IASB for application after 1 January 2021	**Impact on the financial statements**	**Effective year in the EU**
IFRS 17 "Insurance Contracts"	No material impact on the financial statements is estimated	2021

1.5.1 IFRS 16 "Leases"

On 1 January 2019, CIECH S.A. adopted a new financial reporting standard, IFRS 16 Leases.

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. CIECH S.A. had not elected to early adopt the standard and implemented the standard as of 1 January 2019. In accordance with the transitional provisions of IFRS 16, the new policies were adopted retrospectively: the cumulative impact of applying the new standard was accounted for as an adjustment to equity as at 1 January 2019. Accordingly, the comparative data for the financial year 2018 have not been restated (modified retrospective approach).

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

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

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

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

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

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

In addition, the period of the lease payment projections applied referred previously only to the irrevocable lease term, whereas under IFRS 16, the lease term over which the lease liability is recognised also includes any periods resulting from an extension or early termination if any of the above scenarios is sufficiently certain in the entity's judgement. In the case of contracts with an extension option, the lease liability would be respectively higher, while termination options resulted in a reduction in the liability amount.

The Company applies the simplifications for short-term leases and low-value asset leases provided for in the standard. It is assumed that assets whose unit value does not exceed approximately PLN 20 thousand, which corresponds to approximately USD 5 thousand, are low-value assets. Short-term leases are those whose term is shorter than 12 months.

IFRS 16 – Estimates and judgements

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

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

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

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

CIECH S.A.	01.01.2019
Recognized rights to use an asset	32,518
Recognized liabilities from lease	32,518

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

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

Lease periods used to estimate the value of lease liabilities, broken down by underlying asset classes, were as follows:
- buildings, premises, civil and marine engineering structures 1-8 years
- vehicles 1-3 years

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

CIECH S.A.	01.01.-31.12.2019 MSSF 16
Decrease in costs of taxes, charges and services	5,429
Increase in interest costs (unwinding of discount)	(1,132)
Increase in amortisation and depreciation costs	(4,621)

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

	01.01-31.12.2019
Costs of short-term leases (concluded for a period of up to 12 months)	2
Costs of lease of low-value assets	900
Costs related to variable lease payments not included in the measurement of lease liabilities	1,220

2 SEGMENT REPORTING

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

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

Soda segment – the most important manufactured goods in the scope of the segment products are: light and dense sodium carbonate, evaporated salt, sodium bicarbonate and calcium chloride. The products of this segment are sold mainly by the parent company CIECH S.A. Production of the soda segment goods manufactured by the CIECH Group is implemented in CIECH Soda Polska S.A., the Romanian company CIECH Soda Romania S.A. (until September 2019)and in the German company CIECH Soda Deutschland GmbH&Co. KG. (the German company also sells its products on its own). Soda segment goods are used in the glass, food, detergent and pharmaceutical industries.

Organic segment – CIECH S.A. was the main supplier of raw materials to companies operating within the organic segment. The CIECH Group companies (CIECH Sarzyna S.A., CIECH Pianki Sp. z o.o.) are the producers of a variety of organic compounds, including polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. CIECH Sarzyna S.A. and Proplan Plant Protection Company S.L. manufacture crop protection chemicals used in agriculture.

Silicates and Glass segment – CIECH S.A. sells the Silicates and Glass segment products manufactured by CIECH Soda Romania S.A. In 2019, key products in this group included glassy sodium silicate and sodium water glass. These products are used by the construction industry and in the production of detergents.

Transport segment – it includes forwarding activities carried out by CIECH S.A. for its subsidiaries, i.e. CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Soda Polska S.A. and CIECH Trading S.A.

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

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

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

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

Reporting segments are identical to operating segments. Revenues and costs, assets and liabilities of segments are recognised and measured in a manner consistent with the method used in the financial statements.

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

	01.01.-31.12.2019	01.01.-31.12.2018
Net profit/(loss) on continuing operations	60,436	270,612
Income tax	26,695	63,401
Financial expenses	111,336	121,818
Financial income	(88,495)	(343,552)
Amortisation/depreciation	13,433	8,627
EBITDA on continued operations	**123,405**	**120,906**

	01.01.-31.12.2019	01.01.-31.12.2018
EBITDA on continued operations	**123,405**	**120,906**
One-offs including:	(3,819)	(325)
Impairment	-	210
Cash items (a)	(40)	112
Non-cash items (without impairment) (b)	(3,779)	(647)
Adjusted EBITDA from continuing operations	**119,586**	**120,581**

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

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

OPERATING SEGMENTS

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

OPERATING SEGMENTS 01.01.-31.12.2019	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions	TOTAL
Total sales revenues	**1,771,913**	**451,532**	**12,304**	**47,357**	**2,959**	**-**	**2,286,065**
Cost of sales	(1,446,998)	(436,023)	(10,567)	(46,600)	(2,621)	-	(1,942,809)
Gross profit /(loss) on sales	**324,915**	**15,509**	**1,737**	**757**	**338**	**-**	**343,256**
Selling costs	(168,149)	(5,961)	(1,388)	(2,174)	-	(584)	(178,256)
General and administrative expenses	(1,909)	-	(80)	-	(667)	(74,328)	(76,984)
Result on management of receivables	706	(76)	1	(19)	17	-	629
Result on other operating activities	1,366	-	-	(29)	(862)	20,852	21,327
Operating profit /(loss)	**156,929**	**9,472**	**270**	**(1,465)**	**(1,174)**	**(54,060)**	**109,972**
Exchange differences and interest on trade settlements	(14,351)	2,589	-	78	(82)	-	(11,766)
Borrowing costs	-	-	-	-	-	(18,606)	(18,606)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	7,531	7,531
Profit /(loss) before tax	**142,578**	**12,061**	**270**	**(1,387)**	**(1,256)**	**(65,135)**	**87,131**
Income tax	-	-	-	-	-	-	(26,695)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**60,436**
Amortization/depreciation	3,538	45	3	256	630	8,961	13,433
EBITDA	160,467	9,517	273	(1,209)	(544)	(45,099)	123,405
Adjusted EBITDA*	160,099	9,517	273	(1,180)	(529)	(48,594)	119,586

** Adjusted EBITDA for the 12-month period ended 31 December 2019 is calculated as EBITDA adjusted for untypical one-off events such as: reversal of provisions for liabilities: PLN 3,779 thousand, other: PLN 40 thousand.*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

OPERATING SEGMENTS 01.01.-31.12.2018	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions	TOTAL
Total sales revenues	**1,822,982**	**531,116**	**16,939**	**44,465**	**3,032**	**-**	**2,418,534**
Cost of sales	(1,452,230)	(515,974)	(14,458)	(44,368)	(2,426)	-	(2,029,456)
Gross profit /(loss) on sales	**370,752**	**15,142**	**2,481**	**97**	**606**	**-**	**389,078**
Selling costs	(213,227)	(2,539)	(1,342)	(3,753)	(140)	(223)	(221,224)
General and administrative expenses	(1,175)	(642)	(52)	(183)	-	(53,636)	(55,688)
Result on management of receivables	(36)	(45)	(1)	(3)	(207)	-	(292)
Result on other operating activities	1,011	(25)	(7)	(52)	67	(589)	405
Operating profit /(loss)	**157,325**	**11,891**	**1,079**	**(3,894)**	**326**	**(54,448)**	**112,279**
Exchange differences and interest on trade settlements	(6,967)	(12,434)	(87)	(1)	(215)	-	(19,704)
Borrowing costs	-	-	-	-	-	(24,701)	(24,701)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	266,139	266,139
Profit /(loss) before tax	**150,358**	**(543)**	**992**	**(3,895)**	**111**	**186,990**	**334,013**
Income tax							(63,401)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**270,612**
Amortization/depreciation	3,432	-	-	-	-	5,195	8,627
EBITDA	160,757	11,891	1,079	(3,894)	326	(49,253)	120,906
Adjusted EBITDA*	160,814	11,892	1,086	(3,844)	326	(49,693)	120,581

** Adjusted EBITDA for the 12-month period ended 31 December 2018 is calculated as EBITDA adjusted for untypical one-off events: impairment of non-financial assets: PLN -210 thousand, recognition/reversal of provisions: PLN 652 thousand, penalty fees and compensation paid/received: PLN -106 thousand, donations given: PLN -40 thousand, other: PLN 29 thousand.*

There are no significant customers outside the CIECH Group from whom the Company would earn 10% of its total revenues.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Soda segment	140,535	202,832	280,435	373,640
Organic segment	166,208	112,887	71,359	84,483
Silicates and glass segment	1,342	4,695	2,686	2,208
Transport segment	12,293	10,859	9,931	6,760
Other operations segment	5,628	1,009	21,337	9,590
Corporate functions	3,563,926	3,595,172	2,040,978	2,048,072
TOTAL	**3,889,932**	**3,927,454**	**2,426,726**	**2,524,753**

SALES REVENUES BY BUSINESS SEGMENTS

	31.12.2019	31.12.2018	Change 2019/2018	Change %
Soda segment, including:	**1,771,913**	**1,822,982**	**(51,069)**	**(2.8%)**
Dense soda ash	985,772	1,006,615	(20,843)	(2.1%)
Light soda ash	410,357	467,732	(57,375)	(12.3%)
Salt	197,626	182,634	14,992	8.2%
Sodium bicarbonate	98,702	97,255	1,447	1.5%
Calcium chloride	26,174	26,159	15	0.1%
Other goods and services	53,282	42,587	10,695	25.1%
Organic segment, including:	**451,532**	**531,116**	**(79,584)**	**(15.0%)**
Raw materials for production of plant protection products	117,681	130,734	(13,053)	(10.0%)
Raw materials for production of plastics	196,420	245,919	(49,499)	(20.1%)
Raw materials for the production of polyurethane foams	127,479	143,793	(16,314)	(11.3%)
Other goods and services	9,952	10,670	(718)	(6.7%)
Silicates and Glass segment, including:	**12,304**	**16,939**	**(4,635)**	**(27.4%)**
Sodium silicates	10,436	15,225	(4,789)	(31.5%)
Other goods and services	1,868	1,714	154	9.0%
Transport segment, including:	**47,357**	**44,465**	**2,892**	**6.5%**
Transport services	47,357	44,465	2,892	6.5%
Other segment, including:	**2,959**	**3,032**	**(73)**	**(2.4%)**
Revenues from third parties	2,959	3,032	(73)	(2.4%)
TOTAL	**2,286,065**	**2,418,534**	**(132,469)**	**(5.5%)**

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

INFORMATION ON GEOGRAPHICAL AREAS

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

	ASSETS	
	31.12.2019	31.12.2018
Poland	2,230,288	2,276,979
European Union (excluding Poland)	1,639,972	1,551,440
Other European countries	6,665	39,838
Africa	911	9,745
Asia	12,096	49,452
TOTAL	**3,889,932**	**3,927,454**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

The Company's non-current assets are located in Poland and the European Union. As regards the European Union, the most significant non-current assets comprise shares in subsidiaries having their registered offices mainly in Romania (PLN 111,000 thousand), Germany (PLN 798,356 thousand) and Spain (PLN 203,866 thousand). Trade and other receivables constitute the main component of current assets presented in individual geographical areas.

REVENUE BY GEOGRAPHICAL REGION

	01.01.-31.12.2019	01.01.-31.12.2018
Poland	1,358,548	1,239,920
European Union (excluding Poland)	598,341	679,552
Germany	113,554	131,705
Romania	83,024	121,499
Czech Republic	132,759	119,889
Italy	5,867	8,549
The Netherlands	46,634	47,725
Finland	50,609	56,207
Sweden	37,327	55,673
Belgium	12,124	13,828
United Kingdom	32,343	25,674
Denmark	7,257	1,155
France	3,957	15,148
Luxembourg	161	-
Lithuania	7,537	10,839
Other EU countries	65,188	71,661
Other European Countries	122,583	207,566
Switzerland	12,684	105,538
Norway	44,452	37,008
Russia	863	803
Other European countries	64,584	64,217
Africa	69,459	60,255
Asia	131,969	217,793
Indie	64,802	123,780
Singapur	9,325	11,397
Bangladesz	24,471	16,172
Hongkong	15,023	25,078
Turcja	3,496	10,867
Other Asian countries	14,852	30,499
Other regions	2,440	6,787
Hedge accounting	2,725	6,661
TOTAL	**2,286,065**	**2,418,534**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

3.1. SALES REVENUES

Accounting policy

The Entity recognises revenues based on the so-called 5-step model – when it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. When (or as) a performance obligation is satisfied, the Entity recognises as revenues the amount of the transaction price that is allocated to that performance obligation.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.

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

SALES REVENUES	01.01.-31.12.2019	01.01.-31.12.2018
Revenues from sales of products and services	**119,954**	**105,833**
- services	119,954	105,833
Revenues from sales of goods and materials	**2,166,111**	**2,312,701**
- goods	2,166,111	2,312,701
Net sales of products, goods and materials	**2,286,065**	**2,418,534**

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

Accounting policy

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

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

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

COST OF SALES, SELING COST AND ADMINISTRATIVE EXPENSES	01.01.-31.12.2019	01.01.-31.12.2018
Cost of manufacture of products and services sold	(104,890)	(93,694)
Cost of sold goods and materials sold	(1,837,919)	(1,935,762)
Cost of sales	**(1,942,809)**	**(2,029,456)**
Selling costs	**(178,256)**	**(221,224)**
General and administrative expenses	**(76,984)**	**(55,688)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01.-31.12.2019	01.01.-31.12.2018
Amortisation	(13,433)	(8,627)
Consumption of materials and energy	(3,127)	(3,135)
Employee benefits, including:	(87,576)	(53,984)
- payroll	(75,752)	(46,007)
- social security and other benefits	(10,042)	(7,977)
- other	(1,782)	-
External services	(235,824)	(266,361)

3.4. OTHER OPERATING INCOME AND EXPENSES

Accounting policy

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

The key items include:

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

Judgements and estimates

Impairment of non-financial assets

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

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

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

OTHER OPERATING INCOME	01.01.-31.12.2019	01.01.-31.12.2018
Rents/lease income	470	582
Gain on disposal of non-financial non-current assets	32	31
Reversal of impairment allowances on receivables	923	682
Reversal of impairment losses on property, plant and equipment and intangible assets	-	1
Reversal of provisions for liabilities – changing the base	4,238	924
Reversal of other provisions	1,891	-
Penalty fees and compensations received	180	38
Other services	328	-
Other	18,841	1,896
TOTAL	**26,903**	**4,154**

The "other" item includes the amount of PLN 17,612 thousand, representing the value of deferred payment for the acquisition of Proplan. EUR 4,136 thousand of discounted conditional deferred payment which depended on Proplan's results for 2018 and 2019, was payable respectively in 2019 and 2020 (the estimation of nominal payments at the moment of acquisition of control was EUR 4,270 thousand). However, due to the fact that Proplan failed to achieve financial results allowing for payment of this part of consideration for the acquisition of Proplan Plant Protection Company, S.L., the value of this deferred payment was recognised on a one-off basis as other operating income in the amount of PLN 17,612 thousand.

OTHER OPERATING EXPENSES	01.01.-31.12.2019	01.01.-31.12.2018
Rental costs	(847)	(581)
Recognition of impairment losses on receivables	(292)	(974)
Recognition of impairment losses on property, plant and equipment and intangible assets	-	(210)
Recognition of provisions on employee benefits	(2,767)	(244)
Recognition of provisions for liabilities	(251)	(272)
Other	(790)	(1,760)
TOTAL	**(4,947)**	**(4,041)**

As at 31 December 2019, CIECH S.A. made an assessment of premises, originating both from external and internal sources of information, of indicators of impairment of non-financial assets. These analyses did not indicate the need to make any significant estimates of the recoverable amount.

3.5. FINANCIAL INCOME AND EXPENSES

Accounting policy

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

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

Judgements and estimates

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Where it is necessary to recognise impairment losses on involvement in other companies, such losses are recognised in the following order: on shares, on loans granted, on interest on loans.

NET FINANCIAL INCOME (EXPENSES)	01.01.-31.12.2019	01.01.-31.12.2018
Interest	45,625	54,777
Dividends and shares in profit	5,269	1,677
Net foreign exchange gains	2,432	2,671
Reversal of impairment losses	7,051	282,937
Profits from derivatives	24,571	112
Reversal of provision of financial liabilities - changing the base	1,755	-
Other	1,792	1,378
Total financial income	**88,495**	**343,552**
Interest	(68,563)	(69,014)
Recognition of other impairment losses*	(17,730)	(23,281)
Factoring commissions	(161)	(1,698)
Bank fees and commissions	(3,077)	(3,519)
Recognition of provision for anticipated losses	(2,261)	(1,320)
Loss due to derivatives	-	(9,198)
Costs of discounting of liabilities	(2,522)	(1,181)
Guarantees costs	(14,001)	(10,734)
Other	(3,021)	(1,873)
Total financial expenses	**(111,336)**	**(121,818)**
Net Financial income (expenses)	**(22,841)**	**221,734**

**Includes, among others recognises and reversed impairment losses on financial assets, a more detailed description of which is given in note 5.4, 5.7.*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income of the CIECH Group	01.01.-31.12.2019			01.01.-31.12.2018		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Cash flow hedge	112	5	117	(5,345)	947	(4,398)
Valuation of actuarial provisions	(59)	11	(48)	(136)	26	(110)
TOTAL	**53**	**16**	**69**	**(5,481)**	**973**	**(4,508)**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2019	01.01.-31.12.2018
Cash flow hedge	**112**	**(5,345)**
fair value remeasurement in the period	(4,912)	(14,690)
reclassification to profit or loss	5,024	9,345
Valuation of actuarial provisions	**(59)**	**(136)**
remeasurement for the current period	(59)	(136)
Income tax attributable to other components of other comprehensive income	**16**	**973**
accrued for the current period	883	2,767
reclassification to profit or loss	(867)	(1,794)
Other comprehensive income net of tax	**69**	**(4 508)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

4 INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

Accounting policy

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

4.1. MAIN COMPONENTS OF TAX EXPENSE

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-31.12.2019	01.01.-31.12.2018
Current income tax	**(3,331)**	**(47,487)**
Income tax for the reporting period	(1,842)	(6,790)
Adjustment to tax for previous years	(1,489)	(40,697)
Deferred tax	**(23,364)**	**(15,914)**
Origination/reversal of temporary differences	(23,364)	(15,914)
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(26,695)**	**(63,401)**

For a detailed description of proceedings concerning tax settlements, see note 9.2 to these financial statements.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME	01.01.-31.12.2019	01.01.-31.12.2018
Cash flow hedge	5	947
Valuation of actuarial provisions	11	26
TOTAL	**16**	**973**

4.2. EFFECTIVE TAX RATE

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

EFFECTIVE TAX RATE	01.01.-31.12.2019	01.01.-31.12.2018
Profit (loss) before taxes	**87,131**	**334,013**
Income tax based on currently enacted tax rate	(16,555)	(63,462)
Difference due to the application of tax rates of other tax jurisdictions*	(1,469)	(1,023)
Tax effect of revenues which are not revenues according to tax regulations (permanent difference)**	9,008	65,054
Tax effect of costs which are not obtaining costs according to tax regulations (permanent difference)***	(16,191)	(23,273)
Tax losses from statement periods from which deferred tax asset was not included	(1,489)	(40,697)
Income tax recognised In profit and loss statement	**(26,695)**	**(63,401)**
EFFECTIVE TAX RATE	**31%**	**19%**

**The Branch of CIECH S.A. in Romania is subject to a tax rate of 16% and the Branch of CIECH S.A. in Germany – to a tax rate of 30.88%. The tax rates were applied continuously in both periods.*

***The main items included in the amount of revenues which are not revenues according to tax regulations result from reversal of provisions for liabilities, change in liability on account of acquisition of a subsidiary, reversal of impairment losses on investments in subsidiaries and dividend income.*

****The main items included in the amount of non-tax deductible expenses result from the recognition of provisions and impairment losses under IFRS 9.*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

4.3. DEFERRED INCOME TAX

Accounting policy

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

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

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

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

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

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

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

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

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

Judgements and estimates

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

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2019			31.12.2018		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	40	74	(34)	40	74	(34)
Financial assets	641	9,971	(9,330)	646	9,746	(9,100)
Inventory	-	177	(177)	-	203	(203)
Trade and other receivables	118	-	118	118	152	(34)
Provisions for employee benefits	240	-	240	106	3	103
Tax losses carried forward	331	-	331	15,916	-	15,916
Foreign exchange differences	2,593	46	2,547	2,511	-	2,511

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	31.12.2019			31.12.2018		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Liabilities	8,471	-	8,471	16,417	62	16,355
Rights to use an asset	-	5,574	(5,574)			
Lease liabilities	5,594	-	5,594			
Other	-	20	(20)	-	-	-
Deferred tax assets/liability	**18,028**	**15,862**	**2,166**	**35,754**	**10,240**	**25,514**
Set - off of deferred tax assets/ liability	(15,862)	(15,862)	-	(10,240)	(10,240)	-
Deferred tax assets/liability recognised in the statement of financial position	**2,166**	**-**	**2,166**	**25,514**	**-**	**25,514**

The Company estimates that within more than 12 months from the period of the financial statements presentation the deferred tax asset will be utilised in the amount of PLN 680 thousand. In the same period, the estimated amount of settlement of the deferred tax liability will be PLN 9,971 thousand.

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2019	Opening balance adjustment	Opening balance after adjustment	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	31.12.2019
Property, plant and equipment	(181)		(181)	-	-	(181)
Financial assets	(48,603)		(48,603)	(389)	(112)	(49,104)
Inventory	(1,068)		(1,068)	138	-	(930)
Trade and other receivables	305		305	316	-	621
Provisions for employee benefits	541		541	663	59	1,263
Tax losses carried forward	83,770		83,770	(82,030)	-	1,740
Foreign exchange differences	13,221		13,221	192	-	13,413
Liabilities	86,337		86,337	(41,756)	-	44,581
Rights to use an asset		(32,518)	(32,518)	3,182		(29,336)
Lease liabilities		32,518	32,518	(3,078)		29,440
Other	-		-	(104)	-	(104)
TOTAL	**134,322**	**-**	**134,322**	**(122,866)**	**(53)**	**11,403**

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2018	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	31.12.2018
Property, plant and equipment	(391)	210	-	(181)
Financial assets	(79,567)	36,197	(5,233)	(48,603)
Inventory	-	(1,068)	-	(1,068)
Trade and other receivables	(6,826)	7,131	-	305
Provisions for employee benefits	421	(15)	135	541
Tax losses carried forward	252,753	(168,983)	-	83,770
Foreign exchange differences	16,904	(3,683)	-	13,221
Liabilities	24,064	62,273	-	86,337
TOTAL	**207,358**	**(67,938)**	**(5,098)**	**134,322**

The Management Board of the Company predicts that sufficient taxable profit will be realised in the period when the provision can be utilised against which the Company can fully utilise the benefits therefrom. The expected taxable profit will be generated primarily on operating activities.

The Company recognised deferred tax assets in respect of tax loss carried forward, on the basis of its tax budgets. It is predicted that sufficient taxable profits will be realised in the period when the liability can be utilised against which the Company can fully utilise the benefits therefrom.

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

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

5 NOTES TO ASSETS REPORTED IN THE STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

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

Subsequent costs

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

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

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

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

Depreciation

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

Buildings	5-7 years
Machinery and equipment	2-5 years
Other	5 years

Judgements and estimates

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

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

01.01.-31.12.2019	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	**413**	**23,273**	**60**	**1,696**	**501**	**25,943**
Purchase	-	1,498	44	136	1,678	3,356
Investment outlays	-	-	-	-	3,427	3,427

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

01.01.-31.12.2019	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Reclassification	137	-	93	(93)	(1,815)	(1,678)
Sales	-	(159)	(59)	(4)	(6)	(228)
Liquidation	-	-	-	(3)	-	(3)
Gross value of property, plant and equipment at the end of the period	**550**	**24,612**	**138**	**1,732**	**3,785**	**30,817**
Accumulated depreciation at the beginning of the period	**(128)**	**(11,035)**	**(60)**	**(1,169)**	**-**	**(12,392)**
Depreciation for the period	**(56)**	**(4,072)**	**29**	**(195)**	**-**	**(4,294)**
Annual depreciation charge	(60)	(4,169)	(30)	(225)	-	(4,484)
Sales	-	90	59	3	-	152
Accumulated depreciation at the end of the period	**(184)**	**(15,107)**	**(31)**	**(1,364)**	**-**	**(16,686)**
Impairment losses at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**
Impairment losses at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount of property, plant and equipment at the beginning of period	**285**	**12,238**	**-**	**527**	**501**	**13,551**
Carrying amount of property, plant and equipment at the end of the period	**366**	**9,505**	**107**	**368**	**3,785**	**14,131**

01.01.-31.12.2018	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	**761**	**19,792**	**63**	**1,580**	**992**	**23,188**
Purchase	15	3,073	-	111	3,199	6,398
Investment outlays	-	-	-	-	499	499
Reclassification	-	986	-	5	(4,189)	(3,198)
Sales	-	(225)	(3)	-	-	(228)
Liquidation	(363)	(359)	-	-	-	(722)
Other	-	6	-	-	-	6
Gross value of property, plant and equipment at the end of the period	**413**	**23,273**	**60**	**1,696**	**501**	**25,943**
Accumulated depreciation at the beginning of the period	**(433)**	**(7,826)**	**(62)**	**(986)**	**-**	**(9,307)**
Depreciation for the period	**305**	**(3,209)**	**2**	**(183)**	**-**	**(3,085)**
Annual depreciation charge	(58)	(3,787)	(1)	(183)	-	(4,029)
Sales	-	221	3	-	-	224
Liquidation	363	357	-	-	-	720
Accumulated depreciation at the end of the period	**(128)**	**(11,035)**	**(60)**	**(1,169)**	**-**	**(12,392)**
Impairment losses at the beginning of the period	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Reversal	-	1	-	-	-	1
Impairment losses at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount of property, plant and equipment at the beginning of period	**328**	**11,965**	**1**	**594**	**992**	**13,880**
Carrying amount of property, plant and equipment at the end of the period	**285**	**12,238**	**-**	**527**	**501**	**13,551**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2019	01.01.-31.12.2018
General and administrative expenses	(4,484)	(4,029)
TOTAL	**(4,484)**	**(4,029)**

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

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2019	31.12.2018
Owned	14,131	13,551
TOTAL	**14,131**	**13,551**

In 2019, CIECH S.A. received compensation from third parties for impaired tangible fixed assets in the amount of PLN 180 thousand (there was no such compensation in the comparable period).

As at 31 December 2019, all items of property, plant and equipment at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

Future commitments arising from agreements concerning acquisition of property, plant and equipment amounted to PLN 83 thousand in 2019 (in the comparable period: PLN 63 thousand).

As at 31 December 2019, CIECH S.A. does not hold any property, plant and equipment in the off-balance sheet records. At the end of 2018, prior to the implementation of IFRS 16 Leases, CIECH S.A. reported passenger cars with a value of PLN 1,634 thousand in off-balance sheet records.

5.2. RIGHT-OF-USE ASSETS

Accounting policy

Initial measurement of right-of-use assets

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

a) the amount of the initial measurement of the lease liability,
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the lessee; and
d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent measurement of right-of-use assets

After initial recognition, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

In the case of leasehold improvements, expenditures on the purchase or production of third-party fixed assets, once incurred, do not result in the necessity to make payments in the future, and therefore do not meet the definition of lease. The recognition of these expenditures is regulated by IAS 16.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company applies IAS 36 *Impairment of Assets* to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

For a detailed information on the implementation of IFRS 16 Leases, see note 1.5.1.

Changes in carrying amounts of right-of-use assets in the period of 12 months ended 31 December 2019 are as follows:

01.01.-31.12.2019	Buildings offices and land and water engineering facilities	Means of transport	TOTAL
CHANGE OF RIGHTS TO USE ASSETS			
Adjustment of the opening balance (IFRS 16)	**31,616**	**902**	**32,518**
Gross value at the beginning of the period	**31,616**	**902**	**32,518**
Modification of the leasing contract	1,290	-	1,290
Conclusion of new lease agreements	-	204	204
Closing of the contract	-	(55)	(55)
Gross value at the end of the period	**32,906**	**847**	**33,957**
Accumulated depreciation at the beginning of the period	**-**	**-**	**-**
Depreciation for the period	**(3,959)**	**(662)**	**(4,621)**
Annual depreciation charge	(3,959)	(662)	(4,621)
Accumulated depreciation at the end of the period	**(3,959)**	**(662)**	**(4,621)**
Net value of rights to use assets at the beginning of the period	**31,616**	**902**	**32,518**
Net value of rights to use assets at the end of the period	**28,947**	**389**	**29,336**

In 2019, CIECH S.A. implemented IFRS 16 “Leases”. Under this standard, leases of office and warehouse space, as well as leases of passenger cars were identified in the company as lease agreements.

CIECH S.A. is a lessee of office and warehousing space, in which the largest item (approx. 2 thousand m^2) is the office in Warsaw at Wspólna Street, where the Company’s registered office is located. The term of the lease agreement expires in 2028. CIECH S.A. also leases passenger cars. The value of these cars includes the approximate value of the leased assets, determined as the initial value, less the annual depreciation rate for this group of fixed assets.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Some agreements are denominated in foreign currencies and indexed to price indices. Some agreements contain an extension option. For additional information on right-of-use assets, see note 1.5.1 to these financial statements.

5.3. INTANGIBLE ASSETS

Accounting policy

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

Subsequent costs

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

Amortisation

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

Patents and licences	8 years
Other	2-5 years

Judgements and estimates

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

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

01.01.-31.12.2019	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Gross value of intangible assets at the beginning of the period	**37,373**	**18,979**	**29,823**	**86,175**
Purchase	145	-	145	290
Investment outlays	-	-	12,504	12,504
Reclassifications	36,154	-	(36,299)	(145)
Gross value of intangible assets at the end of the period	**73,672**	**18,979**	**6,173**	**98,824**
Accumulated amortisation at the beginning of the period	(31,879)	(8,029)	-	**(39,908)**
Amortisation for the period	**(1,325)**	**(2,967)**	**-**	**(4,292)**
Annual amortisation charge	(1,325)	(2,967)	-	(4,292)
Accumulated amortisation at the end of the period	**(33,204)**	**(10,996)**	**-**	**(44,200)**
Impairment losses at the beginning of the period	**-**	**-**	**(210)**	**(210)**
Impairment losses at the end of the period	**-**	**-**	**(210)**	**(210)**
Net value of intangible assets at the beginning of the period	**5,494**	**10,950**	**29,613**	**46,057**
Net value of intangible assets at the end of the period	**40,468**	**7,983**	**5,963**	**54,414**

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01.01.-31.12.2018	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Gross value of intangible assets at the beginning of the period	**33,107**	**9,887**	**26,459**	**69,453**
Purchase	1,735	-	1,735	3,470
Investment outlays	-	-	14,439	14,439
Reclassifications	2,531	9,092	(13,358)	(1,735)
Activated costs	-	-	548	548
Gross value of intangible assets at the end of the period	**37,373**	**18,979**	**29,823**	**86,175**
Accumulated amortisation at the beginning of the period	(30,715)	(4,595)	-	**(35,310)**
Amortisation for the period	**(1,164)**	**(3,434)**	**-**	**(4,598)**
Annual amortisation charge	(1,164)	(3,434)	-	(4,598)
Accumulated amortisation at the end of the period	**(31,879)**	**(8,029)**	**-**	**(39,908)**
Impairment losses at the beginning of the period	-	-	-	-
Recognition	-	-	(210)	(210)
Impairment losses at the end of the period	**-**	**-**	**(210)**	**(210)**
Net value of intangible assets at the beginning of the period	**2,392**	**5,292**	**26,459**	**34,143**
Net value of intangible assets at the end of the period	**5,494**	**10,950**	**29,613**	**46,057**

In 2019, the capitalisation rate applied to determine the amount of borrowing costs to be capitalised was approx. 6%, whereas in 2018 it amounted to approx. 4%.

CIECH S.A. is the owner of all intangible assets held. The largest item in the Company's intangible assets is the SAP accounting system with the carrying amount of PLN 36,154 thousand.

As at 31 December 2019, all intangible assets at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

An increase in capital expenditure in 2019 was driven by expenditure related to the implementation of the SAP system.

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

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2019	01.01.-31.12.2018
General and administrative expenses	(1,543)	(1,166)
Selling costs	(2,749)	(3,432)
TOTAL	**(4,292)**	**(4,598)**

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

As at 31 December 2019, future commitments arising from agreements concerning acquisition of intangible assets amounted to PLN 3,221 thousand (in the comparable period: PLN 220 thousand).

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

5.4. LONG-TERM FINANCIAL ASSETS

Accounting policy

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

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

Accounting policy concerning financial instruments is presented in note 8.1.

Judgements and estimates

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

NON-CURRENT FINANCIAL ASSETS	31.12.2019	31.12.2018
Shares	2,172,271	2,184,468
Loans granted	239,817	142,861
Derivatives	4,879	11,859
TOTAL	**2,416,967**	**2,339,188**

Change in long-term stocks and shares	01.01.-31.12.2019	01.01.-31.12.2018
Gross value at the beginning of the period	**2,325,395**	**2,115,826**
Purchase	3,210	209,721
Sales/liquidation	-	(152)
Gross value at the end of the period	**2,328,605**	**2,325,395**
Impairment update at the beginning of the period	**(140,927)**	**(404,955)**
Recognition	(15,407)	(2,096)
Reversal/usage	-	266,124
Impairment update at the end of the period	**(156,334)**	**(140,927)**
Net value of the shares at the begging of the period	**2,184,468**	**1,710,871**
Net value of the shares at the end of the period	**2,172,271**	**2,184,468**

CHANGE IN LIABILITIES DUE TO LONG-TERM LOANS	31.12.2019	31.12.2018
Gross value at the beginning of the period	**144,995**	**118,180**
Grant	100,240	148,415
Change of liabilities presented	(585)	-
Grant	-	(118,180)
Foreign exchange differences	(1,527)	(3,420)
Gross value at the end of the period	**243,123**	**144,995**
Impairment update at the beginning of the period	**(2,134)**	**-**
OB correction - recognition of impairment losses according to IFRS 9	-	(1,739)
Recognition	(1,218)	(2,134)
Reversal	46	1,739
Closing balance	**(3,306)**	**(2,134)**
Carrying amount of loans at the beginning of period	**142,861**	**116,441**
Carrying amount of loans at the end of the period	**239,817**	**142,861**

Change in the gross value of long-term shares results primarily from:

- acquisition of shares in CIECH Salz Deutschland GmbH – PLN 125 thousand,
- acquisition of shares in CIECH Żywice Sp. z o.o. (formerly: Vasco Polska Sp. z o.o.) – PLN 885 thousand,
- acquisition of shares in the increased share capital of CIECH R&D Sp. z o.o. – PLN 2,200 thousand,
- recognition of impairment losses on shares held by CIECH S.A. in CIECH Trading S.A., Janikosoda S.A. and Ciech Group Financing AB.

On 20 December 2019, an agreement was signed on the division of the loan granted by CIECH S.A. to CSD GmbH & CO KG in the amount of EUR 138,746 thousand so that a part of the disbursed loan and a part of the loan not disbursed was transferred to CIECH SA Salz GmbH – a loan of EUR 112,207 thousand was transferred, of which the amount disbursed in 2019 was PLN 61,583 thousand (EUR 14,461 thousand).

In addition, in 2019 CIECH S.A. granted long-term loans to its subsidiaries:

- CIECH Soda Polska S.A. — in the amount of PLN 31,614 thousand.

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

- repayment by CIECH Soda Polska S.A. of part of the liability in the amount of PLN 585 thousand.

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

As at 31 December 2019, all long-term receivables from loans at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

CIECH S.A. analyses its involvement in the subsidiaries on the basis of their net assets as at the balance sheet date. If any evidence of impairment is identified, the Company estimates the recoverable amount. Due to the occurrence of premises, CIECH S.A. analysed the recoverability of involvement in subsidiaries. The recoverable value applied was the value in use estimated based on the discounted cash flows determined based on five-year financial plans of the subsidiaries. The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for domestic companies was: 7.5% – for cash flows in PLN, 5.7% – for cash flows in EUR and 7.7% – for cash flows in USD;
- the weighted average cost of capital for SDC GmbH for cash flows in EUR was 5.2%;
- the weighted average cost of capital for Proplan Plant Protection Company, S.L. was 5.8% – for cash flows in EUR and 7.8% – for cash flows in USD;
- the assumed growth rate for the residual period was 2.0% for both the domestic and foreign companies.

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

- recognition of impairment losses:
    - CIECH Trading S.A. - impairment loss on shares in the amount of PLN 15,100 thousand,
    - CIECH Group Financing AB - impairment loss on shares in the amount of PLN 248 thousand,
    - Janikosoda S.A. - impairment loss on shares in the amount of PLN 59 thousand.

According to the Board's estimates:

- in the case of the CIECH Trading S.A., a decrease in the average weighted cost of capital by 1.3 pp without changing the other factors would lead to reverse of the entire revaluation write-down.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

CARRYING AMOUNT OF SHARES IN RELATED ENTITIES

	31.12.2019	31.12.2018	The Company's direct share in the share capital/ total number of votes as at 31 December 2019	The Company's direct share in the share capital/ total number of votes as at 31 December 2018	Core activities
Subsidiaries (registered office)					
SDC GmbH (Stassfurt – Germany)	797,471	797,471	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
CIECH Soda Polska S.A. (Inowrocław)	553,097	553,097	100%	100%	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.
CIECH Sarzyna S.A. (Nowa Sarzyna)	295,947	295,947	100%	100%	Manufacture of plastics, manufacture of pesticides and other chemical products.
CIECH Soda Romania S.A. (Rm. Valcea - Rumunia)	111,000	111,000	98.74%	98.74%	Manufacture of other basic inorganic chemicals, wholesale of chemical products. The production of soda products was suspended in September 2019 due to the lack of supply of process steam to the plant.
CIECH Trading S.A. (Warsaw)	44,056	59,156	100%	100%	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of food and feed additives, wholesale and distribution of acids, bases and other liquid chemicals.
CIECH Pianki Sp. z o.o. (Bydgoszcz)	57,451	57,451	100%	100%	Manufacture of organic and other inorganic chemicals.
VERBIS ETA Sp. z o.o. SKA (Warsaw)	37,971	37,971	100%	100%	Financing activities, direct lending to the CIECH Group companies
CIECH R&D Sp. z o.o. (Warsaw)	47,915	47,915	100%	100%	Granting licences to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta" for business activity purposes, research and developments activities.
CIECH Vitrosilicon S.A. (Iłowa)	12,302	12,302	83.03%	83.03%	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.
CIECH Transclean Sp. z o.o. (Bydgoszcz)	3,455	3,455	100%	100%	International transport of liquid chemicals
Gamma Finanse Sp. z o.o. (Warsaw)	2,889	2,889	100%	100%	Financing activities.
Ciech Group Financing AB (Sweden)	1,567	1,815	100%	100%	Financing activities.
VERBIS ETA Sp. z o.o. (Warsaw)	5	5	100%	100%	Other activities.
Bosten S.A. (Warsaw)	-	-	100%	100%	Other research and experimental development on natural sciences and engineering.
Ciech Nieruchomości S.A. (Warsaw)	-	-	99.18%	99.18%	Buying and selling of own real estate.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

	31.12.2019	31.12.2018	The Company's direct share in the share capital/ total number of votes as at 31 December 2019	The Company's direct share in the share capital/ total number of votes as at 31 December 2018	Core activities
Proplan Plant Protection Company S.L. (Madrid)	203,866	203,866	100%	100%	Production and sales of crop protection chemicals.
Janikosoda S.A. (Warsaw)	564	623	17.60%	17.60%	Since March 2017, the Company has not carried out any operating activities.
CIECH Żywice Sp. z o.o. - former Vasco Polska Sp. z o.o. (Nowa Sarzyna)	885	-	100%	100%	Production of plastics in primary forms. Activities in this area began from 2 January 2020.
CIECH Salz Deutschland GbmH	125	-	100%	-	Production and sale of salt products.
Other subsidiaries	**842**	**842**			
Associates	**863**	**863**			
Carrying amount of shares in related entities	**2,172,271**	**2,184,468**			

5.5. INVENTORIES

Accounting policy

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

The cost of inventory is measured using the weighted average method.

Judgements and estimates

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

INVENTORY	31.12.2019	31.12.2018
Materials	36	1
Goods	30,658	41,018
TOTAL	**30,694**	**41,019**

In the reporting periods, no inventories were written down to their net selling prices.

The value of inventories (taking into account write-downs to net selling prices) recognised as costs in 2019 amounted to PLN 1,837,919 thousand (in the comparable period: PLN 1,935,762 thousand).

As at 31 December 2019, all inventories at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

5.6. SHORT-TERM RECEIVABLES

Accounting policy

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

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

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

Factoring

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

Judgements and estimates

Impairment allowances are recognised on interest receivable on late payments of receivables, in the full amount of interest accrued. These allowances are recognised upon accrual, as at the due date or balance sheet date, and deducted from finance income from interest accrued.

The Entity estimates allowances always at the amount of long-term expected credit losses, regardless of whether there is an evidence of a material increase in credit risk.

At each balance sheet date, the Entity estimates allowances for all receivables regardless of their repayment status. The Entity estimates impairment allowances primarily on the basis of portfolio PD ratios estimated on the basis of historical observations for debt portfolios with similar characteristics. If it is not possible to estimate portfolio ratios, the Group permits the use of individual parameters (benchmark or expert parameters). Pursuant to Article 163 of the CRR[1], a PD ratio may not be lower than 0.03%.

In addition, regardless of the foregoing, the Entity recognises impairment allowances in respect of receivables:

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

Moreover, allowances in the full amount of receivables are recognised in relation to receivables that are more than 180 days past their maturity as at the balance sheet date.

The amount established as a result of the abovementioned allowances may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.

Impairment allowances on receivables are charged to other operating expenses. Allowances are also recognised for amounts that increase the value of receivables, including late payment interest, for which impairment allowances were previously recognised.

[1] *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms*

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

TRADE AND OTHER RECEIVABLES	31.12.2019	31.12.2018
Trade receivables, including:	287,389	280,416
- up to 12 months	285,995	280,363
- prepayments for inventory	1,394	53
Public and legal receivables (excluding income tax)	35,036	33,442
Insurance receivables	256	295
External services	-	1,108
Factoring receivables	30,856	36,528
Assets due to continuous involvement	2,035	2,103
Receivables from cashpool	6,496	42,219
Advance payments fro shares	12,947	2,330
Other receivables	2,995	2,232
NET TRADE AND OTHER RECEIVABLES	**378,010**	**400,673**
Impairment allowances with respect to trade receivables including	(12,357)	(15,130)
- impairment allowance recognized in the current reporting period	(290)	(2,124)
Impairment allowances with respect to other current receivables including	(16,197)	(16,361)
- impairment allowance recognized in the current reporting period	(2)	(17)
GROSS TRADE AND OTHER RECEIVABLES	**406,564**	**432,164**

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

As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the period of delay in payments. As at 31 December 2019, the asset from continuing involvement amounted to PLN 2,035 thousand. The value of factoring assets derecognised from the statement of financial position is PLN 153,897 thousand (PLN 152,808 thousand in the comparable period).

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2019	01.01.-31.12.2018
Opening balance	**(31,491)**	**(28,865)**
OB correction	-	(620)
Recognized	(292)	(2,141)
Reversed	3,170	694
Used	56	261
Exchange differences	3	(820)
Closing balance	**(28,554)**	**(31,491)**

The principles for recognising impairment allowances for short-term receivables are described above, in the “Accounting Policy” section.

AGEING OF PAST DUE TRADE RECEIVABLES	31.12.2019	31.12.2018
Up to 1 month	30,786	61,159
Between 1 and 3 months	62,120	13,995
3 to 6 months	41,547	5,531
6 months to 1 year	3,572	6,989
Above 1 year	11,434	11,868
Total (gross) past due trade receivables	**149,459**	**99,542**
Impairment allowances on past due trade receivables	(12,200)	(12,389)
Total (net) past due trade receivables	**137,259**	**87,153**

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

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

As at 31 December 2019, all receivables (both long- and short-term) at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

5.7. SHORT-TERM FINANCIAL ASSETS

Accounting policy

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

Accounting policy concerning financial instruments is presented in note 8.1.

Judgements and estimates

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

SHORT-TERM FINANCIAL ASSETS	31.12.2019	31.12.2018
Derivatives	13,236	16,060
Loans granted	780,995	990,404
Total (net) short-term financial assets	**794,231**	**1,006,464**
Impairment of short-term financial assets	(14,382)	(18,126)
Total (gross) short-term financial assets	**808,613**	**1,024,590**

CHANGE IN LIABILITIES DUE TO SHORT-TERM LOANS	31.12.2019	31.12.2018
Gross value at the beginning of the period	**1,008,530**	**1,037,295**
Grant	126,562	81,601
Change of liabilities presented	(337,173)	(184,937)
Reclassification from long-term positions	-	118,180
Depreciation - liquidation of the company	-	(49,035)
Exchange differences	(2,542)	5,426
Gross value at the end of the period	**795,377**	**1,008,530**
Impairment update at the beginning of the period	**(18,126)**	**(49,345)**
OB correction - recognition of impairment losses according to IFRS 9		**(14,544)**
Recognition	(977)	(17,816)
Reversal	4,682	14,544
Used	28	-
Exchange differences	11	-
Usage - liquidation of the company	-	49,035
Closing balance	**(14,382)**	**(18,126)**
Carrying amount of loans at the beginning of period	**990,404**	**973,406**
Carrying amount of loans at the end of the period	**780,995**	**990,404**

As at 31 December 2019, all short-term receivables from loans at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

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

- granting of a loan to Proplan Plant Protection Company, S.L. in the amount of PLN 12,977 thousand (the loan amount is EUR 3,000 thousand),
- granting of a loan to CIECH Sarzyna S.A. in the amount of PLN 57,249 thousand,
- interest accrued on loans granted in the amount of PLN 43,572 thousand,
- repayment of loans by subsidiaries (CIECH Sarzyna S.A. in the amount of PLN 57,249 thousand, CIECH Vitrosilicon S.A. in the amount of PLN 34,818 thousand, CIECH Soda Polska S.A. in the amount of PLN 187,997 thousand, CIECH Żywice Sp. z o.o. in the amount of PLN 500 thousand, CIECH Salz Deutschland GmbH in the amount of EUR 3,000 thousand or PLN 12,824 thousand) and repayment of interest of PLN 44,370 thousand.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

5.8. CASH AND CASH EQUIVALENTS

Accounting policy

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

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

For cash and cash equivalents for which no evidence of impairment due to credit risk has been identified, impairment allowances are estimated using individual parameters determined on the basis of benchmarks (using information on bank ratings), scaled down to the horizon for estimating expected credit losses.

For cash and cash equivalents for which there is evidence of impairment due to credit risk, the Entity analyses recoveries using probability-weighted scenarios.

CASH AND CASH EQUIVALENTS	31.12.2019	31.12.2018
Bank accounts	125,757	44,332
Short-term deposits	44,341	10,673
Cash in hand	13	20
Impariment in accordance with IFRS 9	(128)	(37)
Cash and cash equivalents – presented in the statement of financial position	**169,983**	**54,988**
Cash and cash equivalents – presented in the cash flow statement	**169.983**	**54,988**

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

As at 31 December 2019, all cash and cash equivalents at CIECH S.A. were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities.

The funds with limited availability were funds on the VAT account in connection with the introduction of "split payment" procedures. Their value as at 31 December 2019 was PLN 3,108 thousand.

As at 31 December 2018, there was no restricted cash and cash equivalents in CIECH S.A.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

6 EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

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

CIECH S.A. manages its capital in order to ensure its ability to continue as a going concern and, at the same time, maximize returns for stakeholders by optimising the debt to equity ratio. In 2018-2019 there were no changes in aims, principles and processes of capital management.

6.2. EQUITY

Accounting policy

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

A liability for a dividend payable is recognised when authorised.

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

As at 31 December 2019, the carrying amount of the share capital of CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment. As at the date of adopting the IFRS, i.e. 1 January 2004, the share capital of the Company was adjusted for hyperinflation between 1989 and 1996. The hyperinflation adjustment of PLN 24,114 thousand was charged to retained earnings.

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

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

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

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

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. z siedzibą w Luksemburgu*	**Ordinary bearer**	**26,952,052**	**26,952,052**	**51.14%**	**51.14%**
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	Ordinary bearer	3,530,000	3,530,000	6.70%	6.70%
Aviva Otwarty Fundusz Emerytalny Aviva Santander ***	Ordinary bearer	2,723,672	2,723,672	5.17%	5.17%
Others	Ordinary bearer	19,494,185	19,494,185	36.99%	36.99%

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

*** On the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of Shareholders of CIECH S.A. on 23 January 2020, CR 8/2020 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).*

**** In accordance with information dated 31 January 2020 provided by Shareholder under Article 70(1) 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 9/2020).*

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

Treasury shares

In 2019 and in the comparable period, CIECH S.A. did not purchase or hold treasury shares.

Share premium

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

Other reserve capital

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

OTHER RESERVE CAPITAL BY PURPOSE	31.12.2019	31.12.2018
Commercial risk fund	3,330	3,330
Fund for purchasing soda companies	15,200	15,200
Development funds	57,669	57,669
TOTAL	**76,199**	**76,199**

Cash flow hedge reserve

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

Actuarial gains

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

6.3. DIVIDENDS PAID OR DECLARED

The Management Board of CIECH S.A. has adopted a resolution with a proposal to allocate the net profit of CIECH S.A. for 2019 for supplementary capital.

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

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

6.4. BUSINESS COMBINATIONS AND ACQUISITION OF INTEREST

There were no business combinations in the presented periods.

In 2019, changes in the CIECH Group's structure that occurred in relation to the companies in which CIECH S.A. held shares, either directly or indirectly, were related to, among others:

- **CIECH R&D Sp. z o.o.**

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

- **CIECH Salz Deutschland GmbH**

Under an Agreement of 6 September 2019, CIECH S.A. purchased 25,000 shares in Blitz 19-213 GmbH from Blizstart Holding Ag with a value of EUR 1 per share and a total value of EUR 25 thousand. The price for the shares amounted to EUR 28.5 thousand. The shares acquired account for 100% of the share capital of Blitz 19-213 GmbH. Subsequently, on 6 September 2019, the General Shareholders' Meeting of Blitz 19-213 GmbH changed the company's name from Blitz 19-213 GmbH to CIECH Salz Deutschland GmbH and the company's registered office from Munich to Staßfurt. On 11 December 2019, the next Shareholders' Meeting of CIECH Salz Deutschland GmbH increased the share capital from EUR 25 thousand to EUR 3,025 thousand, by creating 100 new shares with a value of EUR 30 thousand per share and a total value of EUR 3 million. New shares from the increase of the share capital of Ciech Salz Deutschland GmbH were acquired by CIECH S.A. in exchange for cash. The share capital increase was registered on 5 March 2020.

- **Vasco Polska Sp. z o.o. – currently: CIECH Żywice Sp. z o.o.**

On 11 January 2019, the Court registered the increase of the share capital of Vasco Polska Sp. z o.o. effected pursuant to a resolution of the Extraordinary General Meeting of Vasco Polska Sp. z o.o. dated 14 November 2018. The Company's share capital was increased by PLN 500, i.e. from PLN 50 thousand to PLN 50.5 thousand through creation of 10 new, equal and indivisible shares with a nominal value of PLN 50 per share. The right to acquire the new shares was granted to CIECH S.A. in exchange for a cash contribution of PLN 130 thousand, where the amount of PLN 129.5 thousand represented the share premium and was allocated to the supplementary capital.

On 11 January 2019, CIECH S.A. was registered by the Court as the sole shareholder of the Company following the acquisition by CIECH S.A. of 100 shares in the company, representing 10% of the share capital, from the minority shareholder. The agreement on the sale of shares in Vasco Polska Sp. z o.o. was signed on 15 November 2018.

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

On 31 July 2019, the Court registered the increase in the Company's share capital and its new registered office. The change of the company's name from Vasco Polska Sp. z o.o. to CIECH Żywice Sp. o.o. was registered on 13 August 2019.

In connection with the adoption by CIECH Sarzyna S.A. on 31 October 2019 of the Demerger Plan of CIECH Sarzyna S.A. (filed with the District Court in Rzeszów, 12th Commercial Division of the National Court Register on 31 October 2019), as a result of which an organised part of the enterprise of CIECH Sarzyna S.A. – the Resins Business Unit – is spun off to CIECH Żywice Sp. z o.o. (organisationally, functionally and financially separated set of tangible and intangible assets, including liabilities, intended for the performance of specific economic tasks, i.e. for production, sale and distribution of unsaturated polyester resin products, saturated polyester resin products, epoxy resin products and a complementary products – on the Polish and foreign markets).

As a result of the Demerger Plan of CIECH Sarzyna S.A., on 16 December 2019 the Extraordinary Shareholders' Meeting of CIECH Żywice Sp. z o.o. adopted a resolution on the demerger of CIECH Sarzyna S.A., by deciding to:

- ✓ participate in the demerger of CIECH Sarzyna S.A. effected through the spin-off of an organised part of the enterprise on the terms set forth in the Demerger Plan (demerger by spin-off),
- ✓ approve the Demerger Plan of CIECH Sarzyna S.A, as agreed by the Management Board of CIECH Sarzyna S.A. on 31 October 2019,
- ✓ increase the share capital of Ciech Żywice Sp. z o.o. from PLN 55.5 thousand by PLN 3,678.35 thousand, i.e. to PLN 3,733.85 thousand, through the creation of 73,567 new shares with a nominal value of PLN 50 per share and the total value of PLN 3,733.85 thousand. All newly created shares in the increased share capital of Ciech Żywice Sp. z o.o. were allotted to the sole shareholder of CIECH Sarzyna S.A., i.e. . CIECH S.A., in the following manner: 8,490,000 shares in CIECH Sarzyna Sp. z o.o. entitle to the receipt of 73,567 shares in CIECH Żywice Sp. z o.o. As a result of the increase, the share capital of CIECH Żywice Sp. z o.o. amounts to PLN 3,733.85 thousand and is divided into 74,677 shares with a value of PLN 50 per share and a total value of PLN 3,733.85 thousand.

The Court registered the increase of the share capital of CIECH Żywice Sp. z o.o. on 2 January 2020 and on this date CIECH S.A. became the holder of the newly created shares whilst remaining the sole shareholder of the Company.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

7 LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT FINANCIAL LIABILITIES

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2019	31.12.2018
LONG-TERM	**1,580,756**	**1,333,695**
Loans and borrowings	1,580,756	1,333,695
SHORT-TERM	**301,762**	**493,601**
Loans and borrowings	177,612	415,936
Cash pooling liabilities	124,150	77,665
TOTAL	**1,882,518**	**1,827,296**

Reconciliation of changes in liabilities resulting from financing activities – credits and loans

	01.01.-31.12.2019	01.01.-31.12.2018
Opening balance	**1,749,631**	**1,426,041**
Income from contracted debt	261,701	649,072
received funding	*261,701*	*649,072*
Calculation of interest	57,183	42,381
Debt payments	(309,293)	(375,372)
refund of capital	*(256,500)*	*(334,515)*
interest paid	*(52,793)*	*(40,857)*
Foreign exchange differences on borrowing in foreign currencies	(6)	7,200
Valuation	(1,454)	2,011
Others	606	(1,702)
Closing balance	**1,758,368**	**1,749,631**

Debt financing

The CIECH S.A.'s debt financing is secured mainly through loans made available to CIECH S.A. under the Facilities Agreement dated 9 January 2018:

1. The Facilities Agreement signed with a consortium of banks dated 9 January 2018:
   - term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 31 December 2019 was PLN 1,340,275 thousand),
   - revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 31 December 2019 was PLN 0 thousand),
2. Overdraft facilities up to PLN 100,000 thousand and EUR 10,000 thousand under agreements dated 28 and 29 August 2018 (as at 31 December 2019, the amount used was PLN 47,908 thousand),
3. Revolving credit facilities up to PLN 392,788 thousand and EUR 25,000 thousand, under three agreements dated 18 April 2019 (as at 31 December 2019, the amount used was PLN 246,463 thousand).

The total value of facilities available under the aforesaid agreements is PLN 2,232,110 thousand; the limits are drawn down in the amount of PLN 1,634,646 thousand.

Detailed information about loan liabilities is disclosed in the Management Board Report on activities of the CIECH Group and CIECH S.A. for 2019, in section 4.6.

As at 31 December 2019, CIECH S.A. has a short-term liability on account of loans received in the amount of PLN 125,753 thousand, including:

- a loan from Gamma Finanse Sp. z o.o. in the amount of PLN 93,000 thousand,
- a loan from Verbis Eta Sp. z o.o. SKA in the amount of PLN 28,500 thousand,
- interest accrued on loans in the amount of PLN 4,253 thousand.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Interest rate:

The Term loans bear interest at a floating rate determined on the basis of the WIBOR / EURIBOR base rate, plus margin, the level of which depends on the level of the net debt to EBITDA. The current level of margin, set on the basis of financial ratios as at the end of the first half of 2019, is 1.75%.

Information about the financial covenants included in loan agreements

During the period covered by these financial statements, no loan agreement was called to maturity and there were no violations of payment terms for repayment of principal or interest due in relation to financial liabilities recognised in the balance sheet. Under the Facilities Agreement dated 29 October 2015 and under three revolving credit facilities agreements dated 18 April 2019, CIECH S.A. and its selected subsidiaries were obliged to, among others, maintain a certain level of net leverage ratio for the Group specified in the Facilities Agreement (the ratio of the CIECH Group's consolidated net debt to consolidated EBITDA of the CIECH Group calculated according to the guidelines in the amount of at least 4.0, measured at the end of a year and first six months of a year). As at the balance sheet date, i.e. 31 December 2019, this ratio was maintained and amounted to 2.2.

7.2. OTHER NON-CURRENT LIABILITIES

Accounting policy, judgements and estimates

Accounting policy concerning financial instruments is presented in note 8.1.

OTHER NON-CURRENT LIABILITIES	31.12.2019	31.12.2018
Derivatives	6,487	38,181
Liabilities due to purchase of shares and other financial assets	7,478	21,235
Other	12,721	-
TOTAL	**26,686**	**59,416**

Liabilities due to purchase of shares include the long-term portion of the deferred payment for the acquisition of Proplan Plant Protection Company, S.L., i.e.:

- EUR 2,929 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 – the first payment was made in July 2019) of the takeover of control over Proplan (nominal value of EUR 4,461 thousand) and
- EUR 4,136 thousand of discounted conditional deferred payment depending on Proplan's results for 2018 and 2019, payable respectively in 2019 and 2020 (the estimation of nominal payments at the moment of acquisition of control was EUR 4,270 thousand). However, due to the fact that Proplan failed to achieve financial results allowing for payment of this part of consideration for the acquisition of Proplan Plant Protection Company, S.L., the value of this deferred payment was recognised on a one-off basis as other operating income in the amount of PLN 17,612 thousand.

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

The main criterion for the Plan implementation will be the achievement of a value growth by the CIECH Group in 2019-2021 at a level of at least 11% of the reference year, i.e. 2018. The Generated Value will be calculated as the difference in value of the CIECH Group generated at the end of 2021, compared with the same value at the end of 2018. The CIECH Group Value will be measured using the so-called TSR (Total Shareholder Return) ratio, taking into account among others: adjusted EBITDA of the CIECH Group, assumed multiplier for the adjusted EBITDA of the CIECH Group, consolidated net debt of the CIECH Group, the value of dividends paid, and cash inflows from/outflows for the issue/cancellation of shares of the Company. The CIECH Group Value will be calculated on the basis of financial data disclosed in the audited consolidated financial statements of the CIECH Group. If the Generated Value is at a minimum level of 11% of the reference year (2018), the bonus pool will be equal to 12% of the Generated Value. The bonus pool will be paid out in 2022-2024, in equal parts each year. As at 31 December 2019, 359 units were granted out of 1000 units issued, and the discounted value of the programme for 2019 amounted to PLN 12,721 thousand at CIECH S.A. The liabilities were measured by the Company using a discount rate of 3.53%.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

7.3. CURRENT TRADE AND OTHER LIABILITIES

Accounting policy

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

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

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

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

Factoring

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

Judgements and estimates

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

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

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

CURRENT TRADE AND OTHER LIABILITIES	31.12.2019	31.12.2018
Trade liabilities and advances taken	385,748	476,681
- in up to 12 months	*382,909*	*471,094*
- prepayments received for supplies	*2,839*	*5,587*
Public and legal liabilities (excluding income tax)	3,149	-
Liabilities for purchase of property, plant and equipment	1,905	5,851
Financial instruments liabilities	18,533	6,587
Liabilities to employees	1,195	836
Payroll liabilities	4,829	1,928
Holiday leave accrual	2,705	2,721
External services	934	649
Social security and other employee benefits	824	277
Factoring liabilites	17,097	16,979
Liabilities arising from the purchase of shares, stocks and other financial assets	5,118	11,419
Other	9,319	8,967
TOTAL	**451,356**	**532,895**

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

7.4. LEASES

Accounting policy applicable as of 1 January 2019 – according to IFRS 16 Leases

On 1 January 2019, CIECH S.A. adopted a new financial reporting standard, IFRS 16 Leases.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company combines two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

a) the contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together;
b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
c) the rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component.

A contract contains a lease if:

a) it concerns an identified asset that is explicitly specified in the contract (e.g. using an inventory number, address (for premises), etc.) or implicitly specified at the time that the asset is made available for use by the customer, and the supplier does not have the substantive right to substitute the asset throughout the period of use and
b) the lessee receives essential all of the economic benefits from such assets during the period of use, i.e. both basic benefits and the benefits derived from it (if any); and
c) the lessee has the right to specify the method in which it uses the identified asset.

Initial measurement of the lease liability

The lease payments included in the measurement of the lease liability comprise the following payments that are not paid:

a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable by the lessee under residual value guarantees;
d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease and it is highly likely that this option will be exercised.

Subsequent measurement of the lease liability

After the commencement date, the Company measures the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability;
b) reducing the carrying amount to reflect the lease payments made; and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications.
The Company, as a lessee, recognises in profit or loss of the current period both:
a) interest on the lease liability; and
b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs, unless these costs are included in the carrying amount of another asset in accordance with the accounting policy for property, plant and equipment.

In-substance fixed lease payments

In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if:

a) payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance. Examples of those types of payments include:
   - payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or
   - payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved,

b) there is more than one set of payments that a lessee could make, but only one of those sets of payments is realistic. In this case, an entity considers the realistic set of payments to be lease payments.
c) there is more than one realistic set of payments that a lessee could make, but it must make at least one of those sets of payments. In this case, an entity considers the set of payments that aggregates to the lowest amount (on a discounted basis) to be lease payments.

Variable lease payments

Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as WIBOR) or payments that vary to reflect changes in market rental rates (e.g. periodical changes in perpetual usufruct rates, in connection with the revision of a valuation report).

Variable lease payments that do not depend on an index or a rate, i.e. depend on the use, are not included in the measurement of lease liabilities (e.g. fees for exceeding the mileage limit).

For a detailed information on the implementation of IFRS 16 Leases, see note 1.5.1.

Judgements and estimates

Discount rate

The present value of future lease payments is calculated using the lease rate. If the lease rate is not known, the Company applies the incremental borrowing rate for a given lease agreement, i.e. the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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

LEASE LIABILITIES	Nominal payments	Effective interest	Discounted lease liability
31.12.2019			
0 - 6 months	2,356	58	**2,298**
Up to 1 year	2,850	113	**2,737**
From 1 to 2 years	9,832	806	**9,026**
From 2 to 5 years	10,397	1,449	**8,948**
Over 5 years	8 ,171	1,740	**6,431**
TOTAL	**33,606**	**4,166**	**29,440**

Reconciliation of changes in liabilities resulting from financing activities – lease liabilities

	01.01.-31.12.2019
Implementation of IFRS 16 as at 01.01.2019	**32,518**
Contract modifications	1,290
Conclusion of new contracts	202
Early termination of the contract	(55)
Calculation of interest	1,132
Repayment of liability	(5,429)
Foreign exchange differences	(218)
Closing balance	**29,440**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Accounting policy applicable until 31 December 2018 – according to IAS 17 Leases

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

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

In 2018, assets used in CIECH S.A. under operating lease agreements included passenger cars and premises – mainly office and warehouse space. The operating lease agreement for cars was a renewable agreement, making it possible to acquire an asset at its estimated market value at the end of its use. The Company was not not obliged to purchase the leased assets.
In the financial year 2018, the costs of lease payments were as follows:
- lease of passenger cars – PLN 909 thousand (PLN 830 thousand for the comparable period),
- lease of space – PLN 5,107 thousand (PLN 4,868 thousand for the comparable period).

As at the end of 2018, total amounts of future minimum lease payments are presented in the table below:

TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	31.12.2018
Up to 1 year	4,821
Between 1 and 5 years	15,500
Over 5 years	17,954
TOTAL	**38,275**

These payments reflected only lease payments (excluding non-lease payments).

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

7.5. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Provisions for retirement and disability benefits

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

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

The use of such provisions results in a decrease in the provision (it is not allowed to recognise the amounts of the benefits paid in the current operating expenses with a simultaneous adjustment of the provision at the end of the period), while the reversal of the said provision increases other operating income.

The increase in the provision for employment costs is recognised respectively in other operating expenses. Changes in provisions resulting from the passage of time (i.e. the unwinding of the discount) and the effect resulting from changes in discount rates are always presented in financing activities.

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

Judgements and estimates

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

PROVISIONS FOR EMPLOYEE BENEFITS	LONG-TERM		SHORT-TERM	
	01.01.-31.12.2019	01.01.-31.12.2018	01.01.-31.12.2019	01.01.-31.12.2018
Opening balance	**574**	**436**	**421**	**400**
Recognition	456	325	2,329	55
Use and reversal	-	-	(438)	(221)
Other	59	(187)	-	187
Closing balance	**1,089**	**574**	**2,312**	**421**

In 2019, short-term and long-term provisions were recognised for employee benefits in the amount of, respectively, PLN 2,329 thousand and PLN 456 thousand, and the amount of PLN 59 thousand was recognised in equity. In the comparable period, a provision for employee benefits included in equity and amounting to PLN 136 thousand was recognised.

Employee benefits are measured on the basis of actuarial valuations and including provision for retirement and disability benefits. A discount rate of 2.0% p.a. was applied in order to determine the current value of future liabilities due to employee benefits. The discount rate applied is established in nominal value. At the same time, future inflation in the amount of 2.5% per annum was taken into account. The estimated nominal growth rate of 2.0% was applied. The remuneration growth rate of 2.0% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Company's estimations, a change in actuarial assumptions will not have a significant impact on financial results.

Within the short-term provision, a provision was recognised for the "voluntary redundancy programme" in the amount of PLN 2,099 thousand. In 2019, PLN 341 thousand was paid out on this account.

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7.6. OTHER PROVISIONS

Accounting policy

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

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

Judgements and estimates

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

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for liabilities and expected losses	Other provisions	TOTAL
01.01.-31.12.2019			
Opening balance	**103,284**	**-**	**103,284**
Recognition	2,513	-	2,513
Use and reversal	(72,389)	-	(72,389)
Other	(83)	-	(83)
Closing balance	**33,325**	**-**	**33,325**
01.01.-31.12.2018			
Opening balance	**35,566**	**507**	**36,073**
Recognition	68,803	-	68,803
Use and reversal	(1,085)	(507)	(1,592)
Closing balance	**103,284**	**-**	**103,284**

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

Short-term provisions of PLN 33,325 thousand are related to potential claims (principal liability plus interest payable) resulting from litigation.

The utilisation of the provision in the amount of PLN 66,400 thousand relates to the payment of a tax liability together with overdue interest on CIT for 2012 (for more information on the tax audits, see Note 9.2 hereto).

8 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

8.1. FINANCIAL INSTRUMENTS

Accounting policy

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

Category of assets or liabilities	Measurement	Recognition
Assets at fair value through profit or loss	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Financial assets measured at amortised cost	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Financial assets at fair value through other comprehensive income	At fair value	Changes from remeasurement at fair value are recognised in other comprehensive income. For debt instruments interest is recognised directly in profit or loss.
Purchased or originated credit impaired (POCI) assets	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.
Other financial liabilities	At amortised cost using the effective interest rate (IRR)	Remeasurement changes adjust the carrying amount of the liability and are recognised in current period profit or loss.
Liabilities at fair value through profit or loss	At fair value	Remeasurement changes adjust the carrying amount of the asset and are recognised in current period profit or loss.

Impairment of financial assets

At each balance sheet date, the Entity assesses whether there has been a significant increase in credit risk for a single financial asset (financial instrument) since its initial recognition. If such a significant increase has taken place, the Entity estimates allowances in the amount of long-term expected credit losses. Otherwise, the Entity estimates allowances in the amount of 12-month expected credit losses, even if in previous periods allowances were recognised in the amount of long-term expected credit losses.

The Entity assumes that in the case of financial instruments that meet the definition of a low credit risk instrument as at a given balance sheet date, there has been no significant increase in credit risk and therefore the allowance is estimated at the amount of 12-month expected credit losses. The credit risk on a financial instrument is considered low for these purposes, if:

a) the financial instrument has a low risk of default,
b) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and
c) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

An external rating of “investment grade” is an example of an instrument that is considered by the Entity as having low credit risk.

The Entity considers that there has been a significant increase in credit risk for a given financial instrument, if there has been a delay in contractual payments of more than 30 days.

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial (POCI) asset, the Entity measures the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. Regardless of the above criteria, the Entity considers that there has been an impairment loss in the event of a delay in payment of more than 180 days.

The amount established as a result of the abovementioned allowances may be decreased if the Management Board is in possession of reliable documents, indicating that the receivables were secured and their payment is highly probable.

For financial assets for which no evidence of impairment due to credit risk has been identified, impairment allowances are estimated using individual parameters determined on the basis of benchmarks (using information on bank ratings) or values provided by experts, scaled down to the horizon for estimating expected credit losses.

For financial assets for which there is evidence of impairment due to credit risk, the Entity analyses recoveries using probability-weighted scenarios.

Trade receivables are exceptions to this rule. For these categories of assets, the Entity may choose a simplified approach whereby write-downs are estimated over the lifetime horizon - right from the initial recognition of exposures.

The main financial instruments disclosed in the statement of financial position of CIECH S.A. as at 31 December 2019 include:
Financial assets:

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

Financial liabilities:

- term loan liabilities, revolving facility liabilities and overdraft liabilities,
- trade payables,
- financial instruments with negative valuation,
- lease liabilities,
- loan liabilities,
- cash pooling liabilities,
- factoring liabilities.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Carrying amount of financial instruments

CLASSES OF FINANCIAL INSTRUMENTS	note	31.12.2019	31.12.2018	CATEGORIES OF FINANCIAL INSTRUMENTS
Cash and cash equivalents	5.8	169,983	54,988	Loans measured at amortized cost
Loans granted	5.4;5.7	1,020,812	1,133,265	Loans measured at amortized cost
Trade receivables	5.6	285,995	280,363	Loans measured at amortized cost
Factoring receivables	5.6	30,856	36,528	Loans measured at amortized cost
Hedging derivatives with positive value	5.4;5.7	14,377	27,521	Valued in fair value through income statement
Derivative instruments recognized in financial assets designated as hedging instruments	5.4;5.7	3,738	398	Hedging instruments
Cash pooling receivables	5.6	6,496	42,219	Loans measured at amortized cost
ASSETS		**1,532,257**	**1,575,282**	
Trade liabilities	7.3	(382,909)	(471,094)	Loans measured at amortized cost
Loans and borrowings	7.1	(1,758,368)	(1,749,631)	Loans measured at amortized cost
Lease liabilities	7.4	(29,440)	-	Loans measured at amortized cost
Factoring liabilities	7.3	(17,097)	(16,979)	Loans measured at amortized cost
Hedging derivatives with negative value	7.2;7.3	(20,005)	(43,087)	Valued in fair value through income statement
Derivative instruments with negative value	7.2;7.3	(5,015)	(1,681)	Hedging instruments
Cash pooling liabilities	7.3	(124,150)	(77,665)	Loans measured at amortized cost
LIABILITIES		**(2,336,984)**	**(2,360,137)**	

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

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

Items of revenues, costs, profits and losses recognized in the statement of profit or loss	01.01.-31.12.2019	01.01.- 31.12.2018	Categories of financial instruments
Revenues/(costs) due to interests, including those calculated using the effective interest rate method	**(25,630)**	**(17,476)**	
	44,379	52,966	*Financial assets valued at amortized cost*
	(68,877)	(70,442)	*Financial liabilities valued at amortized cost*
	(1,132)	-	*Financial liabilities excluded from IFRS 9 (interest from lease according to IFRS 16)*
Profits/(losses) due to exchange differences	**2,432**	**2,671**	
	2,432	2,671	*Financial liabilities valued at amortized cost*
Recognition of impairment losses	**(295)**	**(2,192)**	Financial assets valued at amortized cost
Reversal of impairment losses	**3,171**	**724**	Financial assets valued at amortized cost
Income/expenses due to the use of derivative financial instruments	**25,606**	**236**	
	25,606	(9,086)	*Assets/financial liabilities valued in fair value through income statement*
	-	9,322	*Hedging instruments*
TOTAL	**5,284**	**(16,037)**	

8.2. FINANCIAL INSTRUMENTS DESIGNATED FOR HEDGE ACCOUNTING

Accounting policy

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. Derivatives such as options, forwards, swaps are held to hedge the fair value of assets or liabilities or expected future cash flows.

For the hedging instruments, the Entity may apply hedge accounting if, and only if, all the following conditions are met:

- ✓ the hedging relationship consists only of eligible hedging instruments and eligible hedged items.
- ✓ at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for entity the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).
- ✓ the hedging relationship meets all of the following hedge effectiveness requirements:
    - a) there is an economic relationship between the hedged item and the hedging instrument;
    - b) the effect of credit risk does not dominate the value changes that result from that economic relationship; and
    - c) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Cash flow hedge:

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss. Cash flow hedge shall be accounted for as follows:

- ✓ the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
    - a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
    - b) the cumulative change in fair value (present value) of the hedged item (ie the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.
- ✓ the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (ie the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (a)) shall be recognised in other comprehensive income.
- ✓ any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a)) is hedge ineffectiveness that shall be recognised in profit or loss.

The effective portion of the hedge is transferred to profit or loss as a reclassification adjustment in the period or periods when the hedged expected future cash flows affect profit or loss.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

The table below presents a summary of specific groups of relationships existing in 2019, designated for hedge accounting:

Type of instrument	Secured position	Nominal value/Volume	Maturity	31.12.2019 Value in financial assets	31.12.2019 Value in financial liabilities	31.12.2018 Value in financial assets	31.12.2018 Value in financial liabilities
Derivative instruments - cash flow hedge							
Currency risk							
Forward EUR/PLN	Future cash flows due to the realization of sales revenues denominated or indexed to the EUR exchange rate	EUR 36,784 thousand	2020	167	-	543	(218)
Forward USD/RON	Future cash flows due to the realization of sales revenues denominated or indexed to the USD exchange rate	USD 31,800 Thousand	2019	-	-	-	(848)
Interest rate risk							
Interest rate swap WIBOR 6M fixed rate	Interest payments on a term loan contracted by CIECH S.A. with a nominal value of PLN 1,212,520 thousand	PLN 1,212,520 thousand	2022	3,453	(4,526)	-	-
Interest rate swap EURIBOR 6M fixed rate	Interest payments on a term loan contracted by CIECH S.A. with a nominal value of EUR 30,000 thousand	EUR 30,000 thousand	2022	118	(489)	-	(756)

	31.12.2019			31.12.2018		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Provision for the use of cash flow hedges at the beginning of the period	**(1,391)**	**239**	**(1,152)**	**3,954**	**(708)**	**3,246**
Effective part of profits / (losses) on hedging instruments:						
-currency risk	(4,825)	855	**(3,970)**	(13,702)	2,553	**(11,149)**
-interest rate risk	(906)	172	**(734)**	(988)	188	**(800)**
Reclassification to the statement of profit or loss:						
- currency risk (sales revenues)	2,725	(518)	**2,207**	7,367	(1,418)	**5,949**
-interest rate risk (interest costs)	217	(41)	**176**	1,978	(376)	**1,602**
-closing of designation	2,902	(464)	**2,438**	-	-	**-**
Provision for the use of cash flow hedges at the end of the period	**(1,278)**	**243**	**(1,035)**	**(1,391)**	**239**	**(1,152)**

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

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

However, in the third quarter of 2019, due to the discontinuation of production at CIECH Soda Romania S.A. and the absence of any further USD/RON exposure, part of the transaction was closed with a negative valuation, which was reflected in the separate financial statements.

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

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

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

CIECH S.A.'s policy assumes natural hedging of imports and exports and hedging of up to 75% of net exposure to currencies exchange rate change by using derivatives and 100% exposure to interest rate risk.

In 2019, the Company concluded futures contracts to hedge currency risk and interest rate risk (forward, IRS and CIRS transactions).

Cash management

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

Quantitative and qualitative information on financial risks

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

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

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

Interest rate risk

CIECH S.A. finances its activity mainly through term loans. The amount of the costs of interest-bearing debt held by the Company depends on the reference rate. This refers to term loans made available under a facilities agreement dated 9 January 2018 in the amount of PLN 1,212 million and EUR 30 million, a revolving credit facility made available under a facilities agreement dated 9 January 2015 in the amount of PLN 250 million (as at the end of 2019, the debt amounted to PLN 0), overdraft facilities (as at the end of 2019, the debt amounted to PLN 294,371 thousand) and a part of lease and factoring contracts.

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

In 2019, CIECH S.A. used the following interest rate hedging transactions:

- interest rate swap transaction to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015 and annexed on 9 January 2018. The transaction hedges indebtedness in the amount of EUR 30 million, amortised in accordance with the schedule of the IRS transaction;
- currency and interest rate swap transactions to hedge the variable interest rate levels applicable to the calculation of interest on the term loan made available in November 2015 and annexed on 9 January 2018. The transaction hedges indebtedness in the initial nominal amount of 1,212 million, amortised in accordance with the schedule of the CIRS transaction.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

Total carrying amount	31.12.2019	31.12.2018
Fixed interest rate instruments	**415,194**	**354,132**
Financial assets	430,194	354,132
Financial liabilities	(15,000)	-
Floating interest rate instruments	**(1,129,861)**	**(950,956)**
Financial assets	767,097	876,340
Financial liabilities	(1,896,958)	(1,827,296)

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

	Statement of profit or loss		Equity*	
	increase by 100 bp	decrease by 100 bp	increase by 100 bp	decrease by 100 bp
31.12.2019				
Floating interest rate instruments	(11,299)	11,299	-	-
Interest rate swap transactions (IRS)	7,517	(7,680)	24,901	(26,011)
Cash flows sensitivity (net)	**(3,782)**	**3,619**	**24,901**	**(26,011)**
31.12.2018				
Floating interest rate instruments	(9,510)	9,510	-	-
Interest rate swap transactions (IRS)	-	-	1,364	(1,410)
Cash flows sensitivity (net)	**(9,510)**	**9,510**	**1,364**	**(1,410)**

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

Currency risk

Currency risk is an inevitable component of commercial activity denominated in foreign currencies. Due to the nature of conducted import and export operations, CIECH S.A. is subject to currency exposure related to the significant lead of export over import. Sources of currency risk to which the Company was exposed in 2019 included: purchase of raw materials, product sales, loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the Company's financial results.

In 2019, CIECH S.A. used hedging contracts, such as forward options, to partially cover currency risk. CIECH S.A. tries to naturally hedge the foreign currency exposure, including matching of currency flows arising from sales and purchases as well as strategic debt denominated in EUR, in order to fit it to the expected exposure to currency risk in operations.

The table below presents the estimated currency exposure of CIECH S.A. in EUR and USD as at 31 December 2019 and 2018 due to financial instruments:

Exposure to currency risk in EUR (figures denominated in EUR)	31.12.2019	31.12.2018	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	102,400	83,400	x	
Trade and other receivables	24,926	12,395	x	
Cash including bank deposits	6,305	2,941	x	
Liabilities				
Trade and other liabilities	(10,876)	(13,741)	x	
Term loan liabilities	(30,000)	(30,000)	x	
Liabilities due to revolving credit	(25,000)	-	x	

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Exposure to currency risk in EUR (figures denominated in EUR)	31.12.2019	31.12.2018	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Other liabilities from loans and credits	(9,441)	(7,646)	x	
Hedging instruments: Forward*	(36,784)	(78,784)		x
Forward not designated to hedge accounting	-	(25,000)	x	
CIRS	(186,880)	(209,764)	x	
Total exposure	**(165,350)**	**(266,199)**		

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

Exposure to currency risk in USD (figures denominated in USD)	31.12.2019	31.12.2018	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
Assets				
Trade and other receivables	1,630	15,000	x	
Cash including bank deposits	5,655	968	x	
Liabilities				
Trade and other liabilities	(5,619)	(4,653)	x	
Hedging instruments: Forward*	-	(31,800)		
Forward not designated to hedge accounting	(5,363)	-		x
Total exposure	**(3, 697)**	**(20,485)**		

** 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 31 December 2019.

Figures denominated in EUR*		Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
Analysis of sensitivity to EUR exchange rate changes – 2019			
Currency balance sheet items	(1 286)	(1,286)	-
Hedging instruments: Forward	(368)	-	(368)
Analysis of sensitivity to EUR exchange rate changes – 2018			
Currency balance sheet items	(1,874)	(1,874)	-
Hedging instruments: Forward	(788)	-	(788)

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

Figures denominated in USD*		Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
Analysis of sensitivity to USD exchange rate changes – 2019			
Currency balance sheet items	17	17	
Hedging instruments: Forward	(54)		(54)
Analysis of sensitivity to USD exchange rate changes – 2018			
Currency balance sheet items	113	113	
Hedging instruments: Forward	(318)		(318)

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Raw material price risk

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

Credit risk

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

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

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

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

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

	31.12.2019	31.12.2018
Cash and cash equivalents	169,983	54,988
Loans granted	1,020,812	1,133,265
Trade receivables	285,995	280,363
Factoring receivables	30,856	36,528
Cash pooling receivables	6,496	42,219
Assets due to valuation of derivatives	18,115	27,919
TOTAL	**1,532,257**	**1,575,282**

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

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

	31.12.2019		31.12.2018	
	Trade receivables and factoring receivables (gross value)	Impairment loss	Trade receivables and factoring receivables (gross value)	Impairment loss
Not overdue	179,749	(52)	232,475	(2,740)
Up to 1 month	30,786	-	61,160	-
1-3 months	62,120	(19)	13,995	-
3-6 months	41,547	-	5,532	-
6-12 months	3,572	(852)	6,991	(600)
Over 1 year	11,434	(11,434)	11,868	(11,790)
TOTAL	**329,208**	**(12,357)**	**332,021**	**(15,130)**

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

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

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Poland	258,623	200,475	590,617	779,134
European Union	45,221	40,207	430,195	354,131
Other European countries	-	17,012	-	-
Africa	911	9,745	-	-
Asia	12,096	49,452	-	-
TOTAL	**316,851**	**316,891**	**1,020,812**	**1,133,265**

	Trade receivables and factoring receivables (net value)		Loans granted (net value)	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Soda segment	161,759	194,229	-	-
Organic segment	135,865	99,423	-	-
Transport segment	12,293	17,228	-	-
Silicates and Glass segment	1,342	4,694	-	-
Other activities	5,592	1,317	1,020,812	1,133,265
TOTAL	**316,851**	**316,891**	**1,020,812**	**1,133,265**

Impairment of financial assets

Changes in the gross carrying amounts of trade receivables and loans with reconciliation of write-downs as at 31 December 2019 and as at 31 December 2018 to opening balances are presented in the table below:

	Trade receivables			Loans		
	Basket 1	Basket 3	TOTAL	Basket 1	Basket 3	TOTAL
	ECL in life - no loss of value	ECL in life - with loss of value		ECL in life - no loss of value	ECL in life - with loss of value	
Gross value on 01.01.2019	**280,497**	**15,048**	**295,545**	**1,150,196**	**3,328**	**1,153,524**
Created	2,704,141	98	2,704,239	236,737	-	236,737
Interest accrued	-	-	-	43,575	-	43,575
Reclasification	(1,045,505)	242	(1,045,263)	-	-	-
Written off	-	(118)	(118)	-	-	-
Repaid	(1,653,177)	(3,042)	(1,656,219)	(390,739)	(527)	(391,266)
Exchange differences	196	(28)	168	(4,070)		(4,070)
Gross value on 31.12.2019	**286,152**	**12,200**	**298,352**	**1,035,699**	**2,801**	**1,038,500**
Opening balance of write-offs on 01.01.2019	(82)	(15,048)	(15,130)	(16,931)	(3,328)	(20,259)
Change in write-offs	(75)	2,848	2,773	2,044	527	2,571
Closing balance of write-offs on 31.12.2019	(157)	(12,200)	(12,357)	(14, 887)	(2,801)	(17,688)
Net value on 31.12.2019	**285,995**	**-**	**285,995**	**1,020,812**	**-**	**1,020,812**

The net carrying amount of trade receivables and loans reflects the maximum exposure to credit risk.

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Calculation of impairment losses on loans granted

As at the date of initial application of IFRS 9, the Company, in accordance with the three-stage expected credit loss model, calculated the expected credit loss on the basis of the probability of default (calculated based on the assessment of credit risk, i.e. the Company's rating). All loans were classified by the Company in Stage 1 (loans for which no significant deterioration in credit quality was observed and expected credit losses are estimated in the period of 12 months after the reporting date). As at 31 December 2018 and 31 December 2019, loans were not reclassified to Stage 2 or Stage 3.

The following tables present the reconciliation of impairment allowances for financial assets.

	31.12.2019	31.12.2018
Gross carrying amount	1,038,500	1,153,524
Write-off	(17,688)	(20,259)
TOTAL	**1,020,812**	**1,133,265**

The table below presents an analysis of the degrees of credit risk assessment of loans measured at amortized cost.

	31.12.2019			31.12.2018		
Rating	Bakset 1 12-month ECL	Basket 3 ECL in life	TOTAL	Bakset 1 12-month ECL	Basket 3 ECL in life	TOTAL
Rating CIECH S.A. (Ba3 Moody's)*	1,035,699	2,801	1,038,500	1,150,196	3,328	1,153,524
Gross value	**1,035,699**	**2,801**	**1,038,500**	**1,150,196**	**3,328**	**1,153,524**
Impariment loss	(14,887)	(2,801)	**(17,688)**	(16,931)	(3,328)	**(20,259)**
Net value	**1,020,812**	**-**	**1,020,812**	**1,133,265**	**-**	**1,133,265**

*****_CIECH S.A.'s rating was estimated on the basis of Moody's methodology (Rating Scorecard) and the most recent financial data of CIECH S.A., according to which the calculated rating of CIECH S.A. is Ba3._

Calculation of impairment allowances for trade receivables

The following tables present the reconciliation of impairment allowances for financial assets in accordance with IFRS 9.

	TOTAL	Current 0-30 days	30-60 days	>90 day
Receivables as at 31.12.2019	**298,352**	**171,959**	**62,117**	**64,276**
Gross receivables	-	0.03%	0.03%	0.22%
Liabilities failure ratio	**157**	52	19	86
Expected credit losses	**12,357**	**52**	**19**	**12,286**
Total expected losses	**157**	52	19	86
from group analysis	**12,200**	-	-	12,200

	TOTAL	Current 0-30 days	30-60 days	>90 day
Receivables as at 31.12.2018	**295,545**	**257,161**	**13,995**	**24,389**
Gross receivables	-	0.03%	0.03%	0.03%
Liabilities failure ratio	**82**	76	4	2
Expected credit losses	**15,130**	**2,734**	**4**	**12,392**
Total expected losses	**82**	76	4	2
from group analysis	**15,048**	2,658	-	12,390

Liquidity risk

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

The following measures are applied to reduce liquidity risk:

- current monitoring of liquidity of CIECH S.A.,
- monitoring and optimisation of the level of working capital,
- adjusting the level and schedule of capital expenditure,

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- intragroup borrowings and sureties for the liabilities from the CIECH Group's companies,
- current monitoring of the settlement of liabilities under the loan agreements conditions.

The CIECH S.A.'s debt financing is ensured by a term loan. In addition, a revolving credit facility in the amount of PLN 250 million, constituting an additional source of current liquidity and working capital financing (as at 31 December 2019, the facility was drawn down in the amount of PLN 0 million), and overdraft facilities (as at the end of 2019, they were drawn down in the amount of PLN 294,371 thousand) have been made available to the Company.

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

31.12.2019	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabiliies:	**(2,282,524)**	**(2,378,658)**	**(589,441)**	**(143,984)**	**(384,733)**	**(1,260,500)**	**-**
Trade liabilities	(382,909)	(382,909)	(382,909)	-	-	-	-
Loans and borrowings	(1,758,368)	(1,854,502)	(65,285)	(143,984)	(384,733)	(1,260,500)	-
Factoring liabilities	(17,097)	(17,097)	(17,097)	-	-	-	-
Cash pooling liabilities	(124,150)	(124,150)	(124,150)	-	-	-	-
Lease liabilities	**(29,440)**	**(33,606)**	**(2,356)**	**(2,850)**	**(9,832)**	**(10,397)**	**(8,171)**
Derivative instruments with negative value	**(20,005)**	**(20,396)**	**(40)**	**(17,495)**	**(2,861)**	**-**	**-**
Hedging derivatives with negative value	**(5,015)**	**(4,811)**	**(97)**	**(862)**	**(3,853)**	**-**	**-**
Total financial liabilities	**(2,336,984)**	**(2,437,472)**	**(591,934)**	**(165,191)**	**(401,279)**	**(1,270,897)**	**(8,171)**

31.12.2018	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years
Other financial liabiliies:	**(2,315,369)**	**(2,452,081)**	**(833,791)**	**(183,074)**	**(35,121)**	**(1,400,095)**
Trade liabilities	(471,094)	(471,094)	(471,094)	-	-	-
Loans and borrowings	(1,749,631)	(1,886,343)	(268,053)	(183,074)	(35,121)	(1,400,095)
Factoring liabilities	(16,979)	(16,979)	(16,979)	-	-	-
Cash pooling liabilities	(77,665)	(77,665)	(77,665)	-	-	-
Derivative instruments with negative value	**(43,087)**	**(44,371)**	**-**	**(5,137)**	**(39,234)**	**-**
Hedging derivatives with negative value	**(1,681)**	**(1,422)**	**(789)**	**(433)**	**(200)**	**-**
Total financial liabilities	**(2,360,137)**	**(2,497,874)**	**(834,580)**	**(188,644)**	**(74,555)**	**(1,400,095)**

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

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8.4. DETERMINATION OF FAIR VALUE

The following list presents the fair value of financial instruments.

	31.12.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	169,983	169,983	54,988	54,988
Loans granted	1,020,812	1,020,812	1,133,265	1,133,265
Trade receivables	285,995	285,995	280,363	280,363
Assets due to valuation of derivatives	14,377	14,377	27,521	27,521
Derivative instruments recognized in financial assets designated as hedging instruments	3,738	3,738	398	398
Cash pooling receivables	6,496	6,496	42,219	42,219
Factoring receivables	30,856	30,856	36,528	36,528
ASSETS	**1,532,257**	**1,532,257**	**1,575,282**	**1,575,282**
Loans and borrowings	(1,758,368)	(1,760,399)	(1,749,631)	(1,756,842)
Trade liabilities	(382,909)	(382,909)	(471,094)	(471,094)
Lease liabilities	(29,440)	(33,606)	-	-
Liabilities due to valuation of derivatives	(20,005)	(20,005)	(43,087)	(43,087)
Derivative instruments recognized in financial liabilities designated as hedging instruments	(5,015)	(5,015)	(1,681)	(1,681)
Cash pooling liabilities	(124,150)	(124,150)	(77,665)	(77,665)
Factoring liabilities	(17,097)	(17,097)	(16,979)	(16,979)
LIABILITIES	**(2,336,984)**	**(2,343,181)**	**(2,360,137)**	**(2,367,348)**

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

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

Measurement at fair value is grouped according to three-level hierarchy:

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

Assets and liabilities measured at fair value

	31.12.2019	31.12.2018
	Level 2	Level 2
ASSETS	**18,115**	**27,919**
Hedging instruments	3,571	398
Derivatives at fair value through profit or loss	14,544	27,521
LIABILITIES	**(25,020)**	**(44,768)**
Hedging instruments	(5,016)	(1,681)
Derivatives at fair value through profit or loss	(20,004)	(43,087)
TOTAL	**(6,905)**	**(16,849)**

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As at 31 June 2019, CIECH S.A. held the following types of financial instruments measured at fair value: interest rate swap contracts, currency forward contracts EUR/PLN, USD/RON and RON/PLN, as well as CIRS (currency and interest rate swap) contract EUR/PLN. Neither the CIRS not USD/RON and RON/PLN forwards are designated to hedge accounting.

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

Fair value of financial instruments	Longterm financial assets	Short-term financial assets	Other long-term liabilities	Trade and other liabilities	TOTAL
31.12.2019					
IRS EUR	118	-	(29)	(460)	**(371)**
IRS PLN	3,048	405	(3,711)	(815)	**(1,073)**
CIRS	1,713	12,664	(2,747)	(17,217)	**(5,587)**
Forward EUR/PLN	-	167	-	-	**167**
Forward RON/PLN	-	-	-	(6)	**(6)**
Forward USD /RON	-	-	-	(35)	**(35)**
TOTAL	**4,879**	**13,236**	**(6 487)**	**(18,533)**	**(6,905)**
31.12.2018					
IRS EUR	-	-	(282)	(474)	**(756)**
CIRS	11,859	15,517	(37,899)	(5,047)	**(15,570)**
Forward EUR/PLN	-	543	-	(218)	**325**
Forward USD /RON	-	-	-	(848)	(848)
TOTAL	**11,859**	**16,060**	**(38,181)**	**(6,587)**	**(16,849)**

The above financial instruments were classified at level 2 of the fair value hierarchy. In 2019, there were no transfers within the fair value hierarchy of instruments measured at fair value.

Financial instruments not measured at fair value

CIECH S.A. has taken out term and revolving credit facilities whose book value, as at 31 December 2019, is PLN 1,632,615 thousand, and whose fair value amounts to PLN 1,634,646 thousand (Level 2 of fair value hierarchy). The Company recognised that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates.

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

9 OTHER NOTES

9.1. NOTES TO THE STATEMENT OF CASH FLOWS

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

	31.12.2019	31.12.2018
Change of liabilities presented in statement of financial position	**(30,474)**	**353,747**
Change of financial liabilities	(55,222)	(283,298)
Change of income tax liabilities	867	3,891
Change of liabilities applying to non-current assets	2,716	7,067
Change of liabilities - compensation	-	(32,655)
Valuation of derivatives	19,748	(253)
Change of lease liabilities	(24,011)	-
Change of liabilities due to purchase of financial assets	4,742	-
Other	580	-
Change of liabilities in statement of cash flow	**(81,054)**	**48,499**

	31.12.2019	31.12.2018
Receivables change presented in statement of financial position	**22,663**	**(119,908)**
Receivables from the purchase of shares	171	-
Reclasification of receivables from cashpool	(35,702)	29,695
Receivables change due to increase in the capital of a subsidiary company	10,524	2,330
Receivables change - compensation due to purchase of asset	-	(619)
Receivables change - redeemed loans with interest	-	49,034
Receivables change - compensation of interest on the loan	25,762	26,327
Receivables change presented in statement of cash flow	**23,418**	**(13,141)**

	31.12.2019	31.12.2018
Change in reserves and employee benefits	**(67,553)**	**67,370**
Change in reserves from income tax	66,397	(43,700)
Receivables change presented in statement of cash flow	**(1,156)**	**23,670**

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

Accounting policy

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

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

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Significant disputed liabilities of CIECH S.A.

As at 31 December 2019, CIECH S.A. did not have any significant disputed liabilities pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described in section "Audits of tax settlements at CIECH S.A." in this chapter.

Significant disputed receivables of the CIECH Group

As at 31 December 2019, CIECH S.A. did not hold any significant disputed receivables pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies.

Contingent assets and contingent liabilities including guarantees and sureties

	31.12.2019	31.12.2018
Contingent assets	**18,864**	**18,864**
Other contingent receivables*	18,864	18,864
Other contingent liabilities	**739,506**	**586,262**
Guarantees and sureties granted**	739,506	586,262

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

***Including:*

- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 365,630 thousand,*
- *guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand – contingent liability in the amount of PLN 31,939 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of EUR 50,000 thousand – contingent liability in the amount of PLN 12,500 thousand,*
- *guarantee granted up to the amount of 125% of liability related to short-term loan in the amount of EUR 10,000 thousand – contingent liability in the amount of PLN 10,646 thousand,*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of EUR 25,000 thousand – contingent liability in the amount of PLN 26,616 thousand,*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 300,000 thousand – contingent liability in the amount of PLN 75,000 thousand,*
- *guarantee granted up to the amount of 125% of liability related to revolving loan in the amount of PLN 92,788 thousand – contingent liability in the amount of PLN 23,197 thousand.*

As at 31 December 2019, contingent liabilities amounted to PLN 739,506 thousand and increased as compared to 31 December 2018 by PLN 153,244 thousand. The change was primarily attributable to a change in the value of guarantees related to loans (as described above) and change in the value of guarantees for liabilities of subsidiaries:

- issue of a new guarantee for the liabilities of a subsidiary, Ciech Soda Deutschland GmBH & CO. KG, in the amount of EUR 11,250 thousand (PLN 47,908 thousand),
- issue of a new guarantee for the liabilities of a subsidiary, CIECH Salz Deutschland GmBH , in the amount of EUR 4,000 thousand (PLN 17,034 thousand),
- decrease in a contingent liability under a guarantee in the amount of EUR 1,753 thousand (PLN 7,465 thousand) following the expiry of a surety for liabilities of a subsidiary, Ciech Soda Deutschland GmBH & CO. KG.,
- decrease in a contingent liability under a guarantee in the amount of PLN 2,850 thousand following the expiry of a surety for liabilities of a subsidiary, CIECH Cargo Sp. z o.o.,
- decrease in a contingent liability under a guarantee in the amount of PLN 24,450 thousand following the expiry of a surety for liabilities of a subsidiary, CIECH Trading S.A.

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Sureties and guarantees granted as at 31 December 2019

Beneficiary's name	Total amount of liabilities covered by guarantee/surety in whole or in specific part		Financial terms, including guarantee fee due to the company; guarantee period	Principal
	Currency	PLN		
CIECH S.A.				
Landesamt fuer Geologie und Bergwesen Sachsen-Anhalt	EUR 7,101 thousand	30,239 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; no time limit	CIECH Soda Deutschland GmbH&Co. KG. (subsidiary)
Investittionsbank Sachsen-Anhalt (IBSA)	EUR 11,250 thousand	47,908 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability. Liabilities incurred and outstanding by 31.12.2019	CIECH Soda Deutschland GmbH&Co. KG. (subsidiary)
MECALUX Sp. z o.o.	EUR 4,000 thousand	17,034 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability. Liabilities incurred and outstanding by 31.12.2019	CIECH Salz Deutschland GmbH (subsidiary)
Evatherm AG	EUR 23,200 thousand	98,797 thousand	Commission of 1.5% p.a. of the guaranteed liability; collateral pertaining to liability; until the liabilities arising from the agreement between Evatherm AG and CIECH Soda Deutschland GmbH have been settled	CIECH Soda Deutschland GmbH&Co. KG. (spółka zależna) (subsidiary)
Total amount of guarantees and sureties granted				**PLN 193,978 thousnd**

Selected subsidiaries in Poland, Germany and Romania				
Banks: Bank Handlowy w Warszawie S.A., Bank Millennium S.A., Santander Bank Polska S.A., BOŚ S.A. Bank PKO BP S.A., Credit Agricole Bank Polska S.A., HSBC Bank Polska S.A., ICBC (Europe) S.A. oddział w Polsce, mBank S.A., BGŻ BNP Paribas S.A.; Bank Pekao S.A., Banko de Sabadell	PLN 1,828,150 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and for a revolving credit facility in the amount of PLN 250,000 thousand) EUR 37,500 thousand (guarantee granted up to the amount of 125% of liability related to term loan in the amount of EUR 30,000 thousand) PLN 62,500 thousand (guarantee granted up to the amount of 125% of liability related to overdraft facility granted by Bank Millennium S.A. in the amount of PLN 50,000 thousand and EUR 12,500 thousand (guarantee granted up to the amount of 125% of liability related to overdraft facility in the amount of EUR 10,000 thousand) and	PLN 375,000 thousand (guarantee granted up to the amount of 125% of liability related revolving facility granted by Bank Pekao S.A. in the amount of PLN 300,000 thousand) and PLN 115,984 thousand (guarantee granted up to the amount of 125% of liability related revolving facility granted by Bank BNP Paribas S.A. in the amount of PLN 92,788 thousand) and EUR 31,250 thousand (guarantee granted up to the amount of 125% of liability related revolving facility granted by Banko de Sabadell S.A. in the amount EUR 25,000 thousand) **PLN 2,727,637 thousand**	Commission of 0.55% p.a of the difference between the limit of the guarantee collateralised by assets and a surplus of the guarantee limit; Period for which the surety was granted – 31 December 2023 – term loan and revolving credit facility and 31 December 2021 – overdraft facilities in PLN and EUR 30 June 2022 – revolving credit in PLN and in EUR	CIECH S.A. (parent company)
Total amount of guarantees and sureties granted				**PLN 2,727,637 thousand**

Letters of support

As at 31 December 2019, CIECH S.A. was the obliged party in the letter of support (Patronatserklärung) regarding CIECH Soda Deutschland GmbH&Co. KG seated in Staßfurt (CSD) granted to Innogy Gas Storage NWE GmbH ("Innogy") relating to liabilities of CSD resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CSD received payments of EUR 45.8 million from Innogy by 31 December 2019. In the letter of support, CIECH S.A. has committed, among other things, to ensure that CSD will have sufficient funds to fulfil its financial commitments against Innogy resulting from the above-mentioned agreement.

Audits of tax settlements

In 2019, the following audits and proceedings were carried out at CIECH S.A.:

1. a customs and fiscal audit followed by tax proceedings concerning Corporate Income Tax settlements for 2012 (CIT 2012),
2. tax proceedings concerning Corporate Income Tax settlements for 2013 (CIT 2013),
3. a customs and fiscal audit concerning Corporate Income Tax settlements for 2014 (CIT 2014).

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

In December 2018, the company received a decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority. The Company contested the position and filed an appeal. In April 2019, the Company received a decision of the second instance, upholding the decision of the first instance. The Company paid up the outstanding tax along with interest in three tranches in the total amount of PLN 66.4 million (tax: PLN 43.7 million, interest: PLN 22.7 million). CIECH S.A. appealed against the decision of the second instance to the Provincial Administrative Court in Cracow. On 9 October 2019, the Provincial Administrative Court issued a ruling in which it confirmed the approach presented by the authority. The court indicated that the company was obliged to recognise the income and did not have the right to recognise the tax deductible cost. After receipt of a written statement of reasons, the company lodged a cassation complaint with the Supreme Administrative Court on 23 December 2019.

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

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

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

The company appealed to the Provincial Administrative Court against this decision. Despite this, the company decided to pay tax in the amount of PLN 1.8 million and interest (PLN 0.3 million) on 10 April 2018. The Court made its decision on 6 June 2019. The Court complied with the CIECH S.A. appeal as regards the costs of trademark fees, repealing the decision of the second instance. However, as regards the costs of consulting and financing of Soda Deutschland, the Court adjudicated that said costs could not constitute tax costs. After receipt of a written statement of reasons, the company lodged a cassation complaint with the Supreme Administrative Court in September 2019.

CIT audit for 2014 at CIECH S.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 13 November 2019. At the time of publication of these statements, the authority had made no findings.

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Due to the audits carried out, despite appealing to the court against the dimensional decisions received, the Company paid a total of PLN 68.5 million (PLN 45.5 million tax and PLN 23.0 million interest). From the given amount, the amount of PLN 2.1 million is disclosed as a receivable from the Tax Office.

9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

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

CIECH SA TRANSACTIONS WITH RELETED ENTITIES	Subsidiary	affiliates	Other related	TOTAL
01.01.-31.12.2019				
Sales revenues	668,950	48,781	-	**717,731**
Financial income including:	60,167	153	-	**60,320**
Dividends	*5,133*	*135*	-	***5,268***
Purchase of products, goods, materials and services including:	1,429,774	8,211	4,616	**1,442,601**
KI One S.A.	-	-	*210*	***210***
Financial expenses	45,165	-	-	**45,165**
31.12.2019				
Receivables	215,239	5,497	706	**221,442**
Loans granted	1,020,812	-	-	**1,020,812**
Trade and other liabilities	400,818	428	-	**401,246**
Recived loans	125,753	-	-	**125,753**
01.01.-31.12.2018				
Sales revenues	748,110	49,797	-	**797,907**
Financial income including:	94,380	273	-	**94,653**
Dividends	*1,298*	*273*	-	***1,571***
Purchase of products, goods, materials and services including:	1,463,891	-	4,090	**1,467,981**
KI One S.A.	-	-	*425*	***425***
Financial expenses	35,586	-	-	**35,586**
31.12.2018				
Receivables	188,829	6,019	799	**195,647**
Loans granted	1,133,265	-	-	**1,133,265**
Trade and other liabilities including:	432,669	494	1,071	**434,234**
KI One S.A.	-	-	*1,071*	***1,071***
Recived loans	132,444	-	-	**132,444**

Terms of transactions with related entities

Material sales to and purchases from related entities were, to the best of the Company's knowledge and belief, carried out on terms reflecting arm’s length terms.Overdue liabilities and receivables are not secured and are settled in cash or by set-off.

No material non-standard or non-routine transactions were concluded with related entities in 2019 except for the ones presented in section 9.3.3.

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

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

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

To the best of the Company's judgement, there were no transactions with related entities in CIECH S.A. on other than market conditions in 2019.

9.3.3. DESCRIPTION OF NON-ROUTINE TRANSACTIONS WITH RELATED PARTIES

Information on significant transactions with related parties is provided in note 6.4 to these financial statements.

9.3.4. TRANSACTIONS CONCLUDED WITH KEY MANAGERIAL PERSONNEL

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

Remuneration of the Management Board of CIECH S.A.

The following table presents the amount of remuneration and additional benefits paid or payable to particular Members of the Management Board in 2019 and in the comparable period. In the years 2018-2019, members of the Management Board of CIECH S.A. did not receive any remuneration for holding a position in the Supervisory Boards or any other functions performed in the subsidiaries of the CIECH Group.

	2019	2018
Dawid Jakubowicz	**1,440**	**450**
Artur Osuchowski	**1,260**	**3,033**
Mirosław Skowron	**1,200**	**300**
Maciej Tybura	2,823	4,276
Artur Król	1,437	3,034
Krzysztof Szlaga	2,004	1,196
Dariusz Krawczyk	-	81
TOTAL	**10,164**	**12,370**

Members of the Management Board are employed based on employment contracts. Remuneration of the Management Board Members are set out in individual employment contracts. Members of the Management Board are also entitled to:

- discretionary bonus in the amount determined by the Supervisory Board of CIECH S.A.,
- annual bonus determined in individual employment contracts,
- payment from the Long-Term Incentive Plan applicable in the Group (within the time limit and on the principles specified therein).

Remuneration of the Managing Director

The following table presents the amount of remuneration and additional benefits paid or payable to the Managing Director in the period from 1 June to 31 December 2019, i.e. in the period of holding this function.
During this period, the Managing Director received remuneration for serving on the Supervisory Boards of: Polsin Overseas Shipping Ltd. Sp. z o.o. and Proplan Plant Protection Company S.L.

	01.06 – 31.12.2019
Rafał Czubiński	**396**

The Managing Director is employed under an employment contract which specifies the basic remuneration and the applicable rules of the bonus system. He may also receive a payment from the Long-Term Incentive Plan applicable in the Group (within the time limit and on the terms specified therein).

FINANCIAL STATEMENTS OF CIECH S.A. FOR 2019 (in PLN thousand)

Remuneration of the Supervisory Board of CIECH S.A.

	Salary received from CIECH S.A. CIECH S.A. in 2019	Salary received from CIECH S.A. CIECH S.A. in 2018
Sebastian Kulczyk	-*	-*
Piotr Augustyniak	**461**	**411**
Tomasz Mikołajczak	**215**	**200**
Mariusz Nowak	**369**	**332**
Artur Olech	**369**	**332**
Marek Kośnik	**171**	**-**
Dominik Libicki	-	82
Dawid Jakubowicz	-	37
TOTAL	**1,585**	**1,394**

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

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

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

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

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

The entity authorised to audit financial statements for the period from 1 January 2019 to 31 December 2019 was PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. with its registered office in Warsaw. On 25 June 2015, CIECH S.A. signed an agreement with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. on the review of semi-annual and audit of annual financial statements for the years 2015, 2016 and 2017. On 16 April 2018, the Supervisory Board of CIECH S.A. resolved to extend the agreement with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. on the review of semi-annual and audit of annual financial statements for the years 2018 and 2019. The value of agreements concluded with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. and members of the PricewaterhouseCoopers network is presented below:

	31.12.2019*	31.12.2018*
Audit of the annual financial statements	569	335
Review of the semi-annual report	93	93
Other services	-	10
Other certifying services	1	1
TOTAL	**663**	**439**

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

9.5. EVENTS AFTER THE BALANCE SHEET DATE

- On 23 January 2020, the Extraordinary Shareholders' Meeting of CIECH S.A. appointed Mr Łukasz Rędziniak as a new member of the Supervisory Board of CIECH S.A.

- On 7 February 2020, a term sheet was signed and an agreement with regard to cooperation in the development of design documentation for the water and brine pipelines between CIECH and Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. The term sheet and the agreement are related to the letter of intent signed on 5 December 2019 by CIECH and GAZ-SYSTEM with regard to their cooperation in the implementation of an investment involving construction by GAZ-SYSTEM of a salt mine, with an underground gas storage facility at the Damasławek salt dump, along with the Linear Infrastructure, and cooperation in the supply of brine to the CIECH Soda Polska S.A. production facilities. The execution of the term sheet and the agreement is yet another step towards ensuring diversified sources of brine supply to the CIECH Soda Polska S.A.'s production facilities in the long term. Detailed information on the agreement is provided in current report No 10/2020.

- After the balance sheet date, all funds available to CIECH S.A. under the revolving credit facility line were made available based on the agreement with the consortium of banks of 9 January 2018 and loan agreements of 18 April 2019:
  - ✓ 17 February 2020 - payment of PLN 60,000 thousand - funds disbursed to finance the Group's current liquidity needs,
  - ✓ 19 March 2020 and 23 March 2020 - payment of PLN 442,787.5 thousand - funds disbursed in order to maximize the level of available liquidity and minimize the risk of the lack of availability of financing due to the growing uncertainty of economic developments due to the CovID-19 epidemic.

- On 23 March 2020, between CIECH S.A. and CIECH Soda Polska S.A. Budimex S.A., EEW Energy from Waste GmbH, EEW Energy from Waste Polska sp.z o.o., FBSerwis S.A. and the Municipality of Janikowo, a letter of intent was signed regarding the establishment of cooperation in the implementation of the investment consisting in the construction by EEW, EEW Polska and FBSerwis, on the property belonging to CIECH Soda Polska S.A., of a thermal waste treatment installation. The primary goal of the installation will be to supply the production plant of CIECH Soda Polska S.A., located in Janikowo, with thermal energy (process steam). Details of the planned investment can be found in current report no. 13/2020.

- On 25 March 2020 it was decided to implement, as of 1 April 2020, the Voluntary Redundancy Programme (VRP) with regard to employees of CSR and the Branch, and to launch, as of 27 March 2020, the group layoff procedure with regard to employees of CSR. Details of the VPR can be found in current report no. 14/2020.

Impact of the COVID-19 coronavirus pandemic on the CIECH S.A. operations
The Management Board of CIECH S.A. is monitoring, on an ongoing basis, the developments and the impact of the COVID-19 pandemic on the operations of CIECH S.A. CIECH S.A. complies with all decisions and recommendations of the authorities while monitoring the situation on an ongoing basis, and its decisions are guided by concern for the health of its employees and care for the long-term value of CIECH S.A. Identifying the risks associated with the epidemic threat is of particular importance to the Management Board of CIECH S.A., so as to enable it to take preventive action in advance. As at the date of publication of this report, the Management Board of CIECH S.A. has diagnosed areas of potential risks associated with the COVID-19 pandemic, which may affect the future financial results of CIECH S.A. in a significant manner. These risks include:

1. Potential disruptions in raw material supply chains and product sales caused by transport disruptions due to problems attributable to transport companies, a possible increase in delivery costs due to growing transport rates, a possible reduction in the number and form of available means of transport, temporary shutdown of borders or any other related restrictions. CIECH S.A. has taken intensive measures to ensure uninterrupted supply of raw materials necessary for production carried out by selected companies of the CIECH Group and products for customers.
2. Potential disruptions in the availability of raw materials in the Organic Segment (in particular, in the area of production of foams, plant protection products and resins) caused by problems attributable to manufacturers and distributors of raw materials necessary for production, such as production interruptions. CIECH S.A. has taken intensive measures to ensure availability of the raw materials for production purposes.
3. Potential disruptions in keeping the deadlines of investment projects and renovation works of the CIECH Group companies due to possible difficulties with, or limited availability of, contractors, possible delays in the supply of materials and equipment, as well as acts of public administration bodies related to decisions issued in administrative processes. The CIECH Group has taken intensive measures aimed at ensuring continuity of production in its production plants.
4. Potential disruptions in the continuity of production processes as a result of reduced availability of employees. As at the date of publication of this report, the absenteeism of employees of CIECH S.A. does not pose any risk of disrupting the continuity of their business.

5. Potential threat of deteriorated liquidity as a result of payment gridlocks. CIECH S.A. has adopted new rules, more stringent than the existing ones, for monitoring receivables and granting credit limits to customers. The vast majority of the receivables of CIECH S.A. are covered by factoring services and insurance. As at the date of publication of this report, no significant issues have been identified in terms of receivables.
6. Potential threat of negative impact of the COVID-19 pandemic on the global economy, among others, on the level of demand and industrial production. The Management Board of CIECH S.A. is observing the developments on an ongoing basis, while actively preparing CIECH S.A. to operate in different scenarios, including the scenario of a serious global economic slowdown.

The order of the above risks do not determine the weight of risk.

The situation in individual product segments in which CIECH S.A. is involved by selling products manufactured by CIECH Soda Polska S.A. and by purchasing raw materials for selected companies:

- CIECH Soda Polska S.A. - purchase of brine,
- CIECH Sarzyna S.A. - purchase of most raw materials necessary for the production of crop protection products,
- CIECH Żywice Sp. z o.o. - purchase of most raw materials necessary for the production of resins,
- CIECH Pianki Sp. z o.o. - purchase of polyols necessary for foam production,

is as follows:

CIECH Soda Polska S.A.

As at the date of publication of this report, production plants of CIECH Soda Polska S.A. work without significant disruptions, also sales of products manufactured by CIECH Soda Polska S.A and sold by CIECH S.A. runs without significant interference. To date, no significant logistics problems have been observed. However, there is a risk of disruption in this respect, especially in the case of export sales, which accounts for about 30% of the sales of plants at CIECH Soda Polska S.A. Stocks of raw materials in production plants are at a level ensuring continuity of production and the risk in this respect is not significant at the moment. As at the date of publication of this report, no significant decrease in demand for soda segment products was found, however, in the case of a prolonged decline in the level of industrial production in the world, there is a risk of falling orders from customers.

Organic Segment

As at the date of publication of this report, the production plants of CIECH Żywice Sp. z o.o. producing resins and CIECH Sarzyna S.A. producing crop protection products operate without significant interference. There is a risk in the supply of production raw materials, some of which come from foreign producers, including Asian ones. CIECH S.A. has taken steps to secure the necessary raw materials to maintain production continuity. As at the date of publication of this report, there was no significant reduced demand for crop protection products and resins.

A noticeable decrease in orders occurs on the foam market, which is associated with the furniture sector in Poland and Europe. As at the date of publication of this report, the main furniture and mattress manufacturers have suspended or intend to suspend production in the near future. The situation on the furniture market forced CIECH Pianki Sp. z o.o. reduction of foam production. In week 13 of 2020, foam production was reduced by 30%. In the 14 week of 2020, it is planned to reduce foam production by 60%. As at the date of publication of this report, it is difficult to unequivocally assess whether the market situation will deteriorate, however, the CIECH Group expects a further decline in foam production. As regards ensuring the continuity of foam production, CIECH S.A., as at the date of publication of this report, does not see significant risks on the side of raw materials' supplies purchased by CIECH S.A.

The above assessment has been prepared to the best of the knowledge of the Management Board of CIECH S.A. as at the date of publication of this report. The actual scale of future effects of the COVID-19 pandemic and their impact on the CIECH S.A.'s operations is currently unknown and impossible to estimate, and depends on factors that are beyond the control of the CIECH S.A. and subject to dynamic changes. Accordingly, it is currently not possible to clearly determine the impact that the COVID-19 pandemic will have on the operations, parameters, forecasts and financial situation of CIECH S.A. However, in the near future, an increase in the risk of a significant negative impact of the COVID-19 pandemic on the CIECH S.A.'s operations cannot be excluded.

REPRESENTATION BY THE MANAGEMENT BOARD

These financial statements of CIECH S.A. for the financial year ended 31 December 2019 were approved by the Company's Management Board on 31 March 2020.

Warsaw, 31 March 2020

(signed on the polish original)

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

(signed on the polish original)

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Mirosław Skowron — Member of the Management Board of CIECH Spółka Akcyjna

(signed on the polish original)

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Katarzyna Rybacka — Chief Accountant of CIECH Spółka Akcyjna