CONSOLIDATED FINANCIAL STATEMENTS

of the CIECH Group 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.

The CIECH Group – 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	3,548,879	3,672,658	824,975	860,732
Operating profit/(loss)	267,510	379,200	62,186	88,870
Profit/(loss) before tax	183,521	305,024	42,661	71,486
Net profit / (loss) for the period	116,412	112,503	27,061	26,367
Net profit/(loss) attributable to shareholders of the parent company	117,690	112,044	27,358	26,259
Net profit/(loss) attributed to non-controlling interest	(1,278)	459	(297)	108
Other comprehensive income net of tax	(38,322)	864	(8,908)	202
Total comprehensive income	78,090	113,367	18,153	26,569
Cash flows from operating activities	531,864	453,938	123,638	106,386
Cash flows from investment activities	(407,343)	(626,669)	(94,691)	(146,868)
Cash flows from financial activities	(17,172)	(125,101)	(3,992)	(29,319)
Total net cash flows	107,349	(297,832)	24,955	(69,801)
Earnings (loss) per ordinary share (in PLN/EUR)	2.23	2.13	0.52	0.50
	as at 31.12.2019	as at 31.12.2018	as at 31.12.2019	as at 31.12.2018
Total assets	5,046,442	4,822,132	1,185,028	1,121,426
Non-current liabilities	1,947,307	1,636,755	457,275	380,641
Current liabilities	1,121,918	1,286,250	263,454	299,128
Total equity	1,977,217	1,899,127	464,299	441,657
Equity attributable to shareholders of the parent	1,978,234	1,898,839	464,538	441,590
Non-controlling interest	(1,017)	288	(239)	67
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 consolidated statement of financial position were converted using the average exchange rate determined by the National Bank of Poland on the last day of the reporting period;
- items in the consolidated statement of profit or loss, consolidated statement of other comprehensive income and consolidated statement of cash flows were converted using the exchange rate constituting the arithmetic mean of rates determined by the National Bank of Poland on the last day of each calendar month of the reporting period.

as at 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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CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	Note	01.01.-31.12.2019	01.01.-31.12.2018
CONTINUING OPERATIONS			
Sales revenues	3.1	**3,548,879**	**3,672,658**
Cost of sales	3.2	(2,767,162)	(2,909,242)
Gross profit/(loss) on sales		**781,717**	**763,416**
Other operating income	3.4	112,822	89,040
Selling costs		(250,562)	(271,734)
General and administrative expenses		(202,206)	(144,997)
Other operating expenses	3.4	(174,261)	(56,525)
Operating profit/(loss)		**267,510**	**379,200**
Financial income	3.5	5,065	19,159
Financial expenses	3.5	(90,160)	(93,851)
Net financial income/(expenses)		**(85,095)**	**(74,692)**
Share of profit / (loss) of equity-accounted investees	5.9	1,106	516
Profit/(loss) before tax		**183,521**	**305,024**
Income tax	4.1	(67,109)	(192,521)
Net profit/(loss) on continuing operations		**116,412**	**112,503**
DISCONTINUED OPERATIONS			
Net profit/(loss) on discontinued operations	5.14	-	-
Net profit / (loss) for the period		**116,412**	**112,503**
including:			
Net profit/(loss) attributable to shareholders of the parent company		117,690	112,044
Net profit/(loss) attributed to non-controlling interest		(1,278)	459
Earnings per share (in PLN):			
Basic	6.6	2.23	2.13
Diluted	6.6	2.23	2.13

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	Note	01.01.-31.12.2019	01.01.-31.12.2018
Net profit/(loss) on continuing operations		**116,412**	**112,503**
Net profit/(loss) on discontinued operations		-	-
Net profit / (loss) for the period		**116,412**	**112,503**
Other comprehensive income before tax that may be reclassified to the statement of profit or loss	*3.6*	**(40,987)**	**(3,063)**
Currency translation differences (foreign companies)		(12,492)	8,808
Costs of hedging reserve		4,409	615
Cash flow hedge reserve		(32,904)	(12,489)
Other components of other comprehensive income		-	3
Other comprehensive income before tax that may not be reclassified to the statement of profit or loss	*3.6*	**(591)**	**(235)**
Actuarial gains		(591)	(235)
Income tax attributable to other comprehensive income		**3,256**	**4,162**
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	*4.1.*	3,144	4,119
Income tax attributable to other comprehensive income that may not be reclassified to the statement of profit or loss	*4.1.*	112	43
Other comprehensive income net of tax		**(38,322)**	**864**
TOTAL COMPREHENSIVE INCOME		**78,090**	**113,367**
Comprehensive income including attributable to:		**78,090**	**113,367**
Shareholders of the parent company		79,395	112,773
Non-controlling interest		(1,305)	594

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	Note	**31.12.2019**	**31.12.2018**
ASSETS			
Property, plant and equipment	*5.1*	2,891,207	2,857,199
Right of perpetual usufruct	*5.3*	-	29,646
Rights to use an asset	*5.2*	194,792	-
Intangible assets, including:	*5.4*	486,472	458,158
- goodwill	*5.5*	*139,545*	*140,713*
Investment property	*5.6*	36,717	37,766
Non-current receivables	*5.7*	57,624	64,603
Investments in associates and jointly-controlled entities measured under the equity method	*5.9*	5,958	5,556
Long-term financial assets	*5.8*	17,787	28,774
Deferred income tax assets	*4.3*	43,631	67,872
Total non-current assets		**3,734,188**	**3,549,574**
Inventory	*5.10*	455,704	438,518
Short-term financial assets	*5.12*	17,282	29,832
Income tax receivables		11,816	16,116
Trade and other receivables	*5.11*	527,082	595,163
Cash and cash equivalents	*5.13*	299,580	192,139
Non-current assets held for sale	*5.14*	790	790
Total current assets		**1,312,254**	**1,272,558**
Total assets		**5,046,442**	**4,822,132**
EQUITY AND LIABILITIES			
Share capital	*6.2*	287,614	287,614
Share premium		470,846	470,846
Cash flow hedge reserve	*8.2*	(26,408)	3,115
Costs of hedging reserve		(216)	(4,625)
Actuarial gains		(360)	119
Other reserve capitals	*6.2*	78,521	78,521
Currency translation reserve		(75,944)	(63,242)
Retained earnings		1,244,181	1,126,491
Equity attributable to shareholders of the parent		**1,978,234**	**1,898,839**
Non-controlling interest	*6.4*	(1,017)	288
Total equity		**1,977,217**	**1,899,127**
Loans, borrowings and other debt instruments	*7.1*	1,583,799	1,340,742
Lease liabilities	*7.4*	115,866	17,623
Other non-current liabilities	*7.2*	74,183	112,631
Employee benefits reserve	*7.5*	12,848	11,851
Other provisions	*7.6*	102,197	79,080
Deferred income tax liability	*4.3*	58,414	74,828
Total non-current liabilities		**1,947,307**	**1,636,755**
Loans, borrowings and other debt instruments	*7.1*	61,601	291,924
Lease liabilities	*7.4*	28,068	5,917
Trade and other liabilities	*7.3*	869,658	761,467
Income tax liabilities		47,501	53,041
Employee benefits reserve	*7.5*	15,465	877
Other provisions	*7.6*	99,625	173,024
Total current liabilities		**1,121,918**	**1,286,250**
Total liabilities		**3,069,225**	**2,923,005**
Total equity and liabilities		**5,046,442**	**4,822,132**

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	Note	01.01.-31.12.2019	01.01.-31.12.2018
Cash flows from operating activities			
Net profit/(loss) for the period		**116,412**	**112,503**
Adjustments			
Amortisation/depreciation		310,498	275,203
Recognition of impairment allowances		72,410	4,137
Foreign exchange (profit) /loss		3,034	2,012
Investment property revaluation		(873)	1,165
(Profit) / loss on investment activities		1,381	(17,309)
(Profit) / loss on disposal of property, plant and equipment		(1,719)	(3,169)
Dividends and interest		61,038	39,181
Interest from lease liabilities		2,682	-
Income tax		67,109	192,521
(Profit) / loss on the settlement of construction contracts (caverns)		(2,641)	1,963
Share of (profit) / loss on equity accounted investees		(1,106)	(516)
Change in liabilities due to loan arrangement fee		606	(1,702)
Valuation of derivatives		(16,087)	15,267
Ineffective portion of hedge accounting		440	2,132
Other adjustments		(3,603)	(7,027)
Cash from operating activities before changes in working capital and provisions		**609,581**	**616,361**
Change in receivables	*9.1*	67,269	(74,056)
Change in inventory	*9.1*	(19,350)	(49,228)
Change in current liabilities	*9.1*	7,921	7,387
Change in provisions and employee benefits	*9.1*	35,643	24,946
Cash generated from operating activities		**701,064**	**525,410**
Interest paid		(76,294)	(40,399)
(Profit) / loss on the settlement of construction contracts (caverns)		8,986	19,534
Income tax (paid)/returned		(98,323)	(39,797)
Expenses for reserch		(3,569)	(10,810)
Net cash from operating activities		**531,864**	**453,938**
Cash flows from investment activities			
Disposal of a subsidiary		-	69
Disposal of intangible assets and property, plant and equipment		361	7,762
Disposal of financial assets		-	60
Disposal of investment property		2,207	14,380
Dividends received		781	594
Interest received		4,136	6,236
Subsidies received		2,213	2,005
Proceeds from repaid borrowings		-	20,887
Acquisition of a subsidiary (after deduction of acquired cash)		(4,650)	(156,157)
Acquisition of intangible assets and property, plant and equipment		(351,102)	(435,148)
Acquisition of financial assets		-	(8,116)
Development expenditures		(29,549)	(25,900)
Expenditure on the purchase of emission rights		(31,409)	(53,298)
Other outflows		(331)	(43)
Net cash from investment activities		**(407,343)**	**(626,669)**
Cash flows from financial activities			
Proceeds from loans and borrowings		277,459	595,448
Other financial inflows		-	3,534
Dividends paid to parent company		-	(395,249)
Repayment of loans and borrowings		(268,016)	(321,640)
Payments of lease liabilities		(26,608)	(7,194)
Other financial outflows		(7)	-
Net cash from financial activities		**(17,172)**	**(125,101)**
Total net cash flows		**107,349**	**(297,832)**
Cash and cash equivalents as at the beginning of the period		**192,139**	**489,754**
Impact of foreign exchange differences		*92*	*217*
Cash and cash equivalents as at the end of the period	**5.13**	**299,580**	**192,139**

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company										
	Share capital	Share premium	Cash flow hedge reserve	Costs of hedging reserve	Other reserve capitals	Actuarial gains	Currency translation reserve	Retained earnings	**Equity attributable to shareholders of the parent**	Non-controlling interest	**Total equity**
01.01.2019	**287,614**	**470,846**	**3,115**	**(4,625)**	**78,521**	**119**	**(63,242)**	**1,126,491**	**1,898,839**	**288**	**1,899,127**
Total comprehensive income for the period	**-**	**-**	**(29,523)**	**4,409**	-	**(479)**	**(12,702)**	**117,690**	**79,395**	**(1,305)**	**78,090**
Net profit / (loss) for the period	-	-	-	-	-	-	-	117,690	117,690	(1,278)	116,412
Other comprehensive income	-	-	(29,523)	4,409	-	(479)	(12,702)	-	(38,295)	(27)	(38,322)
31.12.2019	**287,614**	**470,846**	**(26,408)**	**(216)**	**78,521**	**(360)**	**(75,944)**	**1,244,181**	**1,978,234**	**(1,017)**	**1,977,217**
31.12.2017	**287,614**	**470,846**	**10,021**	**-**	**78,521**	**311**	**(73,630)**	**1,413,913**	**2,187,596**	**(2,951)**	**2,184,645**
Changes in accounting policies	-	-	2,408	(5,240)	-	-	-	(1,356)	**(4,188)**	-	**(4,188)**
01.01.2018	**287,614**	**470,846**	**12,429**	**(5,240)**	**78,521**	**311**	**(73,630)**	**1,412,557**	**2,183,408**	**(2,951)**	**2,180,457**
Transactions with the owners	**-**	**-**	**-**	**-**	-	-	**771**	**(398,113)**	**(397,342)**	**2,645**	**(394,697)**
Dividend	-	-	-		-	-	-	(395,249)	**(395,249)**	-	(395,249)
Change in the Group's structure	-	-	-		-	-	771	(2,864)	**(2,093)**	2,645	**552**
Total comprehensive income for the period	**-**	**-**	**(9,314)**	**615**	-	(192)	**9,617**	**112,047**	**112,773**	**594**	**113,367**
Net profit / (loss) for the period	-	-	-	-	-	-	-	112,044	112,044	459	112,503
Other comprehensive income	-	-	(9,314)	615	-	(192)	9,617	3	729	135	864
31.12.2018	**287,614**	**470,846**	**3,115**	**(4,625)**	**78,521**	**119**	**(63,242)**	**1,126,491**	**1,898,839**	**288**	**1,899,127**

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

1 GENERAL INFORMATION

1.1. INFORMATION ON THE COMPANY'S ACTIVITIES

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

The CIECH Group is an international 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.

The Parent company of the Group is CIECH S.A. It is a holding company that manages domestic and foreign manufacturing, trade and service companies of the Group. CIECH S.A. also provides support services to key subsidiaries. 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 also to customers in India, North Africa and the Middle East.

A detailed description of the CIECH Group entities is provided in note 9.5 to these financial statements.

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

1.2.1. REPRESENTATION BY THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group 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 consolidated financial statements of the CIECH Group 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 consolidated financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group's financial position and the results of operations.

Furthermore, the Management Board of CIECH S.A. represents that the Directors' report on operations of the CIECH Group and CIECH S.A. in 2019 contains a true image of the Group'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 consolidated 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

These consolidated financial statements have been prepared on the historical cost basis except for investment property as well as financial assets and liabilities (derivative instruments) measured at fair value through profit or loss.

These consolidated financial statements have been prepared based on individual financial statements of the CIECH Group's parent company and its subsidiaries, prepared from the accounting ledgers maintained in accordance with the applicable accounting principles of their respective countries of operation. For the purpose of these consolidated financial statements, adjustments have been made to the accounting policies used in the preparation of the abovementioned individual financial statements for them to be aligned with International Financial Reporting Standards.

Since 2007, the Parent Company, CIECH S.A., has been preparing separate financial statements in accordance with IFRS.

Major accounting principles applied in the preparation of these consolidated 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.

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

All entities belonging to the CIECH Group operate according to the financial year corresponding to the calendar year, except for Cerium Sp. z o.o. whose financial year ends on 30 September.

The consolidated statement of profit or loss of the CIECH Group is prepared in the cost by function format. The Group's consolidated statement of cash flows is prepared under 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 Group. Issues which require significant assessments or areas where the assumptions and estimates made have a significant impact on these consolidated financial statements have been described in note 1.4.

1.3. FUNCTIONAL AND REPORTING CURRENCY

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

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

NBP exchange rate as at the end day of the reporting period	31.12.2019[1]	31.12.2018[2]
EUR	4.2585	4.3000
RON	0.8901	0.9229
Average NBP rate for the reporting period	**12 months ended 31.12.2019[3]**	**12 months ended 31.12.2018[4]**
EUR	4.3018	4.2669
RON	0.9053	0.9165

[1] NBP's average foreign exchange rates table applicable as at 31 December 2019.
[2] NBP's average foreign exchange rates table applicable as at 31 December 2018.
[3] According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2019 to 31 December 2019.
[4] According to the exchange rate constituting the arithmetic mean of average exchange rates quoted by NBP on the last day of each month of the period from 1 January 2018 to 31 December 2018.

1.4. ACCOUNTING POLICIES

To ensure more legible presentation and better understanding of the information disclosed in the consolidated financial statements, key accounting policies applicable in the CIECH Group 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	Other operating income and expenses	x	x
3.5	Financial income and expenses	x	x
4.1	Main components of tax expense	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	Right of perpetual usufruct of land	x	
5.4	Intangible assets	x	x
5.6	Investment property	x	x
5.7	Long-term receivables	x	
5.8	Long-term financial assets	x	x
5.9	Shares in joint ventures / investments in associates	x	
5.10	Inventories	x	x
5.11	Short-term receivables	x	x
5.12	Short-term financial assets	x	x
5.13	Cash and cash equivalents	x	x
5.14	Discontinued operations, non-current assets and liabilities connected with non-current assets classified as held for sale	x	x
6.2	Consolidated equity	x	
6.4	Business combinations and acquisition of non-controlling interest	x	
6.6	Earnings per share	x	
7.1	Information about significant financial liabilities	x	
7.2	Other non-current liabilities	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
9.5	Composition of the Group	x	

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

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, the CIECH Group 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 consolidated financial statements of the CIECH Group. They are presented below, together with other amendments to IAS/IFRS and their potential impact on the Group'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 Group analyses issues related to the recognition of income tax on an ongoing basis – if there are significant uncertainties as to the tax treatment of transactions, their estimated effects are recognised in the financial statements	2019
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 Group 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, the CIECH Group 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. The CIECH Group 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 the CIECH Group, 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.

The Group 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 Group'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 Group 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 Group 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.

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Moreover, the Group companies recognised the land perpetual usufruct right received free of charge on the basis of an administrative decision as an operating lease. Under IFRS 16, land perpetual usufruct right was treated as a lease, and the recognition of the assets held by the Group on this account would had, first and foremost, a significant impact on total assets.

The Group 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 Group, 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 Group's consolidated financial statements as at 1 January 2019 is as follows (the amounts relate to newly recognized assets):

CIECH Group	01.01.2019
Right-of-use assets recognised	119,089
Lease liabilities recognised	119,089

In addition, the value of right-of-use assets was increased as a result of reclassification of perpetual usufruct rights to land in the amount of PLN 29,646 thousand and property, plant and equipment used under finance lease contracts in the amount of PLN 34,192 thousand.

CIECH Group Right-of-use assets	Adjustment to opening balance	Reclassification of perpetual usufruct rights and property, plant and equipment
Land	32,919	29,646
Buildings, premises, civil and marine engineering structures	47,032	-
Machinery and equipment	-	869
Vehicles	38,574	32,984
Other fixed assets	564	339
Value as at the beginning of the period	**119,089**	**63,838**

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

Grupa CIECH	
Operating lease liabilities as at 31 December 2018	**246,554**
Short-term leases	(2,040)
Low-value leases	(216)
Extension and termination options that are likely to be exercised by the Company	1,645
Buy-back option for long-term contracts	(235)
Change due to discount	(126,619)
Amount of adjustment to lease liabilities as at 1 January 2019, following the implementation of IFRS 16	**119,089**

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Lease periods used to estimate the value of lease liabilities, broken down by underlying asset classes, were as follows:

- land	up to 96 years
- buildings, premises, civil and marine engineering structures	1-77 years
- vehicles	1-6 years
- other fixed assets	1-3 years

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

CIECH Group	01.01.-31.12.2019 IFRS 16
Decrease in costs of taxes, charges and services	20,797
Increase in interest costs (unwinding of discount)	(3,989)
Increase in amortisation and depreciation costs	(17,686)

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)	5,534
Costs of lease of low-value assets	1,072
Costs related to variable lease payments not included in the measurement of lease liabilities	9,714

2 SEGMENT REPORTING

The CIECH Group's operating segments are designated on the basis of internal reports related to the components of the Group and are regularly reviewed by the Management Board, which is responsible for operating decisions aimed at allocating resources to segments and assessing the subsidiaries performance.

From the product perspective, the CIECH Group 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. Soda segment goods are used in the glass, food, detergent and pharmaceutical industries.

Organic segment – the CIECH Group is a producer of a variety of organic compounds manufactured by the companies: CIECH Sarzyna S.A. and Ciech Pianki Sp. z o.o., Proplan Plant Protection Company, S.L. In 2019, it was producing, among others, polyurethane foams, epoxy resins and polyester resins. These products are used in the following industries: furniture, automotive, paints and electronics. The Group also manufactures crop protection chemicals used in agriculture.

Silicates and glass segment includes mainly the products of CIECH Vitrosilicon S.A. and CIECH Soda Romania S.A. Products manufactured by Ciech Soda Romania S.A. are sold by CIECH S.A. The Silicates and Glass Segment covers the production of glass and soda glaze, as well as glass packaging (lanterns and jars). The goods made of glass are used in construction and food industries, and for production of headstone lamps.

The transport segment is concentrated in CIECH Cargo Sp. z o.o., rendering rail transport services in Poland, within the scope of: rental of rail carriages, rail cargo transport and maintenance services of rail sidings. The Transport segment includes also 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 covers mainly services rendered outside the Group and goods sold mainly by CIECH S.A. and CIECH Trading S.A.

Information for a given operating segment may include sales of products and goods also included in the core product range of other divisions. Such items, however, are not significant for those divisions' management accounting.

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

The CIECH Group has been divided into the following geographical areas: Poland, European Union, Other European countries, Africa, Asia, Other regions. Information on the Group geographical areas is established based on the Group's assets location.

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

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. The reconciliation and definitions applied by the CIECH Group when determining these measures are presented below.

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	01.01.-31.12.2019	01.01.-31.12.2018
Net profit/(loss) on continuing operations	116,412	112,503
Income tax	67,109	192,521
Share of profit / (loss) of equity-accounted investees	(1,106)	(516)
Financial expenses	90,160	93,851
Financial income	(5,065)	(19,159)
Amortisation/depreciation	310,498	275,203
EBITDA on continued operations	**578,008**	**654,403**

	01.01.-31.12.2019	01.01.-31.12.2018
EBITDA on continued operations	**578,008**	**654,403**
One-offs including:	85,260	(20,910)
Impairment (a)	72,600	2,203
Cash items (b)	(915)	(16,654)
Non-cash items (without impairment) (c)	13,575	(6,459)
Adjusted EBITDA from continuing operations	**663,268**	**633,493**

(a) Impairment losses are associated with the recognition/reversal of impairment losses on assets.

(b) Cash items include, among others, gain/loss of the sale of property, plant and equipment and other items (including costs associated with discontinued operations, fees and compensations).

(c) Non-cash items include: fair value measurement of investment properties, costs of liquidation of inventories and property, plant and equipment, the costs of suspended investments, environmental provisions, provisions for liabilities and compensation, costs of unused production capacity and other items (including extraordinary costs and other provisions).

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OPERATING SEGMENTS OF THE CIECH GROUP

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

OPERATING SEGMENTS 01.01.-31.12.2019	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,349,415	850,054	245,199	12,571	91,640	-	-	3,548,879
Revenue from inter-segment transactions	66,890	476	146	124,832	35,134	-	(227,478)	-
Total sales revenues	**2,416,305**	**850,530**	**245,345**	**137,403**	**126,774**	**-**	**(227,478)**	**3,548,879**
Cost of sales	(1,801,590)	(679,257)	(184,338)	(128,528)	(96,730)	-	123,281	(2,767,162)
Gross profit /(loss) on sales	**614,715**	**171,273**	**61,007**	**8,875**	**30,044**	**-**	**(104,197)**	**781,717**
Selling costs	(224,615)	(87,273)	(32,921)	(2,174)	(11,046)	(584)	108,051	(250,562)
General and administrative expenses	(79,182)	(35,011)	(6,858)	(3,862)	(5,462)	(74,328)	2,497	(202,206)
Result on management of receivables	173	(145)	7	(14)	548	-	-	569
Result on other operating activities	(44,996)	(19,477)	(1,208)	984	(12,174)	20,852	(5,989)	(62,008)
Operating profit /(loss)	**266,095**	**29,367**	**20,027**	**3,809**	**1,910**	**(54,060)**	**362**	**267,510**
Exchange differences and interest on trade settlements	(9,500)	1,434	(19)	(278)	(210)	-	-	(8,573)
Group borrowing costs	-	-	-	-	-	(54,945)	-	(54,945)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	(21,577)	-	(21,577)
Share of profit / (loss) of equity-accounted investees	1,106	-	-	-	-	-	-	1,106
Profit /(loss) before tax	**257,701**	**30,801**	**20,008**	**3,531**	**1,700**	**(130,582)**	**362**	**183,521**
Income tax	-	-	-	-	-	-	-	(67,109)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**116,412**
Amortization/depreciation	221,475	42,184	20,464	16,124	1,290	8,961	-	310,498
EBITDA	487,570	71,551	40,491	19,933	3,200	(45,099)	362	578,008
Adjusted EBITDA*	574,214	71,631	42,167	20,386	1,908	(48,594)	1,556	663,268

**Adjusted EBITDA for the 12-month period ended 31 December 2019 is calculated as EBITDA adjusted for untypical one-off events: change in provisions: PLN -12.3 million; impairment losses: PLN -72.6 million; other: PLN -0.3 million.*

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OPERATING SEGMENTS 01.01.-31.12.2018	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	2,366,114	885,344	248,887	16,772	155,541	-	-	3,672,658
Revenue from inter-segment transactions	56,454	355	82	130,408	34,006	-	(221,305)	-
Total sales revenues	**2,422,568**	**885,699**	**248,969**	**147,180**	**189,547**	**-**	**(221,305)**	**3,672,658**
Cost of sales	(1,819,703)	(729,278)	(196,656)	(129,196)	(154,454)	-	120,045	(2,909,242)
Gross profit /(loss) on sales	**602,865**	**156,421**	**52,313**	**17,984**	**35,093**	**-**	**(101,260)**	**763,416**
Selling costs	(247,197)	(79,086)	(32,157)	(3,753)	(11,084)	(223)	101,766	(271,734)
General and administrative expenses	(59,253)	(21,776)	(4,506)	(4,361)	(5,627)	(53,636)	4,162	(144,997)
Result on management of receivables	(1,149)	(1,059)	(13)	(129)	(1,988)	-	-	(4,338)
Result on other operating activities	35,353	(12,080)	(1,179)	3,897	15,267	(589)	(3,816)	36,853
Operating profit /(loss)	**330,619**	**42,420**	**14,458**	**13,638**	**31,661**	**(54,448)**	**852**	**379,200**
Exchange differences and interest on trade settlements	(7,182)	(18,810)	179	(380)	(586)	-	-	(26,779)
Group borrowing costs	-	-	-	-	-	(66,504)	-	(66,504)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	18,591	-	18,591
Share of profit / (loss) of equity-accounted investees	516	-	-	-	-	-	-	516
Profit /(loss) before tax	**323,953**	**23,610**	**14,637**	**13,258**	**31,075**	**(102,361)**	**852**	**305,024**
Income tax	-	-	-	-	-	-	-	(192,521)
Net profit /(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**112,503**
Amortization/depreciation	209,234	33,961	19,964	5,747	1,103	5,194	-	275,203
EBITDA	539,853	76,381	34,422	19,385	32,764	(49,254)	852	654,403
Adjusted EBITDA*	536,856	75,983	34,603	15,333	19,560	(49,693)	851	633,493

** Adjusted EBITDA for the 12-month period ended 31 December 2018 is calculated as EBITDA adjusted for untypical one-off events: valuation of investment properties to fair value: PLN -1 million; changes in provisions: PLN 13.3 million; gain on disposal of non-financial non-current assets: PLN 17.8 million, change in impairment losses on assets: PLN -2.2 million, settlement of a cavern construction contract: PLN -5.4 million; other: PLN -1.6 million.*

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SALES REVENUES — BUSINESS SEGMENTS

	01.01.-31.12.2019	01.01.-31.12.2018	Change 2019/2018	Change %
Soda segment, including:	**2,416,305**	**2,422,568**	**(6,263)**	**(0.3%)**
Dense soda ash	1,325,469	1,308,146	17,323	1.3%
Light soda ash	444,555	498,849	(54,294)	(10.9%)
Salt	197,732	184,819	12,913	7.0%
Sodium bicarbonate	166,374	159,978	6,396	4.0%
Energy	140,469	143,154	(2,685)	(1.9%)
Gas*	1,041	3,367	(2,326)	(69.1%)
Calcium chloride	26,402	26,815	(413)	(1.5%)
Other products	47,373	40,986	6,387	15.6%
Revenues from inter-segment transactions	66,890	56,454	10,436	18.5%
Organic segment, including:	**850,530**	**885,699**	**(35,169)**	**(4.0%)**
Resins	296,593	326,518	(29,925)	(9.2%)
Polyurethane foams	257,495	317,222	(59,727)	(18.8%)
Crop protection chemicals	285,134	240,488	44,646	18.6%
Other	10,832	1,116	9,716	870.6%
Revenues from inter-segment transactions	476	355	121	34.1%
Silicates and Glass segment, including:	**245,345**	**248,969**	**(3,624)**	**(1.5%)**
Sodium silicates	169,824	167,896	1,928	1.1%
Potassium silicates	6,153	6,305	(152)	(2.4%)
Container glass	68,565	73,270	(4,705)	(6.4%)
Other	657	1,416	(759)	(53.6%)
Revenues from inter-segment transactions	146	82	64	78.0%
Transport segment, including:	**137,403**	**147,180**	**(9,777)**	**(6.6%)**
Transport services	12,571	16,772	(4,201)	(25.0%)
Revenues from inter-segment transactions	124,832	130,408	(5,576)	(4.3%)
Other segment, including:	**126,774**	**189,547**	**(62,773)**	**(33.1%)**
Revenues from third parties	91,640	155,541	(63,901)	(41.1%)
Revenues from inter-segment transactions	35,134	34,006	1,128	3.3%
Consolidation adjustments	**(227,478)**	**(221,305)**	**(6,173)**	**2.8%**
TOTAL	**3,548,879**	**3,672,658**	**(123,779)**	**(3.4%)**

** Resale of surpluses of the gas purchased.*

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

ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Soda segment	3,035,136	2,952,682	216,795	279,805
Organic segment	951,633	906,909	146,613	145,097
Silicates and glass segment	135,117	154,512	26,917	25,211
Transport segment	107,712	69,314	18,185	12,319
Other operations segment	65,072	50,298	36,846	30,272
Corporate functions - reconciliation item	801,074	732,298	2,671,800	2,475,134
Eliminations (consolidation adjustments)	(49,302)	(43,881)	(47,931)	(44,833)
TOTAL	**5,046,442**	**4,822,132**	**3,069,225**	**2,923,005**

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INFORMATION ON GEOGRAPHICAL AREAS

Information on the CIECH Group geographical areas is established based on the Group's assets location.

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
31.12.2019				
Poland	2,349,617	43,631	938,761	3,332,009
European Union (excluding Poland)	1,336,062	-	333,671	1,669,733
Other European countries	-	-	13,065	13,065
Africa	-	-	3,658	3,658
Asia	-	-	19,022	19,022
Other regions	-	-	8,955	8,955
TOTAL	**3,685,679**	**43,631**	**1,317,132**	**5,046,442**
31.12.2018				
Poland	2,221,115	67,872	829,814	3,118,801
European Union (excluding Poland)	1,244,721	-	338,863	1,583,584
Other European countries	-	-	44,549	44,549
Africa	-	-	12,699	12,699
Asia	-	-	62,142	62,142
Other regions	-	-	357	357
TOTAL	**3,465,836**	**67,872**	**1,288,424**	**4,822,132**

SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-31.12.2019	01.01.-31.12.2018	Dynamics 2019/2018
Poland	**1,525,244**	**1,492,186**	**2.2%**
European Union (excluding Poland)	**1,587,776**	**1,556,532**	**2.0%**
Germany	664,847	647,055	2.7%
Romania	103,683	134,716	(23.0%)
Czech Republic	158,882	146,935	8.1%
Italy	78,771	79,330	(0.7%)
The Netherlands	111,575	118,111	(5.5%)
Finland	58,517	66,238	(11.7%)
Sweden	40,930	58,443	(30.0%)
Belgium	28,324	28,128	0.7%
United Kingdom	46,078	45,522	1.2%
Denmark	40,494	25,548	58.5%
Spain	79,976	34,078	134.7%
Austria	34,487	27,696	24.5%
France	17,680	17,886	(1.2%)
Luxembourg	23,893	21,812	9.5%
Lithuania	14,041	15,391	(8.8%)
Other EU countries	85,598	89,643	(4.5%)
Other European Countries	**159,805**	**264,229**	**(39.5%)**
Switzerland	18,513	118,566	(84.4%)
Norway	47,401	37,008	28.1%
Russia	6,498	23,073	(71.8%)
Other European countries	87,393	85,582	2.1%
Africa	**78,011**	**63,977**	**21.9%**

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	01.01.-31.12.2019	01.01.-31.12.2018	Dynamics 2019/2018
Asia	**150,624**	**239,295**	**(37.1%)**
India	65,765	124,986	(47.4%)
Singapore	9,431	11,397	(17.3%)
Bangladesh	24,471	16,172	51.3%
Hong Kong	15,023	25,078	(40.1%)
Turkey	15,878	25,837	(38.5%)
Other Asian countries	20,056	35,825	(44.0%)
Other regions	**29,506**	**31,243**	**(5.6%)**
Cash flow hedge adjustment	17,913	25,196	(28.9%)
TOTAL	**3,548,879**	**3,672,658**	**(3.4%)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

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

3.1. SALES REVENUES

Accounting policy

The Group 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 Group 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.

Allocation of variable consideration

Variable consideration that is promised in a contract may be attributable to the entire contract or to a specific part of the contract. Allocation to the entire contract is done based on standalone selling prices of underlying performance obligations.

Revenues from the sales of products and goods in foreign currencies 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.

SALES REVENUES	01.01.-31.12.2019	01.01.-31.12.2018
Revenues from sales of products and services	**3,408,869**	**3,473,482**
- products	3,355,657	3,431,092
- services	53,212	42,390
Revenues from sales of goods and materials	**140,010**	**199,176**
- goods	133,486	192,094
- materials	6,524	7,082
Net sales of products, goods and materials	**3,548,879**	**3,672,658**

3.2. COST OF SALES

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 products and services sold and the value of sold goods and materials.

Selling costs include, among others: 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	01.01.-31.12.2019	01.01.-31.12.2018
Cost of manufacture of products and services sold	(2,664,117)	(2,728,686)
Cost of sold goods and materials sold	(106,185)	(178,214)
Reversal of impairment losses on inventory	12,800	7,794
Recognition of impairment losses on inventory	(9,660)	(10,136)
TOTAL	**(2,767,162)**	**(2,909,242)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

3.3. COSTS BY TYPE

COST BY KIND (SELECTED)	01.01.-31.12.2019	01.01.-31.12.2018
Amortisation	(310,440)	(275,102)
Consumption of materials and energy	(1,898,741)	(1,968,642)
Employee benefits, including:	(368,160)	(336,602)
- payroll	(303,416)	(277,483)
- social security and other benefits	(59,101)	(57,300)
- expenditure on retirement benefit and jubilee awards (including provisions)	(414)	(675)
- expenditure on pension schemes with defined benefits	(342)	(401)
- other	(4,887)	(743)
External services	(448,830)	(458,968)

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 Group's core operations. The key items include:

- ✓ gains/ losses on disposal and liquidation of non-financial non-current assets,
- ✓ gains/ losses on sales of emission rights,
- ✓ recognition/ reversal of impairment losses (including allowances for doubtful receivables) and recognition/ reversal of provisions,
- ✓ 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,
- ✓ gains/losses on valuation of fair value of investment property,

Subsidies

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

Government subsidies related to assets, including non-monetary subsidies at fair value, are presented in the balance sheet by setting up the subsidy as deferred income. It is recognised as income over the useful life of the asset. Repayment of a subsidy related to income should be applied first against any unamortised deferred credit set up in respect of the subsidy. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment should be recognised immediately in profit or loss. Repayment of a subsidy related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable.

In connection with the implementation of investment projects to improve energy efficiency, companies receive energy efficiency certificates which are recognised at market value. If the value of certificates received exceeded the value of expenditures incurred on the implementation of projects, this amount is recognised on a one-off basis in profit or loss as other operating income.

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.

For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date, irrespective of the existence of the aforesaid indications.

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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN ‘000)

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.

OTHER OPERATING INCOME	01.01.-31.12.2019	01.01.-31.12.2018
Subsidies	10,237	10,858
The right to emit greenhouse gases	21,436	7,303
Rents/lease income	2,854	3,183
Gain on disposal of non-financial non-current assets	469	17,852
Reversal of impairment allowances on receivables	3,458	3,381
Reversal of impairment losses on property, plant and equipment and intangible assets	1,000	580
Reversal of provisions on employee benefits	900	670
Reversal of provisions for compensation – changing the base	258	204
Reversal of provisions for environmental protection – changing the base	1,020	3,030
Reversal of provisions for liabilities – changing the base	4,263	5,789
Reversal of other provisions- changing the base	2,000	12,356
Penalty fees and compensations received	3,470	1,152
Refund of taxes and charges	6,080	4,319
Valuation of investment property in fair value	873	-
Other services	4,424	3,579
Settlement of inventory taking	8,765	2,462
Settlement of white certificates	15,974	-
Other	25,341	12,322
TOTAL	**112,822**	**89,040**

The “other” item includes an amount that represents the value of written-off 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.
Moreover, in connection with the early implementation of an investment project aimed at improving energy efficiency, CIECH Soda Polska S.A. received new energy efficiency certificates (white certificates), the value of which, due to the sharp increase in their exchange prices, exceeded the value of expenditures incurred on the implementation of the investment projects. The surplus amounted to PLN 13.5 million (the value of granted certificates was determined on the basis of market prices) and was recognized once in other operating income.

Subsidies and other forms of State aid

Subsidies recognised in the statement of profit or loss in the reporting period amounted to PLN 10,237 thousand (PLN 10,858 thousand in the comparable period) settled over time in proportion to the depreciation/amortisation of non-current assets to which they relate. Subsidies included in liabilities as at 31 December 2019 amounted to PLN 65,378 thousand (compared to PLN 74,848 thousand as at 31 December 2018). The CIECH Group companies receive subsidies for research and development activities, purchase of property, plant and equipment and for adapting investment projects to environmental requirements. The subsidies are mainly received by the CIECH Group companies from the National Centre for Research and Development, the National Fund for Environmental Protection and Water Management and Ministry of Development.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

The most significant subsidies are as follows:

SIGNIFICANT SUBSIDIES RECEIVED BY:	CIECH Soda Polska S.A.	CIECH Sarzyna S.A.	CIECH Cargo Sp. z o.o.	CIECH R&D Sp. z o.o.
"Extension of the centre of decantation and filtration of distillation sludge in the Plant in Inowrocław"	10,930			
Reduction of dust emissions from the Inowrocław CHP Plant by modernising boiler ESPs – OP 110 No 1, 2, 3, 4	5,727			
"Developing and testing, on a demonstrable scale, internationally innovative agro-chemical preparations of a unique composition and formulation"		14,581		
Purchase of rolling stock used for intermodal transport in CIECH Cargo Sp. z o.o.			14,200	
Establishment of a Research and Development Centre Ciech R&D Sp. z o.o.				6,031

In June 2019, CIECH R&D Sp. z o.o. completed the implementation of the project "Development by CIECH R&D sp. z o.o. in cooperation with Nicolaus Copernicus University in Toruń (subcontractor) of a globally innovative technology for ammonia brine carbonation allowing the increase of sodium efficiency in the sodium carbonate production process". The amount of aid received in 2019 exceeded PLN 60 thousand.

A project aimed at reversing CO_2 in the soda production process was also implemented for another year. Works completed in 2019 enabled the receipt of a refund of over PLN 2.1 million.

In 2019, the CIECH Group companies obtained further subsidies for the implementation of R&D projects:

- CIECH Soda Polska S.A. raised over PLN 4.9 million for the project aimed at the development and implementation of anomaly detection methods and algorithms, predictive and prescriptive algorithms and the development of a neural metamodel to optimise processes at some nodes of the sodium carbonate production plant.
- Smart Fluid Sp. z o.o. raised more than PLN 5 million to carry out R&D works aimed at verifying in real conditions the thesis about the possibility of using shear thickened liquids developed by the Company for large-scale, economically viable production of material, which is a semi-finished product for manufacturers of widely understood clothing / protective elements / sports accessories.

Additionally, CIECH Soda Polska S.A. has successfully completed the process of applying for a decision on support as part of the Polish Investment Zone. The maximum amount of income tax exemption that can be used is more than PLN 20 million.

OTHER OPERATING EXPENSES	01.01.-31.12.2019	01.01.-31.12.2018
Costs related to investment property	(3,898)	(1,803)
Recognition of impairment losses on receivables	(2,889)	(7,719)
Recognition of impairment losses on property, plant and equipment and intangible assets	(73,600)	(2,783)
Recognition of provisions on employee benefits	(17,228)	(1,914)
Recognition of provisions for compensation – changing the base	(180)	(876)
Recognition of provisions for environmental protection – changing the base	(974)	(2,539)
Recognition of provisions for liabilities – changing the base	(8,941)	(3,321)
Recognition of provision for anticipated losses - changing the base	-	(90)
Liquidation costs of property, plant and equipment	(1,520)	(183)
Liquidation costs of materials	(2,088)	(544)
Amortisation/depreciation	(58)	(101)
Costs of idle assets and production capacity	(38,200)	(18,990)
Costs of remediating the effects of fortuitous events	-	(2,003)
Valuation of investment property at fair value	-	(1,040)
Receivables written-off	(90)	(68)
Penalties and compensations paid	(1,740)	(1,883)
Other	(22,855)	(10,668)
TOTAL	**(174,261)**	**(56,525)**

The total amount of expenditure on research and development expensed in the period, as not meeting the capitalisation criteria, amounted to PLN 5,654 thousand (PLN 6,434 thousand in the comparable period).

Detailed information on impairment losses

In connection with the suspension of production by a subsidiary, CIECH Soda Romania S.A., resulting from the discontinuation of supplies of process steam by its supplier, S.C. CET Govora S.A., the CIECH Group evaluated the evidence of impairment of assets, based on possible scenarios of actions. Following the analysis, the Group recognised an impairment loss on property, plant and equipment in the total amount of PLN 73,486 (of which PLN 36,655 thousand recognised in the first half of 2019). The decision to recognise an additional loss in the second half of 2019 was made as a result of:

1. failure to reach agreement between the CIECH Soda Romania S.A. and the sole provider of steam – S.C. CET Govora S.A. based in Romania in composition bankruptcy ("CET"), as to the level of the price of process steam, as confirmed by CET in its letter with information on the inability to supply the steam at the price agreed in the terminated contract (realization of scenario 2 described in note 2.6 to the Extended consolidated report of the CIECH Group for the first half of 2019, published on 10 September 2019),
2. analysis of possible steam delivery options from a new source, the probability of which, as at the date of decision making, was assessed as insufficiently high.

The amount of the impairment loss on property, plant and equipment was determined in accordance with IAS 36 "Impairment of assets". The following assumptions were adopted to determine the value of particular groups of fixed assets:

- for land – the value from market valuations was used as the selling price,
- for fixed assets and fixed assets under construction that could potentially be used by other CIECH Group companies and relocated there – the book value was used,
- for vehicles and other fixed assets – it was assumed that the book value reflected the market value,
- for other fixed assets not included above – the price of scrap less the costs of disassembly was used as the selling price.

Buildings, offices and land and water engineering facilities, technical equipment and machinery, and assets under construction were written off.

The impairment loss (recognised as other operating expenses in the period from 1 January to 31 December 2019), calculated on the basis of the above assumptions, was PLN 73,486 thousand.

The amount of the impairment loss was allocated to the profit or loss of the industry segments in which CIECH Soda Romania S.A. conducts its operations.

The impact on the operating profit or loss of particular segments was as follows:

1. Soda segment: PLN 70,986 thousand;
2. Silicates and Glass segment: PLN 2,500 thousand.

At the same time, the Group continues analyses of the possibility of obtaining a new source of steam at a reasonable cost and long-term cooperation in the supply of other raw materials necessary for production (guaranteeing cost predictability in subsequent years). The result of these analyses may affect the amount of impairment losses recognised in the consolidated financial statements of the CIECH Group for subsequent reporting periods.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

3.5. FINANCIAL INCOME AND EXPENSES

Accounting policy, judgements and estimates

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. Accordingly, key items of financing activities include:

- ✓ interest on borrowings determined based on the effective interest method,
- ✓ interest earned by the Group 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 Group's right to receive payment is established,
- ✓ write-downs on investments,
- ✓ net foreign exchange gains or losses,
- ✓ gains/ losses on sales of financial assets,
- ✓ ineffective portion of hedge accounting.

FINANCIAL INCOME	01.01.-31.12.2019	01.01.-31.12.2018
Interest	1,441	6,852
Dividends and shares in profit	136	379
Net foreign exchange gains	-	6,241
Reversal of impairment losses	250	622
Income from liquidated companies	-	72
Balance sheet valuation of derivative financial instruments	-	112
Reversal of provision of financial liabilities - changing the base	1,755	35
Gain on disposal of financial assets	-	2,758
Other	1,483	2,088
TOTAL	**5,065**	**19,159**

FINANCIAL EXPENSES	01.01.-31.12.2019	01.01.-31.12.2018
Total interest	(53,379)	(69,632)
Net foreign exchange losses	(788)	-
Recognition of impairment losses	(139)	(3,497)
Factoring commissions	(2,808)	(4,032)
Bank fees and commissions	(3,107)	(3,574)
Recognised provisions	(2,415)	(1,347)
Increase in provisions due to change in discount rates	(18,575)	(6,016)
Costs of discounting of liabilities	(2,522)	(1,181)
Ineffective portion of hedge accounting	(440)	(2,132)
Other	(5,987)	(2,440)
TOTAL	**(90,160)**	**(93,851)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

3.6. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Tax effect of each component of other comprehensive income of the CIECH Group

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
Net currency at translation differences	(12,492)	(237)	(12,729)	8,808	945	9,753
Cash flow hedge reserve	(32,904)	3,381	(29,523)	(12,489)	3,174	(9,315)
Costs of hedging reserve	4,409	-	4,409	615	-	615
Valuation of actuarial provisions	(591)	112	(479)	(235)	43	(192)
Other components of other comprehensive income	-	-	-	3	-	3
TOTAL	**(41,578)**	**3,256**	**(38,322)**	**(3,298)**	**4,162**	**864**

Income tax and reclassification adjustments in other comprehensive income

Other comprehensive income before tax	01.01.-31.12.2019	01.01.-31.12.2018
Currency translation differences (foreign companies)	**(12,492)**	**8,808**
remeasurement for the current period	(12,492)	8,808
Cash flow hedge reserve	**(32,904)**	**(12,489)**
fair value remeasurement in the period	(13,241)	(7,971)
reclassification to profit or loss	(19,663)	(4,518)
Costs of hedging reserve	**4,409**	**615**
fair value remeasurement in the period	4,409	615
reclassification to profit or loss	-	-
Valuation of actuarial provisions	**(591)**	**(235)**
remeasurement for the current period	(591)	(235)
Other components of other comprehensive income	**-**	**3**
remeasurement for the current period	-	3
Income tax attributable to other components of other comprehensive income	**3,256**	**4,162**
accrued for the current period	(568)	3,322
reclassification to profit or loss	3,824	840
Other comprehensive income net of tax	**(38,322)**	**864**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN ‘000)

4 INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY

4.1. MAIN COMPONENTS OF TAX EXPENSE

Accounting policy

Current tax

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.

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	**(55,391)**	**(132,550)**
Income tax for the reporting period	(53,007)	(50,581)
Adjustment to tax for previous years	(2,384)	(81,969)
Deferred tax	**(11,718)**	**(59,971)**
Origination/reversal of temporary differences	(7,854)	(61,693)
Unrecognized deferred tax assets	(3,864)	1,722
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**(67,109)**	**(192,521)**

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
Net currency at translation differences	(237)	945
Cash flow hedge	3,381	3,174
Valuation of actuarial provisions	112	43
TOTAL	**3,256**	**4,162**

4.2. EFFECTIVE TAX RATE

The following represents a reconciliation of income tax calculated by applying the currently enacted statutory tax rate to the Group’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	**183,521**	**305,024**
Income tax based on currently enacted tax rate	**(34,869)**	**(57,955)**
Difference due to the application of tax rates of other tax jurisdictions	(8,683)	(3,749)
Unrealized withholding tax	-	(58)
Tax effect of revenues which are not revenues according to tax regulations (permanent difference)	9,699	7,288
Effect of participation in entities accounted for using the equity method	198	64
Tax effect of costs which are not obtaining costs according to tax regulations (permanent difference)	(27,392)	(24,663)
Correction of current income tax for previous years	(357)	(85,826)
Realese of deferred tax asset from tax losses from previous years	(3,843)	(32,063)
Special economic Zone	(2,505)	4,165
Tax reliefs	488	187
Settlement of the asset for deferred tax	(1,048)	(1,048)
Other	1,203	1,137
Income tax recognised In profit and loss statement	**(67,109)**	**(192,521)**
EFFECTIVE TAX RATE	**36.6%**	**63.1%**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

4.3. DEFERRED INCOME TAX

Accounting policy

Deferred tax

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
- ✓ unless 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 statement is itself recognised outside profit or loss: 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 tax

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, the CIECH Group subsidiaries base their 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	1,647	143,006	(141,359)	1,664	151,728	(150,064)
Intangible assets	6,055	23,113	(17,058)	8,005	25,334	(17,329)
Right of perpetual usufruct	-	4,933	(4,933)	-	5,003	(5,003)
Investment property	1,573	1,562	11	1,043	1,555	(512)
Financial assets	641	3,780	(3,139)	646	13,899	(13,253)
Inventory	650	3,012	(2,362)	2,645	1,916	729

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

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
Trade and other receivables	4,757	1,177	3,580	4,869	23,445	(18,576)
Provisions for employee benefits	5,119	-	5,119	2,455	3	2,452
Other provisions	18,553	-	18,553	17,067	-	17,067
Tax losses carried forward	28,627	-	28,627	43,521	-	43,521
Foreign exchange differences	2,620	289	2,331	2,492	281	2,211
Liabilities	30,907	-	30,907	52,921	62	52,859
Special economic zone	109,870	-	109,870	131,278	-	131,278
Other	272	914	(642)	161	12,003	(11,842)
Lease liabilities	31,495	-	31,495	-	-	-
Rights to use an asset	-	31,427	(31,427)	-	-	-
Cash and cash equivalents	105	-	105	103	-	103
Deferred tax assets/liability	**242,891**	**213,213**	**29,678**	**268,870**	**235,229**	**33,641**
Set - off of deferred tax assets/ liability	(154,799)	(154,799)	-	(160,401)	(160,401)	-
Unrecognized deferred tax assets	(44,461)	-	(44,461)	(40,597)	-	(40,597)
Deferred tax assets/liability recognised in the statement of financial position	**43,631**	**58,414**	**(14,783)**	**67,872**	**74,828**	**(6,956)**

The Group estimates that within more than 12 months from the period of the consolidated financial statements presentation the deferred tax asset will be utilised in the amount of PLN 164,737 thousand (this amount does not include the unrecognised amount of the deferred tax asset). In the same period, the estimated amount of settlement of the deferred tax liability will be PLN 188,662 thousand.

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2019	Changes in accounting policies	Opening balance after adjustments	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	Currency translation differences	31.12.2019
Property, plant and equipment	(697,587)	-	(697,587)	37,334	-	2,045	(658,208)
Intangible assets	(81,416)	-	(81,416)	(289)	-	797	(80,908)
Right of perpetual usufruct	(26,332)	-	(26,332)	370	-	-	(25,962)
Investment property	8,309	-	8,309	1,291	-	-	9,600
Financial assets	(135,667)	-	(135,667)	16,517	27,441	(5)	(91,714)
Inventory	3,916	-	3,916	(16,269)	-	-	(12,353)
Trade and other receivables	(53,772)	-	(53,772)	71,205	-	1,248	19,262
Provisions for employee benefits	12,959	-	12,959	15,363	591	(370)	28,543
Other provisions	62,603	-	62,603	(3,172)	-	(515)	58,916
Tax losses carried forward	233,240	-	233,240	(82,567)	-	-	150,673
Foreign exchange differences	17,988	-	17,988	2,327	(1,685)	-	18,630
Liabilities	213,504	-	213,504	(73,227)	-	29	140,306
Other	(61,834)	-	(61,834)	57,859	-	-	(3,975)
Lease liabilities	-	119,089	119,089	2,108	-	-	121,197
Rights to use an asset	-	(119,089)	(119,089)	(1,416)	-	-	(120,505)
Cash and cash equivalents	103	-	103	2	-	-	105
TOTAL	**(503,986)**	**-**	**(503,986)**	**27,436**	**26,347**	**3,229**	**(446,393)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

CHANGE IN TEMPORARY DIFFERENCES IN THE PERIOD	01.01.2018	Changes in accounting policies	Opening balance after adjustments	Change in temporary differences recognised in the statement of profit or loss	Change in temporary differences recognised in equity	Currency translation differences	Change in Group's composition	31.12.2018
Property, plant and equipment	(638,940)	-	(638,940)	(53,553)	-	(5,094)	-	(697,587)
Intangible assets	39,239	-	39,239	(16,696)	-	(320)	(103,639)	(81,416)
Right of perpetual usufruct	(26,703)	-	(26,703)	371	-	-	-	(26,332)
Investment property	13,629	-	13,629	(5,320)	-	-	-	8,309
Long-term receivables	-	625	625	(625)	-	-	-	-
Financial assets	(155,748)	-	(155,748)	39,012	(18,442)	(489)	-	(135,667)
Inventory	322	-	322	3,594	-	-	-	3,916
Trade and other receivables	(89,488)	5,143	(84,345)	32,054	-	(1,481)	-	(53,772)
Provisions for employee benefits	13,837	-	13,837	(1,256)	236	142	-	12,959
Other provisions	63,892	-	63,892	(3,059)	-	1,770	-	62,603
Tax losses carried forward	447,860	-	447,860	(214,620)	-	-	-	233,240
Foreign exchange differences	25,540	-	25,540	(10,379)	2,827	-	-	17,988
Liabilities	165,899	-	165,899	45,006	-	2,599	-	213,504
Other	11,068	-	11,068	(72,902)	-	-	-	(61,834)
Cash and cash equivalents	-	112	112	(9)	-	-	-	102
TOTAL	**(129,593)**	**5,880**	**(123,713)**	**(258,382)**	**(15,379)**	**(2,873)**	**(103,639)**	**(503,986)**

The above table does not contain any temporary differences from the deferred tax asset of the special economic zone as according to the rules, the above-mentioned relief is tax-deductible rather than income-deductible.

Dividend payment to the shareholders of the CIECH Group has no effect on deferred tax.

The CIECH Group companies who recognised deferred tax assets in respect of tax loss carried forward, on the basis of their tax budgets, predict that sufficient taxable profits will be realised in the period when losses can be utitlised against which the Group can fully utilise the benefits therefrom.

In August 2016, the headcount-related condition provided for in the Zone Permit No 126/PSSE dated 23 May 2014 for carrying out business activities in the Pomeranian Special Economic Zone, was fulfilled. Thereby CIECH Soda Polska S.A. had fulfilled all the conditions related to the Zone Permit and, as of 1 September 2016, started to take advantage of its exemption from the corporate income tax on account of operations carried out in the Pomeranian Special Economic Zone. In view of the above, in 2016 CIECH Soda Polska S.A. recognised a deferred tax asset of PLN 95,422 thousand. Following the receipt of explanations from the European Commission, via the Office for Competition and Consumer Protection, regarding the definition and calculation of the value of a single investment project, the value of available State aid determined for the Company increased by PLN 44,911 thousand in 2017. The Company cautiously analyzed the capabilities of using available public aid by calculating the amount of the exemption in accordance with the methodology adopted in this respect and decided to recognise in the financial statements for 2017 the amount of PLN 10,457 thousand, and for 2018 – an additional amount of the deferred tax asset due to operating in a special economic zone, i.e. PLN 20,939 thousand, and not to recognize a deferred income tax asset in the amount of PLN 13,515 thousand. As at the end of 2018, after the remeasurement, the asset resulting from operations carried out in the Special Economic Zone was PLN 117,763 thousand. At the end of 2019, net asset (less impairment loss recognised) resulting from operations carried out in the Special Economic Zone is PLN 93,850 thousand.

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

5 NOTES TO ASSETS REPORTED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5.1. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Own property, plant and equipment

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.

Property, plant and equipment used under lease agreements

As of 1 January 2019, property, plant and equipment used under lease agreements are reported in the balance sheet as right-of-use assets.

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

Depreciation

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

Buildings	20-50 years
Machinery and equipment	2-20 years
Means of transport	2-20 years
Other	1-15 years

Borrowing costs

For qualifying assets, the borrowing costs that otherwise would have been avoided if the expenditure on the qualifying asset has not been made are included in purchase price of these assets. The amount of borrowing costs eligible for capitalisation is defined as the appropriate portion of loan interest, the cost of arranging financing and respectively foreign exchange differences on foreign currency loans.

Judgements and estimates

Depreciation rates. These 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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

01.01.-31.12.2019	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**82,164**	**1,258,088**	**3,131,875**	**115,384**	**53,975**	**400,455**	**5,041,941**
Purchase	3,352	762	10,592	3,533	2,918	526,481	547,638
Reclassification	-	29,523	38,666	(34,766)	5,032	(134,449)	(95,994)
Capitalised borrowing costs	-	-	-	-	-	10,376	10,376
Exchange differences	(1,198)	(4,626)	(15,538)	(600)	(228)	(5,464)	(27,654)
Sales	(499)	-	(311)	(1,702)	(132)	(96,211)	(98,855)
Liquidation	-	(303)	(14,720)	(2,222)	(431)	-	(17,676)
Other	7	(2,305)	(3,054)	-	-	(38)	(5,390)
Gross value of property, plant and equipment at the end of the period	**83,826**	**1,281,139**	**3,147,510**	**79,627**	**61,134**	**701,150**	**5,354,386**
Accumulated depreciation at the beginning of the period	**(11,317)**	**(537,705)**	**(1,530,907)**	**(65,735)**	**(35,688)**	**-**	**(2,181,352)**
Depreciation for the period	**109**	**(59,055)**	**(148,640)**	**5,452**	**(4,778)**	**-**	**(206,912)**
Annual depreciation charge	-	(63,847)	(193,477)	(4,977)	(5,957)	-	(268,258)
Sales	-	-	220	1,685	38	-	1,943
Liquidation	-	265	14,416	836	428	-	15,945
Exchange differences	109	2,218	9,942	394	170	-	12,833
Reclassification	-	-	17,198	7,514	516	-	25,228
Other	-	2,309	3,061	-	27	-	5,397
Accumulated depreciation at the end of the period	**(11,208)**	**(596,760)**	**(1,679,547)**	**(60,283)**	**(40,466)**	**-**	**(2,388,264)**
Impairment losses at the beginning of the period	**-**	**(1,395)**	**(810)**	**-**	**98**	**(1,283)**	**(3,390)**
Recognition	-	(41,261)	(14,778)	-	-	(17,447)	(73,486)
Exchange differences	-	731	278	-	(3)	293	1,299
Other	-	634	-	-	-	28	662
Impairment losses at the end of the period	**-**	**(41,291)**	**(15,310)**	**-**	**95**	**(18,409)**	**(74,915)**
Carrying amount of property, plant and equipment at the beginning of period	**70,847**	**718,988**	**1,600,158**	**49,649**	**18,385**	**399,172**	**2,857,199**
Carrying amount of property, plant and equipment at the end of the period	**72,618**	**643,088**	**1,452,653**	**19,344**	**20,763**	**682,741**	**2,891,207**

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

01.01.-31.12.2018	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	Tangible fixed assets under construction	TOTAL
Gross value of property, plant and equipment at the beginning of the period	**79,737**	**1,154,203**	**2,919,663**	**107,552**	**46,055**	**342,673**	**4,649,883**
Purchase	-	18,268	25,260	8,526	3,966	379,217	435,237
Reclassification	-	82,706	184,243	(898)	5,260	(326,820)	(55,509)
Capitalised borrowing costs	-	-	-	-	-	5,884	5,884
Exchange differences	2,427	7,273	28,758	557	345	4,366	43,726
Sales	-	(2,585)	(1,798)	(238)	(6)	-	(4,627)
Liquidation	-	(2,671)	(14,395)	(455)	(1,679)	(4,865)	(24,065)
Change in the Group's structure	-	-	323	340	34	-	697
Other	-	894	(10,179)	-	-	-	(9,285)
Gross value of property, plant and equipment at the end of the period	**82,164**	**1,258,088**	**3,131,875**	**115,384**	**53,975**	**400,455**	**5,041,941**
Accumulated depreciation at the beginning of the period	**(10,977)**	**(480,434)**	**(1,348,495)**	**(59,136)**	**(31,608)**	**-**	**(1,930,650)**
Depreciation for the period	**(340)**	**(57,271)**	**(182,412)**	**(6,599)**	**(4,080)**	**-**	**(250,702)**
Annual depreciation charge	-	(57,348)	(195,572)	(7,350)	(5,510)	-	(265,780)
Sales	-	1,377	1,794	209	6	-	3,386
Liquidation	-	2,322	13,999	433	1,649	-	18,403
Change in the Group's structure	-	-	(228)	(95)	(34)	-	(357)
Exchange differences	(340)	(3,710)	(15,013)	(335)	(274)	-	(19,672)
Reclassification	-	-	(539)	539	-	-	-
Other	-	88	13,147	-	83	-	13,318
Accumulated depreciation at the end of the period	**(11,317)**	**(537,705)**	**(1,530,907)**	**(65,735)**	**(35,688)**	**-**	**(2,181,352)**
Impairment losses at the beginning of the period	**-**	**(1,744)**	**(787)**	**(1)**	**95**	**(4,544)**	**(6,981)**
Recognition	-	(179)	-	-	-	(1,263)	(1,442)
Reversal	-	580	-	-	-	-	580
Liquidation	-	-	-	-	-	4,524	4,524
Exchange differences	-	(52)	(23)	1	3	-	(71)
Impairment losses at the end of the period	**-**	**(1,395)**	**(810)**	**-**	**98**	**(1,283)**	**(3,390)**
Carrying amount of property, plant and equipment at the beginning of period	**68,760**	**672,025**	**1,570,381**	**48,415**	**14,542**	**338,129**	**2,712,252**
Carrying amount of property, plant and equipment at the end of the period	**70,847**	**718,988**	**1,600,158**	**49,649**	**18,385**	**399,172**	**2,857,199**

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%.

In 2019, in connection with the suspension of production resulting from the discontinuation of supplies of process steam, CIECH Soda Romania S.A. recognised an impairment loss on fixed assets, as described in detail in Note 3.4 to these statements. In the comparable period, there were no significant impairment losses on property, plant and equipment.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CHARGES	01.01.-31.12.2019	01.01.-31.12.2018
Cost of sales	(259,488)	(257,364)
Selling costs	(161)	-
General and administrative expenses	(8,551)	(8,315)
Other operating expenses	(58)	(101)
TOTAL	**(268,258)**	**(265,780)**

RECOGNIZED NON-CURRENT ASSETS (OWNERSHIP STRUCTURE)	31.12.2019	31.12.2018
Owned	2,891,207	2,812,902
Finance lease agrements	-	44,297
TOTAL	**2,891,207**	**2,857,199**

As of 1 January 2019, the value of fixed assets accounted for in accordance with IFRS 16 Leases is reported in the balance sheet as right-of-use assets.

In the reporting period the CIECH Group received compensation from third parties for impaired tangible fixed assets in the amount of PLN 2,039 thousand (PLN 1,421 thousand 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 153,731 thousand in 2019 (in the comparable period: PLN 76,173 thousand).

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

5.2. RIGHT-OF-USE ASSETS

Accounting policy

Initial measurement of right-of-use assets

At the commencement date, the Group 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 Group 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 Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group 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 Group 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	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	TOTAL
Gross value of rights to use an asset at the beginning of the period	-	-	-	-	-	-
Changes in accounting policies	32,919	47,032	-	38,574	564	119,089
Gross value of rights to use an asset at the beginning of the period after adjustments	**32,919**	**47,032**	**-**	**38,574**	**564**	**119,089**
Reclassifications	39,249	-	31,958	42,024	855	114,086
Modifications to leasing contracts	-	1,290	-	398	-	1,688
New leasing agreements	98	344	1,977	16,118	-	18,537
Closing the contract	-	-	-	(55)	-	(55)
Exchange differences	(45)	(190)	(306)	(23)	(16)	(580)
Other	(12)	-	-	359	-	347
Gross value at the end of the period	**72,209**	**48,476**	**33,629**	**97,395**	**1,403**	**253,112**
Accumulated amortisation at the beginning of the period	-	-	-	-	-	-
Amortisation for the period	(1,125)	(3,821)	(2,761)	(15,563)	(437)	(23,707)
Reclassifications	(9,603)	-	(17,198)	(7,514)	(516)	(34,831)

01.01.-31.12.2019	Land	Buildings offices and land and water engineering facilities	Machinery and equipment	Means of transport	Other tangible fixed assets	TOTAL
Other	-	5	181	28	4	218
Accumulated amortisation at the end of the period	**(10,728)**	**(3,816)**	**(19,778)**	**(23,049)**	**(949)**	**(58,320)**
Net value of rights to use an asset at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**
Net value of rights to use an asset at the end of the period	**61,481**	**44,660**	**13,851**	**74,346**	**454**	**194,792**

In 2019, the CIECH Group implemented IFRS 16 "Leases". Under this standard, leases and rentals, leases of passenger cars and perpetual usufruct rights were identified in the Group 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.

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. RIGHT OF PERPETUAL USUFRUCT OF LAND

Accounting policy

Perpetual usufruct rights acquired and obtained based on an administrative decision are accounted for as leases. Assets and liabilities related to rights of perpetual usufruct of land are measured in accordance with IFRS 16 *Leases*.
As of 1 January 2019, the value of rights of perpetual usufruct of land is reported in the balance sheet as right-of-use assets.

The carrying amount of the right of perpetual usufruct purchased by the CIECH Group in 2018 is presented in the table below. As of 1 January 2019, the value of rights of perpetual usufruct of land is reported in the balance sheet as right-of-use assets.

RIGHT OF PERPETUAL USUFRUCT OF LAND	01.01.-31.12.2019	01.01.-31.12.2018
Gross value at the beginning of the period	**39,250**	**39,250**
Reclassification to rights to use the asset	(39,250)	-
Gross value at the end of the period	**-**	**39,250**
Amortisation at the beginning of the period	**(9,604)**	**(9,181)**
Amortisation for the period	-	(423)
Reclassification to rights to use the asset	9,604	-
Amortisation at the end of the period	**-**	**(9,604)**
Impairment losses at the beginning of the period	**-**	**-**
Impairment losses at the end of the period	**-**	**-**
Net value as at the beginning of the period	**29,646**	**30,069**
Net value as at the end of the period	**-**	**29,646**

5.4. INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on a combination of two separate entities or businesses into one reporting entity. It specifically relates to the acquisitions of subsidiaries, associates, or jointly controlled entities. All business combinations of unrelated entities are recognised using the acquisition method.

The Group initially measures goodwill as the difference between the total value:

- ✓ the acquisition-date fair value of the consideration transferred,
- ✓ the amount of any non-controlling interest in the acquiree measured either at fair value or at their proportionate share in the fair value of the acquiree's net assets, and
- ✓ in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquire, and
- ✓ the net recognised amounts (fair value) of the identifiable assets acquired and liabilities assumed measured at the acquisition date.

Occasionally, a bargain purchase may occur, i.e. a business combination in which the net recognised amounts of the identifiable assets acquired and liabilities assumed measured at the acquisition date exceed the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest measured at fair value or at their proportionate share in the acquiree's net assets, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified and measured the amounts of assets acquired and liabilities assumed, non-controlling interest, consideration transferred, and in a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree. The purpose of the reassessment is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date. Any remaining gain from a bargain purchase after completing the reassessment is recognised in profit or loss at the acquisition date (as other operating income).

At the date of an acquisition, any goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit or a group of units to which the goodwill was allocated:

- ✓ is the lowest level within the Group at which goodwill is monitored for internal management purposes,
- ✓ is not larger than an operating segment as defined in IFRS 8 "Operating Segments".

Goodwill represents an asset with indefinite useful life and as such is subject to annual impairment tests. Goodwill is tested at a minimum at the operating segment level.

Goodwill related to investments in associates is reflected in their carrying amounts in the Group's consolidated financial statements. Consequently, any investments in associates and the related goodwill are analysed for impairment on a combined basis.

Other intangible assets

Other intangible assets that are acquired by the Group 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.

The costs of registering a substance in the REACH system, such as participation in research, consulting services linked to a specific registration, costs of preparing the registration documents and Chemical Safety Reports, registration fees and authorisation, are capitalised as intangible assets.

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 intangible assets are as follows:

Development costs	2-5 years
Patents and licences	2–10 years
Other	2-12 years

Amortisation periods and residual values are reviewed at each reporting date with any resulting adjustments made. Any adjustments resulting from the verification are made prospectively as a change in estimate.

Amortisation of intangible assets related to the costs incurred in respect of registration in the REACH system begins in the month following the month of proper registration of a given substance. The amortisation period is 12 years with amortisation charged to cost of sales.

Costs of completed development activities

Research activities represent an innovative and scheduled search for solutions, undertaken with the prospect of gaining new scientific or technical knowledge. Development activities are understood as a practical application of discoveries or achievements of other knowledge in planning and designing the production of new or considerably improved materials, devices, products, technological processes, systems or services, taking place prior to starting mass production or prior to their application.

All expenditure on research activities is recognised in profit or loss as incurred. Whenever a clear distinction between research and development activities cannot be made, the Group treats the related expenditure as though it were incurred in the research phase only.

Development expenditure is capitalised as part of intangible assets only if the Group is able to prove:

- ✓ that the product or process is technically and commercially feasible (assessed from a technical perspective),
- ✓ its intent to complete development and to use or sell the asset,
- ✓ the ability to use or sell the asset,
- ✓ the manner in which the asset will bring future economic benefits (inter alia, the entity should prove the existence of a market for new products created by the asset or a market for the asset itself, or – if the asset is to be used by the Group – the usefulness of the intangible asset to the Group),
- ✓ the availability of appropriate technical, financial and other resources required to complete development activities and then use or sell the asset, and,
- ✓ its ability to reliably measure development costs attributable to the asset.

Internally generated trademarks, magazine titles, editorial titles, customer lists and other items of similar nature are not recognised in the financial statements.

The amortisation periods of capitalised development costs should reflect their estimated useful lives.

Judgements and estimates

Amortisation rates. 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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

01.01.-31.12.2019	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Gross value of intangible assets at the beginning of the period	**20,733**	**555,096**	**232,004**	**127,742**	**141,010**	**1,076,585**
Purchase	-	-	615	31,824	32,038	64,477
Investment outlays	-	-	-	-	58,326	58,326
Reclassifications	9,000	-	36,795	12,489	(90,322)	(32,038)
Exchange differences	-	(6,917)	(1,292)	(1,203)	(26)	(9,438)
Liquidation	-	-	(21)	(15,579)	-	(15,600)
Cancellation of CO2 emission rights	-	-	-	(25,191)	-	(25,191)
Change in the Group's structure	-	16	-	-	-	16
Other	-	-	-	44	(813)	(769)
Gross value of intangible assets at the end of the period	**29,733**	**548,195**	**268,101**	**130,126**	**140,213**	**1,116,368**
Accumulated amortisation at the beginning of the period	(16,012)	-	(94,496)	(47,703)	-	**(158,211)**
Annual amortisation charge	(2,061)	-	(13,178)	(3,254)	-	(18,493)
Exchange differences	-	-	188	460	-	648
Liquidation	-	-	21	-	-	21
Accumulated amortisation at the end of the period	**(18,073)**	**-**	**(107,465)**	**(50,497)**	**-**	**(176,035)**
Impairment losses at the beginning of the period	**-**	**(414,383)**	**(3,253)**	**(41,364)**	**(1,216)**	**(460,216)**
Recognition	-	-	(5)	(59)	(50)	(114)
Reversal	-	-	-	-	338	338
Exchange differences	-	5,733	-	398	-	6,131
Impairment losses at the end of the period	**-**	**(408,650)**	**(3,258)**	**(41,025)**	**(928)**	**(453,861)**
Net value of intangible assets at the beginning of the period	**4,721**	**140,713**	**134,255**	**38,675**	**139,794**	**458,158**
Net value of intangible assets at the end of the period	**11,660**	**139,545**	**157,378**	**38,604**	**139,285**	**486,472**

01.01.-31.12.2018	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Gross value of intangible assets at the beginning of the period	**19,668**	**463,789**	**98,770**	**108,183**	**71,467**	**761,877**
Purchase	-	-	1,919	534	2,453	4,906
Investment outlays	-	-	-	-	127,905	127,905
Reclassifications	1,065	-	3,928	50,271	(61,383)	(6,119)
Exchange differences	-	13,337	(22)	2,899	20	16,234
Liquidation	-	-	(736)	(254)	-	(990)
Cancellation of CO2 emission rights	-	-	-	(35,638)	-	(35,638)
Change in the Group's structure	-	77,970	128,145	1,747	-	207,862
Other	-	-	-	-	548	548
Gross value of intangible assets at the end of the period	**20,733**	**555,096**	**232,004**	**127,742**	**141,010**	**1,076,585**
Accumulated amortisation at the beginning of the period	(14,942)	-	(87,451)	(43,935)	-	**(146,328)**
Annual amortisation charge	(1,419)	-	(7,207)	(2,661)	-	(11,287)
Exchange differences	-	-	(98)	(1,277)	-	(1,375)
Change in the Group's structure	-	-	(120)	-	-	(120)
Liquidation	-	-	729	170	-	899

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01.01.-31.12.2018	Development costs	Goodwill	Licences,patents, permits, etc. obtained	Other intangible assets	Intangible assets under development	TOTAL
Other	349	-	(349)	-	-	-
Accumulated amortisation at the end of the period	**(16,012)**	**-**	**(94,496)**	**(47,703)**	**-**	**(158,211)**
Impairment losses at the beginning of the period	**-**	**(402,416)**	**(3,253)**	**(40,122)**	**-**	**(445,791)**
Recognition	-	-	-	-	(1,216)	(1,216)
Exchange differences	-	(11,967)	-	(1,242)	-	(13,209)
Impairment losses at the end of the period	**-**	**(414,383)**	**(3,253)**	**(41,364)**	**(1,216)**	**(460,216)**
Net value of intangible assets at the beginning of the period	**4,726**	**61,373**	**8,066**	**24,126**	**71,467**	**169,758**
Net value of intangible assets at the end of the period	**4,721**	**140,713**	**134,255**	**38,675**	**139,794**	**458,158**

A significant increase in intangible assets in 2019 is related to the implementation of the SAP accounting system in the CIECH Group. The total increase in intangible assets on this account is PLN 36,154 thousand.

Following the acquisition of Proplan Plant Protection Company, S.L. in 2018, there was a significant increase in intangible assets due to the fair value measurement of assets acquired, including primarily registrations of crop protection chemicals.Proplan holds a portfolio of more than 120 product registrations and significant intellectual property assets. The total increase in intangible assets on this account is approx. PLN 129 million. Moreover, this transaction resulted in the recognition of a goodwill, as described in Section 5.5 hereof.

Other intangible assets of the CIECH Group include mainly IT systems, licences and patents, other software, development works and other intangible assets. All intangible assets belong to the CIECH Group.

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

AMORTISATION CHARGES ON INTANGIBLE ASSETS	01.01.-31.12.2019	01.01.-31.12.2018
Cost of sales	(13,516)	(2,027)
Selling costs	(3,095)	(7,633)
General and administrative expenses	(1,882)	(1,627)
TOTAL	**(18,493)**	**(11,287)**

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.

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).

Apart from goodwill, the CIECH Group does not have other intangible assets with an indefinite useful life. Additional information about the goodwill is presented in note 5.5.

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Development works

Development works carried out by the CIECH Group are aimed at increasing economic potential; and are related mainly to the modernisation of technological processes, reduction of manufacturing costs and optimisation of technical and technological parameters. The Group continues the development of the R&D area to support the development of products being a response to growing needs of the market.

Internally generated intangible assets	01.01.-31.12.2019	01.01.-31.12.2018
Gross value as at the beginning of the period	106,147	59,882
Expenditure incurred	29,549	46,265
Gross value as at the end of the period	**135,696**	**106,147**
Accumulated amortisation – as at the beginning of the period	14,459	13,011
Amortisation for the period	2,032	1,448
Accumulated amortisation as at the end of the period	**16,491**	**14,459**
Net value as at the end of the period	**119,205**	**91,688**

5.5. GOODWILL IMPAIRMENT TESTING

In preparing the consolidated financial statements of the CIECH Group, the goodwill recognised in the consolidated financial statements in relation to a subsidiary CIECH Sarzyna S.A. and German SDC Group, as well as to the Spanish company Proplan Plant Protection Company S.L. and Smart Fluid Sp. z o.o. acquired in 2018, was tested for impairment. The recoverable amount was calculated based on the value in use. The value in use was calculated on the basis of the Group's five-year plans. In 2019, no impairment of goodwill was identified for any of the above entities.

The following assumptions were applied in the impairment tests:

- the weighted average cost of capital for CIECH Sarzyna S.A. 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 the SDC Group 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 weighted average cost of capital for Smart Fluid Sp. z o.o. for cash flows in PLN was 7.5%;
- the assumed growth rate for the residual period was 2.0% for all companies.

According to the estimates of the Management Board for CIECH Sarzyna S.A., the SDC Group, Smart Fluid Sp. z o.o. and Proplan Plant Protection Company, S.L. an increase in the weighted average cost of capital of 1 p.p. for each currency without changing other factors would not lead to any change in the carrying amount of goodwill.

Goodwill is the most valuable component of intangible fixed assets and is presented at the level of the CIECH Group and on the lower tier group level – the SDC Group. Goodwill presented in consolidated financial statements was recognised as a result accounting for acquisition of companies in 2006 and 2007 and acquisition of companies in 2018. Goodwill presented in the consolidated financial statements as at 31 December 2019 amounted to PLN 139,545 thousand (soda segment – PLN 47,252 thousand, silicates and glass segment – PLN 39 thousand, organic segment – PLN 89,301, other segment – PLN 2,953 thousand).

As compared to 2018, goodwill decreased by PLN 1,168 thousand as a result of:

- change in the EUR exchange rate used to translate the goodwill recognised on acquisition of Proplan Plant Protection Company, S.L. in 2019 – a decrease by PLN 723 thousand.
- acquisition of CIECH Salz Deutschland GmbH – an increase by PLN 15 thousand,
- change in the EUR exchange rate used to translate the goodwill recognised in the statements of the lower tier group, the SDC Group, in 2019 – a decrease by PLN 460 thousand.

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

5.6. INVESTMENT PROPERTIES

Accounting policy

Investment property is held to earn rentals or for capital appreciation (or both). Investment property is remeasured at fair value. At initial recognition, investment property is accounted for in accordance with policies applicable for property, plant and equipment i.e. purchase price or cost. In subsequent reporting periods change in fair value of investment property is recognised in profit or loss in the period when change occurred and is presented in other operating expenses. Real property used under lease agreements are reported in the balance sheet as right-of-use assets.

Judgements and estimates

Investment property valuation. The CIECH Group presents investment property at fair value, recognising the fair value valuation in the statement of profit or loss. Investment property valuation is performed using:

- ✓ comparative method based on observable market data, including the price of comparable investment properties and adjusted with the specific factors such as the capability of the property, its location and condition, or
- ✓ income method (based on a discounted cash flow model) in the absence of comparable market data.

INVESTMENT PROPERTIES	01.01.-31.12.2019	01.01.-31.12.2018
Value at the beginning of period	**37,766**	**44,268**
Sales	(1,922)	(5,471)
Goodwill valuation	873	(1,040)
Other	-	9
Value at the end of the period	**36,717**	**37,766**

The item "Investment property" presented by the CIECH Group includes land, buildings and structures that have been acquired only in order to achieve economic benefits from rents or for the increase of their value. The fair value of an investment property is determined with comparative and income method by an independent appraiser.

As at 31 December 2019, the CIECH Group held the following investment property:

- CIECH Nieruchomości S.A. – As at 31 December 2019, the investment property line item for CIECH Nieruchomości S.A. included real property located in Bydgoszcz. The real property was acquired from Infrastruktura Kapuściska S.A in liquidation bankruptcy.
- CIECH Soda Polska S.A. – Buildings acquired by CIECH Soda Polska S.A. as a result of a merger with Soda Med. Sp. z o.o. These are buildings leased for medical outpatient, clinics, nursing and treatment rooms as well as private doctor's and dentist's consulting rooms.
- CIECH Sarzyna S.A. – 35 buildings and structures located on the premises of CIECH Sarzyna S.A. In the past, they were used by the company for its own needs, currently they are leased to generate rental income.
- CIECH Trading S.A. – the company recognises land located in Bydgoszcz as investment property (acquired from Infrastruktura Kapuściska S.A. in liquidation bankruptcy).

	01.01.-31.12.2019	01.01.-31.12.2018
Income from investment property rental	5,347	5,282
Operating costs related to investment property generating rental income in the given period	2,413	2,460
Operating costs related to investment property not generating rental income in the given period	-	1,040

5.7. LONG-TERM RECEIVABLES

Accounting policy

Contract assets resulting from transactions that are within the scope of IFRS 15 – receivables in relation to caverns.

In the case when an entity (contractor) incurs costs due to future activity related with the execution of a contract, such costs are recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

For these categories of assets, the Group chose a simplified approach to estimating impairment due to expected credit losses, whereby lifetime expected credit losses are always estimated from the moment of initial recognition of exposures, whether or not an evidence of a significant increase in credit risk exists.

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LONG-TERM RECEIVABLES	31.12.2019	31.12.2018
Receivables in relation to caverns	57,492	64,517
Other	132	86
Net non-current receivables	**57,624**	**64,603**
Write-down on receivables	(975)	(1,441)
Gross non-current receivables	**58,599**	**66,044**

CHANGE IN IMPAIRMENT ALLOWANCES ON LONG-TERM RECEIVABLES	01.01 - 31.12.2019	01.01 - 31.12.2018
Opening balance	**(1,441)**	-
Changes in accounting policies	-	(1,531)
Opening balance after adjustments	**(1,441)**	**(1,531)**
Reversed	456	137
Exchange differences	10	(47)
Closing balance	**(975)**	**(1,441)**

Impairment losses on long-term receivables are calculated using the default rate determined on the basis of the counterparty's rating and the long-term receivable payment schedule.

Desalination of caverns

The SDC Group, in accordance with *IAS 15 Revenue from contracts with customers*, attributes revenues and costs connected with contracts concerning cavern desalination to particular periods in which the works were conducted.
Project 2 (Project 1 has been completed)– the Contract includes the sale of mining rights, land and preparation of four gas caverns (S113to S116). The stage of completion is determined as a proportion between the costs incurred for work performed to date and the estimated total contract costs or completion of a physical proportion of the contract work.
Revenue recognised in statement of profit or loss represent the amount of the expected sales revenues multiplied by the percentage of completion of the contract in the accounting period. In 2019, the Group's revenues from the cavern desalination contract amounted to PLN 3,299 thousand (EUR 767 thousand). In the corresponding period, the Group did not earn any revenues on this account.
The receivables relating to the cavern desalination contracts (Project 2) recognised in assets as long-term receivables amounted to PLN 57,494 thousand (EUR 13,501 thousand) as at the end of 2019. As at 31 December 2018, they amounted to PLN 64,517 thousand (EUR 1,626 thousand). The total amount of costs incurred and profits recognised (less recognised losses) due to ongoing contracts for the period of duration of these contracts amounted to PLN 155,932 thousand (in the comparable period: PLN 151,394 thousand).

5.8. LONG-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

LONG-TERM FINANCIAL ASSETS	31.12.2019	31.12.2018
Shares	12,819	12,819
Derivatives	4,879	11,859
Embedded derivatives	-	4,007
Other	89	89
TOTAL	**17,787**	**28,774**

In 2019 and in the comparable period, there was no change in impairment write-downs on long-term financial assets. These write-downs amounted to PLN 1,343 thousand.

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5.9. SHARES IN JOINT VENTURES / INVESTMENTS IN ASSOCIATES

Accounting policy

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control and have rights to the net assets of the arrangement.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted associates and joint ventures from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Group also measures impairment of the share in the net assets of associates and joint ventures and creates appropriate allowance. When the Group's share of losses exceeds the carrying amount of its interest in an associate or a joint venture, such carrying amount is reduced to nil and the recognition of further losses is discontinued if the Group is not obliged to cover them.

The CIECH Group holds a 50% share in Kaverngesellschaft Stassfurt mbH. It is a jointly-controlled company measured under the equity method at the lower-tier group level – the SDC Group (50% direct share in Kaverngesellschaft Stassfurt mbH). This company is not listed on the stock market so the fair value of this investment is not available. Balance sheet days and reporting periods of Kaverngesellschaft Stassfurt mbH are the same as those adopted by the Group.

The following table presents the carrying amounts of investments in equity-accounted associates and jointly-controlled entities:

INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	31.12.2019	31.12.2018
Investments in associates and jointly-controlled entities	5,958	5,556
Share in net profit of associated entities measured under the equity method	1,106	516

The table below presents condensed information related to the investment in Kaverngesellschaft Stassfurt mbH:

Kaverngesellschaft Stassfurt mbH	31.12.2019	31.12.2018
Share in the equity	50.0%	50.0%
Non-current assets	2,065	512
Current assets	5,507	5,598
Equity	5,025	4,270
Short-term liabilities	2,547	1,840
Sales revenues	11,615	6,853
Profit before tax	3,024	1,600
Income tax	(938)	(572)
Net profit/loss	2,086	1,028

5.10. 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.

Finished goods and work in progress are measured at cost including direct manufacturing costs and reasonable portion of costs indirectly connected with the manufacturing process, but not higher than the selling price possible to achieve. The cost of inventory is measured using the weighted average method.

Judgements and estimates

The CIECH Group companies recognise 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.

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INVENTORY	31.12.2019	31.12.2018
Materials	218,396	231,381
Semi-finished products and work in progress	50,198	48,672
Finished products	122,002	109,514
Goods	65,108	48,951
TOTAL	**455,704**	**438,518**

CHANGE OF INVENTORY IMPAIRMENT WRITE-DOWNS	01.01.-31.12.2019	01.01.-31.12.2018
Opening balance	**(40,695)**	**(37,987)**
Recognized	(9,660)	(10,136)
Reversed / released	12,800	7,794
Used	3,947	-
Exchange differences	260	(202)
Change in the Group's structure	-	(194)
Other	21	30
Closing balance	**(33,327)**	**(40,695)**

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.

5.11. 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 Group companies use 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 approx. 90% of the value of advance payments received from the factor (the approx. 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 Group 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 Group 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%.

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In addition, regardless of the foregoing, the Group 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.

Trade receivables held in accordance with the business model the objective of which is to hold financial assets to collect their contractual cash flows, are classified as financial assets measured at fair value through profit or loss and, therefore, they are not subject to provisions concerning the impairment of financial assets.

TRADE AND OTHER RECEIVABLES	31.12.2019	31.12.2018
Trade receivables, including:	295,534	377,073
- up to 12 months	293,895	376,326
- over 12 months	-	22
- prepayments for inventory	1,639	725
Prepayments for non-current assets	3,204	3,834
Public and legal receivables (excluding income tax)	145,973	120,381
Receivables from sales of energy	11,668	5,306
Insurance receivables	613	684
Purchase costs	142	772
External services	233	1,421
Factoring receivables	43,590	59,045
Other receivables	26,125	26,647
NET TRADE AND OTHER RECEIVABLES	**527,082**	**595,163**
Impairment allowances with respect to trade receivables including	(39,670)	(38,357)
- impairment allowance recognized in the current reporting period	(3,121)	(6,164)
Impairment allowances with respect to other current receivables including	(17,209)	(20,634)
- impairment allowance recognized in the current reporting period	(9)	(4,530)
GROSS TRADE AND OTHER RECEIVABLES	**583,961**	**654,154**

As at the balance sheet date, continuing involvement is reported. It is calculated as a product of the financing received, interest and the maximum period of delay in payments. As at 31 December 2018,the asset from continuing involvement amounted to PLN 2,035 thousand (presented under other receivables). The value of receivables transferred to the factor and derecognised from trade receivables in the statement of financial position was PLN 311,646 thousand as at 31 December 2019 (as at 31 December 2018: PLN 291,779 thousand). Fair value of trade receivables and other receivables does not differ significantly from their carrying value.

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

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Changes in the gross carrying amounts of trade receivables in the current reporting period are presented in the table below:

Trade receivables gross as at 01.01.2018	**366,587**
Created	3,493,880
Paid	(3,468,387)
Change in Group's composition	22,605
Trade receivables gross as at 31.12.2018	**414,685**
Created	2,743,021
Paid	(2,824,141)
Trade receivables gross as at 31.12.2019	**333,565**

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM RECEIVABLES	01.01.-31.12.2019	01.01.-31.12.2018
Opening balance	**(58,991)**	**(44,613)**
Changes in accounting policies	-	(5,143)
Opening balance after adjustments	**(58,991)**	**(49,756)**
Recognized	(3,130)	(11,067)
Reversed	3,150	3,327
Used	3,742	637
Exchange differences	(849)	(922)
Change in the Group's structure	280	(1,054)
Other	(1,081)	(156)
Closing balance	**(56,879)**	**(58,991)**

The principles for recognising impairment allowances for short-term receivables are described above, in the "Accounting Policy" section. Terms of transactions with related entities have been presented in note 9.3.

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

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

5.12. SHORT-TERM FINANCIAL ASSETS

Accounting policy

Accounting policy concerning financial instruments is presented in note 8.1.

SHORT-TERM FINANCIAL ASSETS	31.12.2019	31.12.2018
Derivatives	13,236	16,060
Embedded derivatives	2,206	11,972
Loans granted	1,800	1,800
Other	40	-
Total (net) short-term financial assets	**17,282**	**29,832**
Impairment of short-term financial assets	(27,942)	(27,953)
Total (gross) short-term financial assets	**45,224**	**57,785**

CHANGE IN IMPAIRMENT ALLOWANCES ON SHORT-TERM FINANCIAL ASSETS	01.01.-31.12.2019	01.01.-31.12.2018
Opening balance	**(27,953)**	**(24,532)**
Recognized	-	(3,421)
Exchange differences	11	-
Closing balance	**(27,942)**	**(27,953)**

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5.13. 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 Group 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 Group analyses recoveries using probability-weighted scenarios.

CASH AND CASH EQUIVALENTS	31.12.2019	31.12.2018
Bank accounts	249,246	171,924
Short-term deposits	44,431	10,758
Cash in hand	37	65
Other cash	6,066	9,534
Impairment of cash and cash equivalents	(200)	(142)
Cash and cash equivalents	**299,580**	**192,139**

CHANGE IN IMPAIRMENT CASH AND CASH EQUIVALENTS	01.01 - 31.12.2019	01.01. - 31.12.2018
Opening balance	**(142)**	-
Changes in accounting policies	-	(571)
Opening balance after adjustments	**(142)**	**(571)**
Recognized	(139)	(92)
Reversed	60	521
Exchange differences	21	-
Closing balance	**(200)**	**(142)**

The value of restricted cash

As at 31 December 2019, all cash and cash equivalents in Polish companies (CIECH S.A.,CIECH Soda Polska S.A., CIECH Sarzyna S.A.), German companies (CIECH Soda Deutschland GmbH & Co. KG, CIECH Energy Deutschland GmbH), and Romanian company CIECH Soda Romania S.A., who are guarantors of the term loan, were pledged as collateral for financial liabilities on account of the term loan, revolving facility and overdraft facilities

As at 31 December 2019, the balance of cash restricted due to a deposit placed for transactions concluded with the PGE Brokerage House (futures contracts for the purchase of CO_2 certificates) amounted to PLN 28,540 thousand (EUR 6,702 thousand) (as at 31 December 2018: PLN 11,551 thousand (EUR 2,686 thousand)).

Moreover, restricted cash were funds on the VAT account in connection with the introduction of "split payment" procedures. Their value as at 31 December 2019 was PLN 13,370 thousand.

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.

5.14. DISCONTINUED OPERATIONS, NON-CURRENT ASSETS AND LIABILITIES CONNECTED WITH NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In the reporting periods presented, there were no discontinued operations at the CIECH Group.

Assets and liabilities classified as held for sale

Accounting policy

Non-current assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through a sale transaction and when they are available for sale in their current condition with such transaction being highly probable.

As at 31 December 2019 and 31 December 2018, the CIECH Group presented the following assets under the item "Non-current assets classified as held for sale":

- CIECH Vitrosilicon S.A. presented property, plant and equipment in the amount of PLN 368 thousand (land located in the town of Iłowa) redundant from the point of view of the enterprise; a potential buyer of the land is now being sought. These assets are included in the segment of silicates and glass;
- CIECH Transclean Sp. z o.o. presented a real property with the carrying amount of PLN 422 thousand, located in Bydgoszcz, containing an administrative building together with equipment. These assets are presented in the "Other activities" segment.

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6 EQUITY

6.1. CAPITAL MANAGEMENT

Capital structure management

The capital structure of the Group consists of debt comprising the credit facility, cash and cash equivalents and equity attributable to shareholders of the parent, including shares issued, reserve capital and retained earnings.

The Group manages its capital in order to ensure that subsidiaries are able to continue their activity and at the same time maximise 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.

The Group monitors the effectiveness and stability of capitals using the debt ratio calculated based on the net debt value in relation to EBITDA. The consolidated net debt of the Group calculated as the sum of non-current and current liabilities for credits, loans and other debt instruments (lease liabilities + liabilities for net loss on derivatives calculated separately for each instrument + factoring liabilities) less cash.

EBITDA is calculated as operating profit plus amortisation and depreciation.

	31.12.2019	31.12.2018
Loans, borrowings and debt securities – bonds issued	1,645,400	1,632,666
Financial lease liabilities	143,934*	23,540
Factoring liabilities**	25,536	20,309
Net valuation of liabilities due to derivative instruments	7,071	17,392
Gross debt	**1,821,941**	**1,693,907**
Cash and cash equivalents	299,580	192,139
Net debt	**1,522,361**	**1,501,768**

	01.01.- 31.12.2019	01.01. - 31.12.2018
EBIT	267,510	379,200
Amortization	310,498	275,203
EBITDA	**578 008**	**654,403**
Debt ratio	**2.6**	**2.3**

**Including the effect of IFRS 16.*
*** 8%-10% of recourse factoring liabilities.*

As at 31 December 2019, net debt to EBITDA stood at 2.6 and was higher than as at the end of 2018 by 0.3. The deterioration of this ratio is attributable to an increase in lease liabilities following the application of IFRS 16 *Leases* and, on the other hand, a lower level of EBITDA related to, among other things, the recognition of impairment losses on fixed assets at CIECH Soda Romania S.A. (in connection with the suspension of production at the end of third quarter of 2019).

6.2. CONSOLIDATED EQUITY

Accounting policy

The total consolidated shareholders' equity includes equity attributable to shareholders of the parent company and non-controlling interest.

The Group's share capital is represented by the share capital of the parent company and is accounted for at its nominal value adjusted by the effects of hyperinflation in the years 1989–1996.

Post-acquisition changes in the equity of subsidiaries are recognised in the Group's equity to the extent of the parent company's interest in those subsidiaries. The remaining equity of the consolidated entities is recognised in non-controlling interest, described below.

When a foreign operation is disposed of, the relevant amounts in the currency translation differences are transferred to profit or loss.

When shares are repurchased by the parent company or a consolidated subsidiary, 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.

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A liability for a dividend payable is recognised when authorised.

Dividends payable from pre-acquisition profits do not reduce the acquisition price of the shares, however, they may provide evidence of impairment.

The consolidated net profit (loss) is presented in shareholders' equity within retained earnings and represents the sum of the net profit (loss) of the parent company, its share in net profit (loss) of equity accounted investees, net profit (loss) of consolidated subsidiaries and profit (loss) of non-controlling interest.

Non-controlling interest

Non-controlling interest represents interest in a subsidiary's equity which is not directly or indirectly attributable to the parent company.

Non-controlling interest is measured:

- ✓ at the amount of proportionate interest in subsidiary's net assets, or
- ✓ at fair value,

for each business combination separately at the time of initial recognition.

The carrying amount of non-controlling interest should correspond to the amount calculated by adding changes in the current period to the carrying amount of non-controlling interest at the end of the preceding period. These changes may result from:

- ✓ changes in the percentage share of interest held by non-controlling shareholders – e.g. purchase, sale, increase or decrease of share capital;
- ✓ changes in equity not related to the changes in the interest held – e.g. increase or decrease of equity with no effect on shareholding, additional equity contributions made by non-controlling shareholders, net result of the current year, transactions recognised directly in other comprehensive income, dividends paid.

Profit or loss as well as any component of other comprehensive income are attributable to the shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

As at 31 December 2019, the carrying amount of the share capital of the parent company CIECH S.A. amounted to PLN 287,614 thousand and comprised the share capital from the share issues and from the hyperinflation adjustment.

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.

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

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. 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%

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** 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 Extrardinary 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.

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
Other	2,322	2,322
TOTAL	**78,521**	**78,521**

Cash flow hedge reserve

The cash flow hedge reserve reflects the valuation and settlement of hedging instruments to which the hedge accounting applies.

Hedge cost reserve

The hedge cost reserve includes the time value of the gas purchase option which, in accordance with IFRS 9, has been left outside hedge accounting by the Group and the value of the basis currency spread for the CIRS transaction which was excluded from hedge accounting.

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.

Currency translation differences (foreign companies)

The balance of this equity item is adjusted by exchange differences on the translation of the financial statements of foreign subsidiaries, i.e. CIECH Soda Romania S.A., SDC Group, Ciech Group Financing AB, Proplan Plant Protection Company, S.L., CIECH Salz Deutschland GmbH.

The balance of this item of equity also represents accumulated exchange differences on the measurement of net investments in a foreign entity and effective part of profit and losses from measurement of an instrument used for hedging shares in net assets of foreign companies.

Non-controlling interest

Profit or loss as well as any component of other comprehensive income are attributable to the equity of shareholders of the parent company and to non-controlling interest even where the attribution results in a negative carrying amount of non-controlling interest.

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 NON-CONTROLLING INTEREST

Basis of consolidation

The subsidiaries' net equity in the amount as at the acquisition date, in the part corresponding to Group's share in the share capital, is compensated with acquisition value of the shares included in statement of financial position of the parent company at the date of acquisition. Consolidation adjustments, depending on their nature, are recorded against appropriate items of equity. Changes in the parent company's ownership interest that do not result in a loss of control of the subsidiary are accounted for as equity transactions.

Subsidiaries of the CIECH Group are fully consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date such control ends.

Balances, revenues and costs, unrealized profits or losses from transactions between the Group subsidiaries are eliminated in the process consolidation.

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:

1) Increased shareholding in companies

CIECH R&D Sp. z o.o.

On 22 November 2018, the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. increased the Company's share capital by PLN 2 thousand, i.e. from PLN 40,005 thousand to PLN 40,007 thousand through creation of 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. The court registered the share capital increase on 23 January 2019.

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 Sarzyna (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 S.A. 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.

- **Cerium Sp. z o.o. w likwidacji (in liquidation)**

On 16 October 2019, the Extraordinary Shareholders’ Meeting of Cerium Sp. z o.o. w likwidacji (in liquidation) increased the Company's share capital by PLN 100 thousand, i.e. from PLN 5 thousand to PLN 105 thousand through creation of new shares with a nominal value of PLN 50 per share and total value of PLN 100 thousand. The right to acquire new shares was conferred on the existing shareholder of the Company – CIECH Soda Polska S.A. who is the sole shareholder of the Company. Shares in the increased share capital were acquired by CIECH Soda Polska S.A. in exchange for a cash contribution.

2) dissolution of companies, dissolution/liquidation/suspension of companies

- **Cerium Sp. z o.o. w likwidacji (in liquidation)**

On 16 October 2019, the Extraordinary Shareholders’ Meeting of Cerium Sp. z o.o. resolved to dissolve the Company and open the liquidation proceedings. The court registered the decision to dissolve the Company and open its liquidation on 18 November 2019.

3) acquisition of shares in new companies

- **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

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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 were acquired by CIECH S.A. in exchange for cash. The share capital increase was registered on 5 March 2020.

Moreover, CIECH S.A. as the sole shareholder of: (i) SDC GmbH, the (indirect) parent of CIECH Soda Deutschland GmbH & Co. KG, and (ii) CIECH Salz Deutschland GmbH CIECH authorised CIECH Soda Deutschland GmbH & Co. KG to dispose of its rights (and obligations) by way of two agreements: agreement on the assignment of rights and obligations related to the production of salt in Strassfurt, Germany, and agreement on the sale of ownership rights to real property related to the Salt Business to CIECH Salz Deutschland GmbH. The subject matter of the Agreement on Assignment from CSD GmbH to CIECH Salz Deutschland GmbH is the sale and transfer of all assets related to the salt business and belonging exclusively to the salt segment together with all liabilities and agreements. The subject matter of the Sale Agreement is the land of CSD intended for a salt project.

6.5. SIGNIFICANT SUBSIDIARIES WITH NON-CONTROLLING INTEREST

In 2019 and 2018, there was no significant non-controlling interest in any of the significant subsidiaries of the CIECH Group.

6.6. EARNINGS PER SHARE

Accounting policy

Basic earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is the net profit for the year attributable to ordinary shareholders of the parent entity divided by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares.

The table below presents profit and shares data used in the calculation of the basic and diluted earnings per share:

In PLN	01.01.-31.12.2019	01.01.-31.12.2018
Basic and diluted earnings per share (continuing operations)	2.23	2.13
Basic and diluted earnings per share (discontinuing operations)	-	-

	01.01.-31.12.2019	01.01.-31.12.2018
Net profit (loss) from continuing operations attributable to the shareholders of the parent	117,690	112,044
Net profit (loss) from discontinued operations attributable to the shareholders of the parent	-	-
Weighted average number of issued ordinary shares used in calculation of basic and diluted earnings per share	52,699,909	52,699,909

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7 LIABILITIES, PROVISIONS, EMPLOYEE BENEFITS

7.1. INFORMATION ABOUT SIGNIFICANT FINANCIAL LIABILITIES

Accounting policy

Financial liabilities are an entity's liabilities to deliver financial assets to another entity or to exchange a financial instrument with another entity under conditions that are unfavourable. When a financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Interest accrued is recognised under finance costs or, if it is subject to capitalisation, to property, plant and equipment or intangible assets.

LOANS, BORROWINGS AND OTHER DEBT INSTRUMENTS	31.12.2019	31.12.2018
LONG-TERM	**1,583,799**	**1,340,742**
Loans and borrowings	1,583,799	1,340,742
SHORT-TERM	**61,601**	**291,924**
Loans and borrowings	61,601	291,924
TOTAL	**1,645,400**	**1,632,666**

Changes in liabilities on account of loans contracted by the CIECH Group companies are presented in the table below:

	01.01 - 31.12.2019	01.01 - 31.12.2018
Opening balance	**1,632,666**	**1,329,919**
Credits received	277,459	599,072
Interest	51,903	37,623
Repayment of liability, including:	(315,543)	(356,936)
Repayment of principal	(268,016)	*(319,515)*
Interest paid	(47,527)	*(37,421)*
Exchange differences realized	(6)	7,208
Exchange differences from valuation of liability	(1,303)	2,011
Change in Group composition	-	15,471
Other	224	(1,702)
Closing balance	**1 645,400**	**1,632,666**

Debt financing of the Group

The Group's debt financing is secured mainly through loans made available to CIECH S.A. under:

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),
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 drown down in the amount of PLN 1,634,646 thousand.

In addition, Proplan Plant Protection Company, S.L. and Smart fluid Sp. z o.o. have external debt on account of loans. Detailed information about loan liabilities is disclosed in Section 4.6.1 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2019, published on 31 March 2020.

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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

Accounting policy concerning financial instruments is presented in note 8.1.

OTHER NON-CURRENT LIABILITIES	31.12.2019	31.12.2018
Subsidies	36,449	42,260
PUT options	8,508	8,600
Derivatives	6,487	38,181
Liabilities from the initial recognition of the valuation of embedded derivatives	-	1,296
Liabilities due to the purchase of shares and other financial assets	7,478	21,235
Other	15,261	1,059
TOTAL	**74,183**	**112,631**

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, 399 units were granted out of 1000 units issued, and the discounted value of the programme for 2019 amounted to PLN 14,143 thousand. The liabilities were measured by the Group using a discount rate of 3.53%.

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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.

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	397,425	447,871
- in up to 12 months	393,687	441,225
- above 12 months	107	14
- prepayments received for supplies	3,631	6,632
Public and legal liabilities (excluding income tax)	22,663	30,296
Liabilities for purchase of property, plant and equipment	161,094	32,068
Financial instruments liabilities	18,533	6,587
Liabilities to employees	13,373	13,943
Payroll liabilities	10,499	7,785
Holiday leave accrual	7,719	8,088
Taxes and charges	95,757	47,159
Materials and energy consumption	39,752	50,949
Subsidies	28,929	32,588
External services	2,920	1,669
Environmental charges	10,589	17,108
Social security and other employee benefits	1,279	1,433
Factoring liabilites	25,536	20,309
Liabilities from the initial recognition of the valuation of embedded derivatives	5,017	4,494
Liabilities arising from the purchase of shares and other financial assets	5,118	11,419
Other	23,455	27,701
TOTAL	**869,658**	**761,467**

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

Trade liabilities do not bear interest. Commercial contracts concluded by the CIECH Group 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, the CIECH Group 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 Group 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 Group 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 Group, 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:

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- 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 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 Group applies the incremental borrowing rate for a given lease agreement, i.e. the rate of interest that the Group 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.

The CIECH Group uses property, plant and equipment (mainly means of transport and various types of machinery and equipment) pursuant to lease agreements. The agreements include the return option, extension of the agreement or the option to buy all or a part of the equipment after the lease period.

CIECH Cargo Sp. z o.o. signed finance lease agreements, under which the Company uses additional wagons to carry coal fines and stones. In the agreements, purchase options are provided for after the end of lease.

The largest leased asset in the CIECH Group, in accordance with the adopted accounting principles, is the right of perpetual usufruct of land obtained by administrative decision. No conditions for extending lease agreements or purchasing the subject of lease have been included in administrative decisions concerning the right of perpetual usufruct of land. Price indexation may occur in relation to land revaluation. Furthermore, the SDC Group recognises a long-term sewage system agreement effective until 2095 as a lease. Group companies also recognise leases of property.

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	16,160	719	15,441
Up to 1 year	13,177	550	12,627
From 1 to 2 years	37,276	2,401	34,875
From 2 to 5 years	36,471	4,219	32,252
Over 5 years	167,544	118,805	48,739
TOTAL	**270,628**	**126,694**	**143,934**

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

	01.01.-31.12.2019
Opening balance	**23,540**
Opening balance adjustment	119,089
Implementation of IFRS 16 on 01.01.2019	**142,629**
Contract modifications	1,453
Conclusion of new contracts	24,025
Early termination of the contract	(55)
Accrued interest	5,056
Repayment of liability	(28,151)
Exchange differences	(1,023)
Closing balance	**143,934**

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

Finance lease – leases in terms of which the Group assumes substantially all the risks and rewards of ownership of an item of property, plant and equipment are classified as finance leases. Upon initial recognition the leased item of property, plant and equipment is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset's carrying amount is decreased by accumulated depreciation and accumulated impairment losses.

In the case of an asset used under a finance lease, if it is not reasonably certain that the lessee will obtain ownership of the asset by the end of the lease term, then the tangible asset is depreciated over one of the following two periods, whichever shorter:

- ✓ the lease term,
- ✓ the expected useful life of the asset.

When an agreement is classified as a finance lease, the underlying asset is recognised within the Company's (lessee's) property, plant and equipment and is depreciated in accordance with principles specified below. Payments under operating lease agreements are recognised as an expense over the lease term.

The nominal value and the present value of minimum lease payments are as follows:

FINANCE LEASE LIABILITIES	Nominal value of minimum lease payments	Future financial costs due to finance lease	Present value of minimum lease payments
31.12.2018			
Up to 1 year	6,422	505	5,917
Between 1 and 5 years	18,038	1,037	17,001
Over 5 years	624	2	622
TOTAL	**25,084**	**1,544**	**23,540**

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

Operating 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.

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

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	19,209
Between 1 and 5 years	57,310
Over 5 years	168,534
TOTAL	**245,053**

In 2018, the costs of lease payments amounted to PLN 24,362 thousand (PLN 22,507 thousand in the comparable period).

7.5. PROVISIONS FOR EMPLOYEE BENEFITS

Accounting policy

Jubilee awards, retirement benefits pays and disability pay:

Based on the Group's remuneration plan, the employees of its companies are entitled to long-term jubilee awards and to retirement benefits. The Group'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 Group'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 Group 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.

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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	**11,851**	**10,789**	**877**	**968**
Recognition	1,200	1,403	16,046	511
Use and reversal	(846)	(392)	(1,231)	(789)
Foreign exchange differences	(74)	139	(213)	-
Other	717	(88)	(14)	187
Closing balance	**12,848**	**11,851**	**15,465**	**877**

In 2019, a change in provision in the amount of PLN -591 thousand was recognised in equity (PLN -235 thousand in the comparable period).

Employee benefits are measured on the basis of actuarial valuations. 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% was applied. The remuneration growth rate of 2% was applied for the residual period. Staff turnover ratio is established based on historic data, adjusted for employment restructuring plans. According to the Group 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 14,956 thousand.

7.6. OTHER PROVISIONS

Accounting policy

A provision is recognised if, as a result of a past event, the Group 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.

Provision for environmental protection

In accordance with the Group's published and currently enforced environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised. The provision is recognised in the amount of the expected future restoration costs discounted to present value.

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 LONG-TERM PROVISIONS	Provision for liabilities and expected losses	Provision for environmental protection	TOTAL
01.01.-31.12.2019			
Opening balance	**3,286**	**75,794**	**79,080**
Recognition	-	28	**28**
Use and reversal	(2,015)	-	**(2,015)**
Foreign exchange differences	-	(821)	**(821)**
Change in discount rate	-	18,434	**18,434**

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CHANGE IN OTHER LONG-TERM PROVISIONS	Provision for liabilities and expected losses	Provision for environmental protection	TOTAL
Reclassification from short-term provisions	7,491	-	**7,491**
Closing balance	**8,762**	**93,435**	**102,197**
01.01.-31.12.2018			
Opening balance	1,047	70,765	**71,812**
Recognition	-	228	**228**
Use and reversal	(4,261)	(2,686)	**(6,947)**
Foreign exchange differences	-	1,898	**1,898**
Change in discount rate	-	6,016	**6,016**
Reclassification from short-term provisions	6,500	(427)	**6,073**
Closing balance	**3,286**	**75,794**	**79,080**

CHANGE IN OTHER SHORT-TERM PROVISIONS	Provision for restructuring	Provision for liabilities and expected losses	Provision for environmental protection	Provision for bonuses	TOTAL
01.01.-31.12.2019					
Opening balance	**218**	**170,495**	**2,311**	**-**	**173,024**
Recognition	-	18,250	946	-	**19,196**
Use and reversal	(107)	(83,049)	(1,739)	-	**(84,895)**
Foreign exchange differences	-	(133)	(2)	-	**(135)**
Reclassification to long-term provisions	-	(7,491)	-		**(7,491)**
Other	-	(74)	-	-	**(74)**
Closing balance	**111**	**97,998**	**1,516**	**-**	**99,625**
01.01.-31.12.2018					
Opening balance	**-**	**76,335**	**951**	**610**	**77,896**
Recognition	-	125,525	2,311	-	**127,836**
Use and reversal	-	(13,178)	(1,377)	(1,136)	**(15,691)**
Foreign exchange differences	-	761	-	2	**763**
Reclassification to long-term provisions	-	(6,500)	-	-	**(6,500)**
Other	218	(12,448)	426	524	**(11,280)**
Closing balance	**218**	**170,495**	**2,311**	**-**	**173,024**

The most significant provisions of the CIECH Group are:

Provisions for expected losses and liabilities

CIECH S.A. – 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.

CIECH Sarzyna S.A. – recognition of a provision for interest in relation to a potential tax liability in the amount of PLN 1,097 thousand.

CIECH Vitrosilicon S.A. – recognition of a provision for income tax and interest in relation to a potential tax liability in the amount of PLN 3,350 thousand and PLN 816 thousand, respectively.

CIECH Pianki Sp. z o.o. – recognition of a provision for interest in relation to a potential tax liability in the amount of PLN 636 thousand.

CIECH Cargo Sp. z o.o. – recognition of a provision for income tax and interest in relation to a potential tax liability in the amount of PLN 469 thousand and PLN 583 thousand, respectively.

SDC Group – short-term provision of PLN 3,058 thousand (EUR 718 thousand) related to a potential claim from the water management authority.

CIECH Cargo Sp. z o.o. – due to a damage to a leased locomotive, railway infrastructure, traction network and damage to property and load, a provision in the amount of PLN 3,076 thousand was recognised at the end of 2018 in connection with the repair of these damages and payment of contractual penalties. In the first half of 2019, PLN 2,850 thousand was paid out on this account, and the rest of the provision was classified as a provision for expected losses.

CIECH Trading S.A. – a provision for VAT and interest in relation to a potential tax liability in the amount of PLN 5,209 thousand.

CIECH Soda Polska S.A. – long-term provision in the amount of PLN 1,047 thousand for potential environmental fees resulting from exceeded emission limits. In addition, provisions of PLN 2,651 thousand, related to customers' claims in connection with defective deliveries of products and the resulting losses, were recognised.

Provisions for environmental protection

SDC Group – long-term provision for environmental protection in the amount of PLN 83,471 thousand (EUR 19,601 thousand) comprising, among others, reclamation of rainwater ponds in Unseburg, mine reclamation activities in the limestone, reclamation of remains of the old limestone outcrops and closing of caverns.

CIECH Soda Polska S.A. – provision for land reclamation costs, calculated in accordance with expenditure planned until 2042, in line with the expected inflation rate: 2.8% adjusted by a discount factor, calculated as the average of the discount factor at the beginning and end of every annual period. The annual expenditure arising therefrom will amount to approx. PLN 860 thousand until 2042. The amount of the respective provision recognised in the statements amounts to PLN 9,842 thousand.

CIECH Sarzyna S.A. – provision for water and land reclamation costs in the amount of PLN 1,488 thousand, comprising a long-term provision of PLN 488 thousand and short-term provision of PLN 1,000 thousand. The provision was estimated based on a technical and financial project including a schedule of works for the years 2008-2020 of expenses to be incurred.

8 FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT AND IMPAIRMENT

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 Group 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 Group 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 Group 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 Group as having low credit risk.

The Group 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 Group 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 Group 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 Group analyses recoveries using probability-weighted scenarios.

Trade receivables and contract assets arising from transactions within the scope of IFRS 15 are exceptions to this rule. For these categories of assets, the Group 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 the CIECH Group as at 31 December 2019 include:

Financial assets:

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

Financial liabilities:

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

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Carrying amount of financial instruments

Classes of financial instruments	note	31.12.2019	31.12.2018	Categories of financial instruments
Cash and cash equivalents	5.13	299,580	192,139	Financial assets at amortised cost
Loans granted	5.12	1,800	1,800	Financial assets at amortised cost
Trade receivables	5.11	293,895	376,348	Financial assets at amortised cost
Factoring receivables	5.11	43,590	59,045	Financial assets at amortised cost
Hedging derivatives with positive value	5.8;5.12	15,118	27,807	Hedging instruments
Derivatives with positive value	5.8;5.12	2,997	112	Financial assets valued at fair value thru profit or loss account
Embedded instruments with positive value	5.8;5.12	2,206	15,979	Hedging instruments
ASSETS		**659,186**	**673,230**	
Trade liabilities	7.3	(393,794)	(441,239)	Financial liabilities at amortised cost
Loans and borrowings	7.1	(1,645,400)	(1,632,666)	Financial liabilities at amortised cost
Factoring liabilities	7.3	(25,536)	(20,309)	Financial liabilities at amortised cost
Lease liabilities	7.4	(143,934)	(23,540)	Financial liabilities excluded from IFRS 9
Hedging derivatives with negative value	7.2;7.3	(22,233)	(44,768)	Hedging instruments
Derivatives with negative value	7.2	(2,787)	-	Financial liabilities valued at fair value thru profit or loss account
LIABILITIES		**(2,233,684)**	**(2,162,522)**	

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

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

Revenues, costs, profit and loss recognised in the statement of profit or loss	01.01.-31.12.2019	01.01.- 31.12.2018	Categories of financial instruments
Interest income /(costs) including income / costs calculated using the effective interest rate method	**(57,105)**	**(68,297)**	
	1,335	4,472	*Financial assets at amortised cost*
	(53,646)	(72,077)	*Financial liabilities at amortised cost*
	(4,794)	(692)	*Financial liabilities excluded from IFRS 9 (interest from lease according to IFRS 16)*
Profits/(losses) due to exchange differences	**(788)**	**6,199**	
	-	6,241	*Financial assets at amortised cost*
	(1,329)	-	*Financial liabilities at amortised cost*
	541	(42)	*Financial liabilities excluded from IFRS 9*
Recognition of impairment losses	**(3,028)**	**(7,795)**	*Financial assets at amortised cost*
Reversal of impairment losses	**3,670**	**4,005**	*Financial assets at amortised cost*
Income/expenses due to the use of derivative financial instruments	**15,380**	**21,934**	
	(1,987)	(2,242)	*Financial assets/liabilities at fair value through profit or loss*
	17,367	24,176	*Hedging instruments*
Gain / (loss) on the disposal of financial instruments	-	**2,758**	*Financial assets/liabilities at fair value through profit or loss*
TOTAL	**(41,871)**	**(41,196)**	

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 Group 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.

Hedges of a net investment in a foreign operation

Hedges of a net investments in a foreign operation shall be accounted for as follows:

- ✓ It is a hedge of a net investment in foreign operations with functional currency different than the one of the parent entity, by foreign currency liabilities.
- ✓ revaluation of foreign currency liabilities designated for hedge accounting is recognised in other comprehensive income and offset with the opposite revaluation of net investments in foreign operation in consolidated financial statements.

Accumulated amount in other comprehensive income is transferred to the profit or loss statement in the case of partial or overall sale of shares in a foreign entity.

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

Hedging instrument	Hedged item	Nominal value/ Volume	Maturity date	31.12.2019		31.12.2018	
Derivatives - Cash flow hedge				**Asset**	**Liability**	**Asset**	**Liability**
Currency risk and interest rate risk							
CIRS transaction	Interest and equity payments for the term loan drawn by CIECH S.A. with an initial value PLN 1 045 thousand PLN	PLN 744,273 thousand	2020	**14,377**	**(19,964)**	27,376	(42,947)
Currency risk							
Currency forwards EUR/PLN	Future cash flows due to realisation of revenues from sales denominated or indexed to the EUR exchange rate	EUR 36,784 thousand	2020	167	-	543	(218)
Currency forwards USD/RON	Future cash flows due to realisation of revenues from sales denominated or indexed to the USD exchange rate	USD 31,800 thousand	2019	-	-	-	(848)
Interest rate risk							
Swap of EURIBOR 6M to fixed interest rate	Interest payments related to the term loan taken out by CIECH S.A. with the nominal value of EUR 30,000 thousand	EUR 30,000 thousand	2022	118	(489)	-	(756)
Swap of WIBOR 6M to fixed interest 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)	-	-
Raw material price risk							
Futures contracts for the purchase of CO_2 units	Cost of purchase of CO_2 units in 2018 and 2019	812 000 EUA	2020	**438**	-	22,756	-
Acquired call options embedded in a gas supply contract	Cost of gas purchased in the period 2016–2020	687,5 GWH	2020	**2,206**	-	15,979	-
Net investment hedge							
Currency risk							
Bond liabilities	The hedged position is the net investment in the subordinated entity	EUR 69,697 thousand	Upon the sale of shares	-	-	-	-
Term loan liabilities	The hedged position is the net investment in the subordinated entity	EUR 30,000 thousand	Upon the sale of shares	-	(127,755)	-	(129,000)

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Amounts recognised in the cash flow hedge reserve are presented below:

	01.01.-31.12.2019	01.01.-31.12.2018
Opening balance	**3,115**	**10,021**
IFRS 9 adjustment	-	2,408
Adjusted opening balance	**3,115**	**12,429**
Change in the fair value of the hedging instrument recognized in other comprehensive income	(13,241)	(7,971)
Income tax from the effective part	(443)	2,334
Transfer to financial result	(19,223)	(2,386)
Income tax	3,824	841
Ineffectiveness of hedge	(440)	(2,132)
Closing balance	**(26,408)**	**3,115**

The aim of the Group when taking the decision concerning the implementation of the principles of cash flow hedging was to reduce the influence of interest rate movements, exchange rates differences due to incurred liabilities, (e.g. loans, bonds) and the impact of changes in raw material prices (gas, CO_2 certificates) on the statement of profit or loss by reflecting their hedging nature in the financial statements.

The result of the settlement of the effective portion of hedging instruments is reclassified from equity to the statement of profit or loss upon the realisation of the hedged item and recognition of its effect in the statement of profit or loss.

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 consolidated financial statements.

Other relationships (not listed in the table above) were cancelled and settled in the previous reporting period in connection with the occurrence of the hedged position.

Sales revenues designated to hedge accounting are considered as highly probable. Their occurrence is anticipated in the Group's long-term financial forecast. Additionally, to a large extent, these transactions are concluded with regular customers of the Group Companies, which supports the probability of their occurrence. The effect of the cash flow hedge accounting and the net investment hedges in foreign entities was presented in the consolidated statement of other comprehensive income of the CIECH Group.

8.3. FINANCIAL RISK MANAGEMENT

Risk management principles

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

The CIECH Group's policy assumes natural hedging of imports and exports and hedging of up to 90% of net exposure to currencies exchange rate change by using derivatives and 100% exposure to interest rate risk.

The following types of transactions were used in 2019 and 2018: contracts to hedge currency risk (forwards and CIRSs) and interest rate risk (IRSs and CIRSs), contracts to hedge the risk of prices of CO_2 emission certificates (forwards, futures), contracts to hedge the risk of gas prices (forwards, embedded options), and contracts to hedge the risk of electricity prices (forwards).

Cash management

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

Quantitative and qualitative information on financial risks

The CIECH Group 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.

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In fulfilling its main goals, the Group 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 CIECH Group debt. When assessing risk, the Group takes into account the risk portfolio effect resulting from the variety of conducted business activities. Risk effects are materialised in the cash flow statement, statement of financial position and the statement of profit or loss.

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. The Group monitors risk areas which are most important for its activities.

Interest rate risk

The Group finances its activity mainly through term loans and bonds. The amount of the costs of interest-bearing debt held by the Group 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 Group 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 CIECH Group financial result. The risk is partially reduced by the assets owned by the CIECH Group (bank deposits), interest bearing in accordance with variable interest rate, and by concluding hedging transactions.

In 2019, the CIECH Group 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 1,045 million, amortised in accordance with the schedule of the CIRS transaction.

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
Floating interest rate instruments	**(1,489,754)**	**(1,464,067)**
Interest rate swap transactions*	299,580	192,139
Cash flows sensitivity (net)	1,789,334	1,656,206

**including EUR 30 million hedged by IRS, PLN 1,045 million hedged by CIRS – IRS transaction isolated as part of decomposition of CIRS.*

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

	Statement of profit or loss		Equity*	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31.12.2019				
Floating interest rate instruments	(14,898)	14,898	-	-
Interest rate swap transactions*	1,315	(1,361)	31,103	(32,329)
Cash flows sensitivity (net)	**(13,583)**	**13,536**	**31,103**	**(32,329)**
31.12.2018				
Floating interest rate instruments	(14,641)	14,641	-	-
Interest rate swap transactions*	-	-	11,704	(12,093)
Cash flows sensitivity (net)	**(14,641)**	**14,641**	**11,704**	**(12,093)**

** 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, the CIECH Group is subject to currency exposure related to the significant lead of export over import. The exposure value is also affected by investment projects implemented in foreign currencies and the structure of external financing. Sources of currency risk which exposed companies within the CIECH Group in 2019 included: sales of products, purchases (raw materials, expenditure related to investment projects), loans taken out and cash in foreign currencies. Unfavourable changes in currency exchange rates may worsen the CIECH Group's financial results.

Foreign exchange risk analysis is focused on the level of operating cash flows. The SDC Group, CIECH Salz Deutschland GmbH and Proplan were excluded from the analysis since their functional currency is EUR and all reported operating cash flows of these companies are performed in this currency.

In 2019, the CIECH Group used hedging contracts, such as forward options, to partially cover currency risk. The CIECH Group 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 the CIECH Group in EUR (excluding figures concerning the SDC Group, CIECH Salz Deutschland GmbH and Proplan Plant Protection Company, S.L.) and in USD as at 31 December 2019 and 2018 due to financial instruments:

Exposure to currency risk in EUR ('000)	31.12.2019	31.12.2018	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Borrowings granted sensitive to FX rate changes	102,400	83,400	x	
Trade and other receivables	29,410	25,323	x	
Cash including bank deposits	24,195	12,676	x	
Liabilities				
Trade and other liabilities	(16,886)	(20,751)	x	
Term loan liabilities	(30,000)	(30,000)		x
Liabilities due to revolving credit	(25,000)	-		x
Other loan liabilities	(9,441)	(7,646)	x	
Hedging instruments: Forward*	(36,784)	(78,784)		x
Forward not designated to hedge accounting	-	(25,000)	x	
CIRS	(14,000)	-	x	
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(172,880)	(209,764)		x
Total exposure	**(148,986)**	**(250,546)**		

** 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 ('000)	31.12.2019	31.12.2018	Impact on the statement of profit or loss	Impact on statement of other comprehensive income*
Assets				
Trade and other receivables	2,378	18,651	x	
Cash including bank deposits	6,969	1,130	x	
Liabilities				
Trade and other liabilities	(6,534)	(6,059)	x	
Hedging instruments: Forward	(5,363)	(31,800)		x
Total exposure	**(2,550)**	**(18,078)**		

** 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.

Analysis of sensitivity to foreign exchange rate changes –EUR	('000 EUR)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2019			
Currency balance sheet items	**607**	607	-
Hedging instruments: Forward and CIRS	**(2,097)**	-	(2,097)
31.12.2018			
Currency balance sheet items	**380**	680	(300)
Hedging instruments: Forward and CIRS	**(2,885)**	-	(2,885)

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

Analysis of sensitivity to foreign exchange rate changes – USD	('000 USD)*	Impact on the statement of profit or loss	Impact on statement of other comprehensive income
31.12.2019			
Currency balance sheet items	**28**	28	-
Hedging instruments: Forward	**(54)**	-	(54)
31.12.2018			
Currency balance sheet items	**137**	137	-
Hedging instruments: Forward	**(318)**	-	(318)

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

Raw material price risk

In the course of its operations, the CIECH Group is exposed to the risk of changes in prices of energy commodities (e.g. coal, natural gas, CO_2 emission certificates) and the risk of changes in electricity prices.

The CIECH Group reduces market risk related to raw materials through concluding agreements with suppliers containing an appropriate price formula or through forward transactions.

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 Group's point of view, credit risk is linked to:

- trade receivables from customers,
- cash and bank deposits.

The CIECH Group 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 Group 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 customers, 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. On selected markets, where more risky payment deadlines are applied, the Group's companies make use of services provided by companies specialising in insuring receivables.

Credit risk connected with cash in bank and bank deposits is low as the CIECH Group enters into transactions with high-rating banks with stable market position.

According to the CIECH Group's Companies, assets that are not overdue and not covered by a write-down are of high credit quality.

At the end of the reporting period, in the Group there was an external loan granted by CIECH Trading S.A. to Infrastruktura Kapuściska S.A. w upadłości likwidacyjnej in the amount of PLN 1,800 thousand. The carrying amount of the loan corresponds mainly to the value of the mortgage collateral held by the Company.

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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	299,580	192,139
Loand and receivables	339,285	437,193
Hedging derivatives with negative value	18,115	27,919
Embedded instruments with negative value	2,206	15,979
TOTAL	**659,186**	**673,230**

The CIECH Group has no material items which would be uncollectible as at the reporting date and not covered by an impairment allowance. The table below presents trade receivables by age from maturity date.

	Trade receivables and receivables from factoring		Loans granted	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Soda segment	207,574	254,909	-	-
Organic segment	118,813	145,422	-	-
Silicates and Glass segment	19,889	39,128	-	-
Transport segment	17,173	21,703	-	-
Other activities	22,868	16,119	1,800	1,800
Consolidation adjustments	(48,832)	(41,888)	-	-
TOTAL	**337,485**	**435,393**	**1,800**	**1,800**

Below is a reconciliation of impairment allowances for trade receivables in accordance with IFRS 9.

01.01.-31.12.2019	ECL in lifetime - without impairment	ECL in lifetime - with impairment	TOTAL
01.01.2019	**5,138**	**33,219**	**38,357**
Recognized	441	2 680	**3,121**
Reversed	(1,690)	(879)	(2,569)
Usage	-	(1,173)	(1,173)
Exchange differences	-	1,934	1,934
31.12.2019	**3,889**	**35,781**	**39,670**

01.01.-31.12.2018	ECL in lifetime - without impairment	ECL in lifetime - with impairment	TOTAL
As at 31.12.2017 – according to IAS 39	**-**	**28,919**	**28,919**
IFRS opening balance adjustment	5,098	-	5,098
Opening balance as at 1.01.2018 (according to IFRS 9)	**5,098**	**28,919**	**34,017**
Recognized	182	6,355	**6,537**
Reversed	(142)	(2,842)	(2,984)
Usage	-	(731)	(731)
Change in Group's composition	-	1,054	1,054
Exchange differences	-	464	464
Closing balance according to IFRS 9	**5,138**	**33,219**	**38,357**

Calculation of impairment allowances for trade receivables

The following tables present the reconciliation of impairment allowances for financial assets in accordance with IFRS 9. Default rates and calculation of impairment allowances as at 31 December 2018 and 31 December 2019 are presented in the following tables.

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	Total	Not overdue	0-30 days	30-90 days	90-180 days	>180 days
Trade receivables gross as at 31.12.2019	**333,565**	**267,520**	**18,596**	**4,827**	**5,329**	**37,292**
Failure ratio		*0.39%*	*0.43%*	*0.84%*	*16.93%*	*5.50%*
Expected credit losses acoording to IFRS 9	4,110	1 038	80	41	902	2,049
Total expected losses	**39,670**	**1,038**	**80**	**42**	**903**	**37,607**
from grup analysis	**4,110**	1,038	80	41	902	2,049
from individual analysis	**35,560**	-	-	1	1	35,558

	Total	Not overdue	0-30 days	30-90 days	90-180 days	>180 days
Trade receivables gross as at 31.12.2018	**414,705**	**340,650**	**31,963**	**6,389**	**1,675**	**34,028**
Failure ratio		*0.20%*	*0.31%*	*33.00%*	*51.70%*	*6.37%*
Expected credit losses acoording to IFRS 9	5,932	691	98	2,108	866	2,169
Total expected losses	**38,357**	**1,045**	**98**	**2,116**	**1,070**	**34,028**
from grup analysis	5,932	691	98	2,108	866	2,169
from individual analysis	32,425	354	-	8	204	31,859

Liquidity risk

The CIECH Group is exposed to risk connected with maintaining liquidity due to the considerable share of external financing (due to the term loan, working capital facilities 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 the CIECH Group's companies,
- monitoring and optimisation of the level of working capital,
- adjusting the level and schedule of capital expenditure,
- intragroup borrowings and sureties for the liabilities of the Group's companies,
- current monitoring of the settlement of liabilities under the loan agreements conditions.

The Group's debt financing is ensured primarily by the 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 Group.

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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 liabilities:	**(2,064,730)**	**(2,160,014)**	**(489,486)**	**(22,246)**	**(387,450)**	**(1,260,832)**	**-**
Trade liabilities	*(393,794)*	*(393,794)*	*(393,794)*	-	-	-	-
Loans and borrowings	*(1,645,400)*	*(1,740,684)*	*(70,156)*	*(22,246)*	*(387,450)*	*(1,260,832)*	-
Factoring	*(25,536)*	*(25,536)*	*(25,536)*	-	-	-	-
Lease liabilities	**(143,934)**	**(270,628)**	**(16,160)**	**(13,177)**	**(37,276)**	**(36,471)**	**(167,544)**
Derivatives recognised in financial liabilities designated as hedging instruments	**(22,233)**	**(25,168)**	(97)	(18,357)	(6,714)	-	-
Derivatives recognised in financial liabilities	**(2,787)**	**(41)**	(40)	(1)	-	-	-
TOTAL	**(2,233,684)**	**(2,455,851)**	**(505,783)**	**(53,781)**	**(431,440)**	**(1,297,303)**	**(167,544)**

31.12.2018	Carrying amount	Contractual cash flows	Below 6 months	up to 12 months	1–2 years	3–5 years	Over 5 years
Other financial liabilities:	**(2,094,214)**	**(2,229,547)**	**(766,255)**	**(22,006)**	**(41,797)**	**(1,399,489)**	**-**
Trade liabilities	*(441,239)*	*(441,239)*	*(441,239)*	-	-	-	-
Loans and borrowings	*(1,632,666)*	*(1,767,999)*	*(304,707)*	*(22,006)*	*(41,797)*	*(1,399,489)*	-
Factoring	*(20,309)*	*(20,309)*	*(20,309)*	-	-	-	-
Finance lease liabilities	**(23,540)**	**(25,073)**	**(3,134)**	**(3,284)**	**(8,632)**	**(9,399)**	**(624)**
Derivatives recognised in financial liabilities designated as hedging instruments	**(44,768)**	**(45,934)**	**(930)**	**(5,570)**	**(8,102)**	**(31,332)**	**-**
TOTAL	**(2,162,522)**	**(2,300,554)**	**(770,319)**	**(30,860)**	**(58,531)**	**(1,440,220)**	**(624)**

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

8.4. DETERMINATION OF FAIR VALUE

The following list presents the fair value of financial instruments.

	31.12.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	299,580	299,580	192,139	192,139
Loans granted	1,800	1,800	1,800	1,800
Trade receivables	293,895	293,895	376,348	376,348
Aktywa finansowe z wyceny instrumentów pochodnych	18,115	18,115	27,919	27,919
Embedded instruments with positive value	2,206	2,206	15,979	15,979
Factoring receivables	43,590	43,590	59,045	59,045
ASSETS	**659,186**	**659,186**	**673,230**	**673,230**
Loans and borrowings	(1,645,400)	(1,647,439)	(1,632,666)	(1,639,869)
Trade liabilities	(393,794)	(393,794)	(441,239)	(441,239)
Hedging derivatives with negative value	(25,020)	(25,020)	(44,768)	(44,768)
Lease liabilities	(143,934)	(143,934)	(23,540)	(23,540)
Factoring liabilities	(25,536)	(25,536)	(20,309)	(20,309)
LIABILITIES	**(2,233,684)**	**(2,235,723)**	**(2,162,522)**	**(2,169,725)**

** In 2018, lease liabilities included finance leases; in 2019, following the implementation of IFRS 16, it includes finance and operating leases.*

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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.
- Level 2 – the CIECH Group values 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 evaluation techniques which are not based on observable market inputs.

Assets and liabilities measured at fair value

	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS	**438**	**20,321**	**36,717**	**22,756**	**44,010**	**37,766**
Investment properties	-	-	36,717	-	-	37,766
Hedging instruments	-	15,118	-	-	27,919	-
Derivatives with positive value	-	2,997	-	-	112	-
Futures contracts	438	-	-	22,756	-	-
Embedded instruments	-	2,206	-	-	15,979	-
LIABILITIES	**-**	**(25,020)**	**-**	**-**	**(44,768)**	**-**
Hedging instruments	-	(22,233)	-	-	(44,768)	-
Derivatives with negative value	-	(2,787)	-	-	-	-
TOTAL	**438**	**(4,699)**	**36,717**	**22,756**	**(758)**	**37,766**

As at 31 December 2019, the CIECH Group held the following types of financial instruments measured at fair value:

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

In 2019, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

However, as at 30 September 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 consolidated financial statements.

The fair value of instruments concluded is determined in the following manner:

- 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.

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- 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.
- Futures contracts for the purchases of CO_2 certificates are settled on a daily basis according to quotations published on ICE and EEX's stock exchange,
- options (call) embedded to gas purchases contract, are valued according to Black-Scholes model, taking into account forward prices quoted on ICE and EEX's stock exchange and implied volatility of gas prices specified based on stock quotations for options for gas purchases.

Fair value of derivative instruments and embedded instruments	Cash and cash equivalents	Long-term financial assets	Short-term financial assets	Other non-current 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)**
Embedded instruments	-	-	2,206	-	-	**2,206**
Futures contracts	438	-	-	-	-	**438**
TOTAL	**438**	**4,879**	**15,442**	**(6,487)**	**(18,533)**	**(4,261)**
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)**
Embedded instruments	-	4,007	11,972	-	-	**15,979**
Futures contracts	22,756	-	-	-	-	**22,756**
TOTAL	**22,756**	**15,866**	**28,032**	**(38,181)**	**(6,587)**	**21,886**

Investment properties are also measured at the fair value in the financial statements. According to the fair value hierarchy, it is Level 3. Investment real estate portfolio is evaluated by an external, independent property appraiser or based on a preliminary sale agreement. In measuring the fair value of land used under the perpetual usufruct in Bydgoszcz, a comparative method was applied. The comparative approach means measuring the value through an analysis of recent sales or listings of comparable assets. These transactions or offers are adjusted in order to take into account differences of the valuated assets and comparable assets on the day of their sale, for example date of sale, location, area, technical status and other. According to the method of average price adjustments, estimating the property value that is the subject of valuation is based on the average price adjustment of similar properties, that form the base for the comparison creating adjustment coefficients corresponding to different characteristics of these properties. The calculations are based on comparative properties, described by attributes influencing the level of properties prices and transaction prices of these properties.

Valuation of buildings located in Bydgoszcz and tangible assets identified as technical infrastructure (including assets that are necessary to keep properties operational but which are not traded on the secondary market) is synthetically included in the total value of land valuated under the comparative approach method. Buildings and structures located on plots of land in Bydgoszcz have no impact on the market value of this land, therefore, for accounting purposes, the value of this group of assets was determined based on their book value. In the final balance sheet, the value of buildings and structures was deducted from the value of land.

The measurement of the fair value of investment property does not include transaction costs, which the entity might additionally bear, future capital expenditures regarding development or improvement of the investment property, as well as future benefits regarding those expenditures.

The verification of the fair value of investment properties is conducted at least once a year at the balance sheet date ending the financial year.

Financial instruments not measured at fair value

The CIECH Group has taken out term and revolving credit facilities whose book value, as at 31 December 2019, was PLN 1,645,400 thousand, and whose fair value amounted to PLN 1,647,439 thousand (Level 2 of fair value hierarchy). The Group concluded that the fair value of the loans taken out does not differ significantly from their nominal value due to the fact that these loans carry variable interest rates. In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash and cash equivalents, loans and receivables, financial liabilities measured at amortised cost other than loans and bonds and financial liabilities excluded from the scope of IFRS 9), the fair value is close to the book value.

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9 OTHER NOTES

9.1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	01.01 - 31.12.2019	01.01 -31.12.2018
Inventory change presented in consolidated statement of financial position	**(17,186)**	**(74,001)**
Currency translation reserve	(2,164)	1,703
Change in Group’s composition	-	23,070
Inventory change in consolidated statement of cash flows	**(19,350)**	**(49,228)**

	01.01 - 31.12.2019	01.01 -31.12.2018
Provision change presented in consolidated statement of financial position	**(34,696)**	**103,367**
Reclassification of provisions to /from liabilities	-	11,317
Change in the provision for income tax	74,588	(90,246)
Currency translation reserve	824	(2,924)
Other	(5,073)	3,432
Provisions change in consolidated statement of cash flows	**35,643**	**24,946**

	01.01 - 31.12.2019	01.01 -31.12.2018
Receivables change presented in consolidated statement of financial position	**79,360**	**(71,136)**
Change in investment receivables	(363)	298
Change in income tax receivables	(4,300)	2,872
Change in receivables from caverns	(6,979)	(17,074)
Change in Group’s composition	-	7,633
Currency translation reserve	(4,726)	7,784
Other	4,277	(4,433)
Receivables change presented in consolidated statement of cash flows	**67,269**	**(74,056)**

	01.01 - 31.12.2019	01.01 -31.12.2018
Change of liabilities presented in consolidated statement of financial position	**197,331**	**318,437**
Change in investment liabilities	(122,725)	36,137
Change in financial liabilities	8,713	(299,391)
Change in income tax liabilities	5,540	(5,082)
Currency translation reserve	8,335	(16,912)
Change in Group’s composition	-	(3,797)
Change in lease liabilities	(120,395)	1,348
Settlement of white certificates	13,534	-
Other	17,586	(23,353)
Liabilities change presented in consolidated statement of cash flows	**7,921**	**7,387**

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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 Group. An example is a claim that the Group is pursuing through legal processes, where the outcome is uncertain. Contingent assets are not recognised in the statement of financial position since this could 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 Group's control. These are also liabilities that arose from past events but were not recognised in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the statement of financial position.

Significant disputed liabilities of the CIECH Group

As at 31 December 2019, the CIECH Group did not have any significant disputed liabilities of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described below, in "Audits of tax settlements at the CIECH Group", and the case described below:

Case brought by OOO GK ZEMLYAKOFF against CIECH Sarzyna S.A. for payment
Subject of the claim: compensation for improper performance of the contract. Value of the dispute: USD 7,566 thousand. On 4 March 2019, CIECH Sarzyna S.A. received a counter-claim from OOO GK ZEMLYAKOFF for payment of USD 7,566 thousand with statutory interest for delay from the date of filing the lawsuit (30 November 2016). The amount claimed by OOO GK ZEMLYAKOFF constitutes compensation for improper performance of the contract consisting in the delivery of a defective crop protection product called Expert Trio OF KE. In order to demonstrate the damage suffered, witnesses and documents from Zemlyakoff were appointed, including agreements between Zemlyakoff and counterparties (Zemlyakoff claims that the damage is the loss of profit resulting from the termination of a commercial relationship due to a defective product, in particular with two main counterparties). Zemlyakoff presented the same evidence in response to the lawsuit brought by CIECH Sarzyna S.A. for payment. Given the evidence submitted, Zemlyakoff's claim for damages, disregarding its unfoundedness (CIECH Sarzyna S.A. consistently denies responsibility for the product's defectiveness), has not been demonstrated in terms of the existence of damage, its amount and adequate causation. According to CIECH Sarzyna S.A. and its representative, the claim should be dismissed. On 31 May 2019, the Regional Court in Rzeszów, acting as the court of the first instance, dismissed the counterclaim and awarded CIECH Sarzyna S.A. the requested amount plus interest. The judgment is final.

Significant disputed receivables of the CIECH Group

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

Contingent assets and contingent liabilities including guarantees and sureties

	31.12.2019	31.12.2018
Contingent assets	**31,077**	**22,060**
Other contingent receivables*	31,077	22,060
Contingent liabilities	**661,580**	**522,544**
Guarantees and sureties granted**	545,528	421,130
Other***	116,052	101,414

** Including:*

- *Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFORY" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFORY" Sp. z o.o. to CIECH S.A. about the condition of Agrochem Człuchów Sp. z o.o. with its registered office in Człuchów.*
- *As at 31 December 2019, a contingent asset recognised by CIECH Soda Polska S.A. amounted to PLN 12,213 thousand – it is the value of energy efficiency certificates received from the President of the Energy Regulatory Office in 2017 and 2019 that have not been recorded yet in the account kept by the Polish Power Exchange.*

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*** 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 31,890 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.*

**** Including:*

- *contingent liability in the SDC Group relating to environmental protection in the amount of PLN 15,509 thousand (EUR 3,642 thousand),*
- *contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 36,370 thousand,*
- *contingent liabilities in CIECH Soda Polska S.A. resulting from blank promissory notes for the National Fund for Environmental Protection and Water Management relating to grants received in the amount of PLN 16,927 thousand,*
- *contingent liabilities in CIECH Sarzyna S.A. resulting from a grant received for developing and testing a group of agro-chemical preparations in the amount of PLN 14,645 thousand,*
- *contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for investment projects aimed at developing and optimising production processes in the amount of PLN 13,385 thousand,*
- *contingent liabilities in CIECH R&D Sp. z o.o. resulting from promissory notes relating to subsidies received for the purchase of rolling stock the amount of PLN 14,200 thousand,*
- *contingent liabilities in Smart Fluid Sp. z o.o. resulting from promissory notes relating to subsidies received for research and development projects in the amount of PLN 5,016 thousand.*

As at 31 December 2019, contingent liabilities amounted to PLN 661,580 thousand and increased as compared to 31 December 2018 by PLN 139,036 thousand. The change resulted mainly from an increase in liabilities on account of loans covered by guarantees and from the receipt of new subsidies by subsidiaries.

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 claims related to the subsidy; 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 claims related to the agreement; 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 (subsidiary) (subsidiary)
Total amount of guarantees and sureties granted				**PLN 193,978 thousand**

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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		
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. Branch in Poland, 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 to 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 to a revolving credit 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 to a revolving credit 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 to a revolving credit facility granted by Banko de Sabadell S.A. in the amount of EUR 25,000 thousand). **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 facility in PLN and EUR	CIECH S.A. (parent company)
Total amount of guarantees and sureties granted				**PLN 2,727,637 thousand**

In 2019, the CIECH Group companies did not receive any guarantees from third parties.

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 CIECH Soda Deutschland GmbH&Co. KG resulting from the agreement dated 5 May 2009 on salt caverns construction for the purpose of natural gas storage on the Staßfurt mining field according to which CIECH Soda Deutschland GmbH&Co. KG 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 CIECH Soda Deutschland GmbH&Co. KG will have sufficient funds to fulfil its financial commitments against Innogy resulting from the above-mentioned agreement.

Audits of tax settlements at the CIECH Group

In 2019, tax authorities carried out tax audits or tax proceedings in the companies of the CIECH Group with respect to CIT and VAT settlements.

The CIECH Group companies were subject to CIT proceedings concerning the following years:

a) 2012 – at CIECH S.A.
b) 2013 – at CIECH S.A.
c) 2014 – at CIECH S.A.
d) 2015 – at CIECH Soda Polska S.A.
   - at CIECH Pianki Sp. z o.o.
   - at CIECH Cargo Sp. z o.o.
   - at CIECH Sarzyna S.A.
   - at CIECH Vitrosilicon S.A.
e) 2016 – at CIECH Sarzyna S.A.

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. KG. 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.

CIT audit for 2015 at CIECH Soda Polska S.A. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 10 October 2016. On 7 March 2017, the tax office issued the tax audit report. The irregularities found result primarily from the fact that the auditors challenged the company's right to settle the loss from participation in a partnership – as was the case for CIECH Pianki Sp. z o.o., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A.

The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Soda Polska S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 3.9 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 3.9 million (the tax base challenged by the tax authorities was PLN 20.4 million) plus the interest due in the amount of PLN 1 million. On 9 October 2019, the company appealed to the Provincial Administrative Court in Bydgoszcz against the decision of the Second Instance. At a hearing on 11 December 2019, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling annulling the decision issued by the Head of the Tax Administration Chamber in Bydgoszcz in its entirety. The Head of the Tax Administration Chamber in Bydgoszcz lodged a cassation complaint with the Supreme Administrative Court.

CIT audit for 2015 at CIECH Pianki Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 22 November 2016. On 3 March 2017, the tax office issued the tax audit report. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership.

The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Pianki S.A. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 2.6 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 2.6 million (the tax base challenged by the tax authorities was PLN 13.8 million) plus the interest due in the amount of PLN 0.7 million. On 9 October 2019, the company appealed to the Provincial Administrative Court in Bydgoszcz against the decision of the Second Instance. At a hearing on 11 December 2019, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling annulling the decision issued by the Head of the Tax Administration Chamber in Bydgoszcz in its entirety. The Head of the Tax Administration Chamber in Bydgoszcz lodged a cassation complaint with the Supreme Administrative Court.

CIT audit for 2015 at CIECH Cargo Sp. z o.o. was initiated by the Head of the Kujawsko-Pomorskie Province Tax Office in Bydgoszcz on 23 January 2017. On 14 June 2017, the tax office issued the tax audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. The Company and its tax advisors do not agree with the position of the auditors. In June 2019, CIECH Cargo Sp. o.o. received a decision of the Kujawsko-Pomorskie Tax Office Head in Bydgoszcz (decision of the First instance), according to which the company had understated - due to its participation in a partnership - its tax obligations in the amount of PLN 1.7 million. The Company appealed against said decision. On 9 September 2019, the company received a decision (decision of the Second instance) issued by the Head of the Tax Administration Chamber in Bydgoszcz, in which the latter upheld the findings of the decision of the First instance. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue tax (as per the tax auditors) in the amount of PLN 1.7 million (the tax base challenged by the tax authorities was PLN 8.8 million) plus the interest due in the amount of PLN 0.5 million. On 9 October 2019, the Company appealed to the Provincial Administrative Court in Bydgoszcz against the decision of the Second Instance. At a hearing on 11 December 2019, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling annulling the decision issued by the Head of the Tax Administration Chamber in Bydgoszcz in its entirety. The Head of the Tax Administration Chamber in Bydgoszcz lodged a cassation complaint with the Supreme Administrative Court.

CIT audit for 2015 at CIECH Vitrosilicon S.A. was initiated by the Head of the Lubuskie Province Customs and Tax Office in Gorzów Wielkopolski on 19 April 2018. The company received the outcome of the audit on 4 January 2019. As was the case for CIECH Soda Polska S.A., CIECH Cargo Sp. z o.o., CIECH Pianki Sp. z o.o., CIECH Sarzyna S.A., the authority challenged the company's right to settle the loss from participation in a partnership. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 2.7 million (the tax base challenged by the authority is PLN 14.4 million) plus with interest due. Tax proceedings are currently underway.

CIT audit for 2015 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 6 February 2017. On 7 November 2017, the tax office issued the audit report. As was the case for CIECH Pianki Sp. z o.o., CIECH Soda Polska S.A., CIECH Vitrosilicon S.A., CIECH Cargo Sp. z o.o., the authority challenged the company's right to

settle the loss from participation in a partnership. In addition, the authority challenged the company's right to include the fee for the trademark and interest on loans paid in advance in tax deductible costs.
If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 6.9 million (the tax base challenged by the authority is PLN 36.4 million) plus with interest due. Tax proceedings are currently underway.
CIT audit for 2016 at CIECH Sarzyna S.A. was initiated by the Head of the Podkarpackie Province Tax Office in Reszów on 26 February 2018. On 11 January 2019, the tax office issued the audit report. According to the authority, the expenses incurred by the company in 2016 for the use of Chwastox trademarks cannot be classified as tax deductible costs. In addition, the company should have included interest on loans paid in advance in 2015 in its tax deductible costs in 2016. Additionally, the authority claims that the company may not offset the loss for 2015 in the annual return for 2016. In January 2019, the company submitted objections to the report. If the unfavourable position of the authority is upheld, an obligation may arise to pay tax arrears in the amount of PLN 4.3 million (the tax base challenged by the authority is PLN 22.4 million) plus interest due. Tax proceedings are currently underway.

The Group estimated that the potential impact on income tax expense (in the form of additional tax liabilities or inability to recover a deferred income tax asset calculated for tax losses), in connection with the above events which are or may continue to be challenged, would amount to PLN 143.8 million if it were no longer probable that the Group would be able to uphold its tax interpretations before the tax authorities. From the above-mentioned amount of PLN 143.8 million, a provision was recognised for potential tax liabilities in the amount of PLN 90.2 million, and an impairment loss on deferred tax asset was recognised in the amount of PLN 26.7 million. Following the decisions of the second instance, regarding CIT (2012 and 2013) in CIECH S.A., and CIT (2015) in CIECH Soda Polska S.A., CIECH Pianki Sp. z o.o. and CIECH Cargo Sp. z o.o., despite the appeals to the Provincial Administrative Court, the total tax amount of PLN 53.7 million was paid, including total interest of PLN 25.2 million.

The CIECH Group companies were subject to VAT audits/proceedings concerning the following years:

a) Fourth quarter of 2013
   - at Verbis Kappa Sp. z o.o. S.K.A.
   - at Verbis ETA Sp. z o.o. S.K.A.
b) December 2014 – at Cerium Finance Sp. z o.o.
c) January–June 2018 – at CIECH Trading S.A.

VAT audit for the fourth quarter of 2013 at Verbis Kappa Sp. z o.o. S.K.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 6 April 2018. The company received the outcome of the audit on 11 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 35.7 million which translates into a tax of PLN 8.2 million.
The Company and the other party to the transaction, i.e. CIECH Sarzyna S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the position presented in the motion that the taxable amount of the in-kind contribution made in 2013 was the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, the issuer of the invoice, i.e. CIECH Sarzyna S.A., and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company did not make a VAT correction, considering that the tax treatment of the in-kind contribution made in 2013 was correct. On 7 August 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the company had no right to deduct VAT in the amount of PLN 8.2 million. The Company and its advisors do not agree with the findings set forth in the Decision and have appealed against it. On 14 November 2019, the company received the Decision of the second instance, where the Head of the Małopolskie Province Customs and Tax Office upheld the decision of the first instance in its entirety. The decision issued by the second instance authority is enforceable. Therefore, the company was obliged to pay the overdue VAT (as per the tax auditors) in the amount of PLN 8.2 million plus the interest due in the amount of approx. PLN 3.9 million.

On 13 December 2019, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Cracow.

VAT audit for the fourth quarter of 2013 at Verbis ETA Sp. z o.o. S.K.A. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 16 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 133.5 million which translates into a tax of PLN 30.8 million.

The Company and the other party to the transaction, i.e. CIECH S.A., filed motions for tax rulings. The Director of the National Revenue Information agreed with the CIECH S.A.'s position that the company had determined the taxable amount in a correct manner, i.e. the taxable amount of the in-kind contribution made in 2013 should have been the value of the contribution, i.e. the market value of the in-kind contribution less the amount of VAT. Taking into account the positive interpretation concerning the taxable amount and the case-law line that existed until the end of 2013, the Company and its advisors believe that the taxable amount should be the market value of the in-kind contribution less the amount of VAT. Therefore, the company and, accordingly, the other party to the transaction complied with the ruling.

On 17 July 2019, the company received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that the Company had no right to deduct VAT in the amount of PLN 30.8 million. The Company and its advisors do not agree with the findings set forth in the Decision and have appealed against it. On 6 August 2019, the company received an order of the Head of the Third Tax Office for Warszawa-Śródmieście to make the Decision of the Head of the Małopolskie Province Customs and Tax Office in Krakow, issued in connection with the tax proceedings conducted against the company, immediately enforceable. The Company filed a complaint against said decision. Irrespective of the complaint, the company applied to the Head of the Third Tax Office for crediting the overpaid VAT in the amount of PLN 30.8 million resulting from the correction of the VAT settlement for July 2018 towards the arrears indicated in the Decision of the Małopolskie Province Customs and Tax Office in Krakow, and repaid interest in the amount of PLN 12.4 million. In its decision, the Head of the Third Tax Office agreed to the company's request. Thus, no enforcement proceedings were initiated. On 24 October 2019, the company received the Decision of the second instance, where the Head of the Małopolskie Province Customs and Tax Office upheld the decision of the first instance in its entirety. On 13 November 2019, the company received the decision issued by the Head of the Tax Administration Chamber in Warsaw concerning the upholding of the decision of the Third Tax Office to make the non-final decision of the first-instance authority immediately enforceable Due to the fact that the company had received the decision of the second instance earlier, it did not file a complaint to the Provincial Administrative Court in Warsaw against the decision received. On 25 November 2019, however, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Cracow.

VAT audit for December 2014 at Cerium Finance Sp. z o.o. was initiated by the Head of the Małopolskie Province Customs and Tax Office in Kraków on 5 April 2018. The company received the outcome of the audit on 19 June 2018. The authority challenged the right to deduct VAT on part of the contribution in kind made to the share premium. According to the authority, the taxable amount of the contribution received is the amount equal to the nominal value of the shares acquired. The market value of the in-kind contribution less the amount of VAT was recognised as the taxable amount in the invoice received by the company. Consequently, according to the authority, the company deducted the input tax in the amount to which it was not entitled. The taxable amount challenged by the authority is PLN 110 million which translates into a tax of PLN 25.3 million. Guided by the outcome of the audit, the other party to the in-kind contribution transaction, i.e. CIECH Soda Polska S.A., issued a correction to the invoice, specifying the taxable amount of the in-kind contribution as the nominal value of the shares acquired. Cerium Finance Sp. z o.o. included the correction of the invoice in the current tax return and paid the tax. CIECH Soda Polska S.A. received a refund of overpaid VAT.

The Company and CIECH Soda Polska S.A. filed motions for tax rulings. The Director of the National Revenue Information agreed with the position of the companies with respect to the recognition of a possible VAT correction in the current period. In turn, CIECH Soda Polska S.A. received a reply that the taxable amount of the in-kind contribution made in 2014 was the nominal value of the shares acquired. Taking into account the ruling concerning the taxable amount and the regulations, as amended in 2014, according to which the taxable amount should be the value contributed to the share capital, the company is of the opinion that the correction made (included in the current period) is correct.

On 17 July 2019, CIECH Soda Polska S.A., as the legal successor of Cerium Finance Sp. z o.o., received the Accounting Books' Audit Report, in which the auditors upheld their position, that the Company had no right to deduct VAT in the amount of PLN 25.3 million, without referring to the correction of VAT submitted by the Company in the current period and payment of this tax.
On 11 July 2019, CIECH Soda Polska S.A. received the decision of the Head of the Małopolskie Province Customs and Tax Office in Kraków, upholding the previous position of the authority, that Cerium Finance had no right to deduct VAT in the amount of PLN 25.3 million. CIECH Soda Polska S.A. appealed against the decision of the first instance. On 7 January 2020, the company received the Decision of the second instance, where the Head of the Małopolskie Province Customs and Tax Office in Kraków upheld the decision of the first instance in its entirety. The decision issued by the second instance authority was enforceable. Therefore, despite the fact that the amount of VAT has already been paid to the relevant tax office in connection with the correction of VAT settlement submitted in the current period, according to the received individual ruling, the company decided to pay again the same amount of VAT of PLN 25.3 million and interest of PLN 10 million. The VAT paid again will be recovered by CIECH Soda Polska S.A. at the latest after the completion of the court and administrative proceedings (for December 2014), if any, or after the completion of the overpayment proceedings for July 2018. On 6 February 2020, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Cracow.

VAT audit for the period from January to June 2018 at CIECH Trading S.A. was commenced by the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (for the period from January to April 2018) – commenced on 20 June 2018, and by the Head of the Śląskie Province Customs and Tax Office in Katowice (for the period from May to June 2018) – commenced on 19 September 2018. On 13 September 2019, the Company received a report on the audit of the books and the outcome of the audit from the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń. According to the auditors, the company overstated the input tax by PLN 1.4 million, deducting the tax resulting from invoices issued by two contractors who, according to the authority, committed tax fraud at an earlier stage of trade. According to the authority, the company failed to exercise due diligence when entering into transactions with these entities. The Company does not agree with the position of the auditors. However, given the lack of clear legal guidelines as to the scope of due diligence and following the prudence principle, the company decided to correct the VAT return for the period from January to April 2018 in the amount indicated by the authority, i.e. PLN 1.4 million. In addition, following the prudence principle in order to prevent a possible additional tax liability in the form of VAT sanctions, the company corrected its VAT settlements for 2017 and for the period from July to November 2018, excluding from its settlements the input VAT on invoices issued by the same two counterparties for whom the authority refuses to deduct input VAT for the period from January to June 2018. The amount of the corrected VAT is PLN 7.5 million. As a result of corrections made to VAT returns and their settlement with the tax office, the company paid PLN 0.5 million in interest. On 10 February 2020, the Company received the decision of the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń concerning the determination of an additional VAT liability in relation to the audit for the period from January to April 2018. The amount of sanctions indicated in the Decision is PLN 1.4 million. The company appealed against the received Decision to the Head of Kujawsko-Pomorskie Province Customs and Tax Office. The audit carried out by the Silesian Customs and Tax Office in Katowice (i.e. for the period of May-June 2018) is ongoing. The company created a provision for any VAT arrears, interest and sanction in the amount of PLN 5.2 million.

The audit at the Ciech Group in Germany concerns CIT settlements. The CIT audit concerns the following companies: Sodawerk Staßfurt Verwaltungs GmbH, CIECH Soda Deutschland GmbH & Co. KG, Sodawerk Holding Staßfurt GmbH, SDC GmbH. The audits cover settlements for 2007-2009 and 2010-2015. The issues raised by the auditors concerning 2006 were definitively clarified by the auditors at the initial stage of the audit. In case of a different assessment of economic events by audit authorities, an obligation may arise to recalculate and potentially increase the tax liability and to pay interest on tax arrears. As at the balance sheet date, the outcome of the audit is not known – the companies did not receive any reports from the tax authorities.

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9.3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

9.3.1. TRANSACTIONS WITH RELATED PARTIES IN TOTAL

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

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

TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED ENTITIES	01.01.-31.12.2019	01.01.-31.12.2018
Revenues from sales of products and services	4,192	4,267
Revenues from sales of goods and materials	80,753	98,941
Other operating income	14	4
Financial income	166	502
Purchase of products, goods and materials	-	1
Purchase of services, including:	40,086	36,844
KI One S.A.	*210*	*448*
Other operating expenses	-	587
Financial expenses	-	5
	31.12.2019	**31.12.2018**
Receivables	15,813	14,695
Impairment losses on receivables and loans	-	2
Liabilities, including:	4,452	5,370
KI One S.A.	-	*1,071*

Terms of transactions with related entities

CIECH Group's companies, to the best of their knowledge and belief, did not conclude significant transactions on the terms other than market ones. Sales to and purchases from related entities are realised at market prices that reflect market conditions. Overdue liabilities and receivables are not secured and are settled in cash or by set-off. Receivables from related entities have not been secured by any guarantees granted or received besides those described in note 9.2.

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

9.3.2. SIGNIFICANT TRANSACTIONS CONCLUDED BY COMPANIES OR SUBSIDIARIES WITH RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS

To the best of the Group's judgement, there were no transactions with related entities in the CIECH Group 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.

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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).

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:

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- 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 CIECH GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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.

In 2018, PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. and foreign companies from the network of member firms of PricewaterhouseCoopers were also the auditors of the most significant consolidated subsidiaries/subsidiary groups of CIECH S.A., including: CIECH Soda Polska S.A., SDC Group, CIECH Soda Romania S.A., CIECH Sarzyna S.A., CIECH Vitrosilicon S.A., CIECH Pianki Sp. z o.o.

Value of agreements concluded with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. and members of the PricewaterhouseCoopers network:

CIECH S.A.	2019*	2018*
Audit of the annual financial statements	569	335
Review of the semi-annual report	93	93
Other services	1	1
Other certifying services	-	10
TOTAL	**663**	**439**
Consolidated subsidiaries of the CIECH Group	**2019***	**2018***
Audit of the annual financial statements	1,083	1,168
Review of the semi-annual report	99	73
TOTAL	**1,182**	**1,241**

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

9.5. COMPOSITION OF THE GROUP

Accounting policy – Basis of consolidation

Subsidiaries are entities controlled by the Parent Company. Control occurs when the Group has the power to govern either directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing the control, the influence of both existing and potential voting rights exercisable at the reporting date are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE CIECH GROUP FOR 2019 (in PLN '000)

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

Company name	Registered office	Segment	Business	Share in equity as at 31.12.2019 / % of votes at the GMS	Share in equity as at 31.12.2018 / % of votes at the GMS
Parent company					
CIECH S.A.	Warsaw	Soda, Organic, Silicates and Glass, Transport, Other	Sales of chemical products manufactured within the CIECH Group, sales of chemical products purchased from third-party producers, holding activities, managing a portfolio of subsidiaries, provision of support services (in the area of sales, manufacturing, purchases, finance, IT, HR and in the legal area) for selected companies in the Group, financial activities in the form of direct lending to the companies in the Group.	-	-
Fully consolidated direct and indirect subsidiaries					
CIECH Trading S.A.	Warsaw	Soda, Other operations	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of feed additives and fodder, wholesale and distribution of acids, bases and other liquid chemicals.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, Silicates and Glass	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	98.74%	98.74%
CIECH Vitrosilicon S.A.*	Iłowa	Silicates and Glass	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.	100%	100%
CIECH Transclean Sp. z o.o.	Bydgoszcz	Other	Since 2017, the Company has been dormant.	100%	100%
CIECH Pianki Sp. z o.o.	Bydgoszcz	Organic	Manufacture of organic and other inorganic chemicals.	100%	100%
Ciech Group Financing AB	Stockholm, Sweden	Other	Financing activities.	100%	100%
Verbis ETA Sp. z o.o.	Warsaw	Other	General partner of Verbis ETA Sp. z o.o. SKA.	100%	100%
Verbis ETA Sp. z o.o. SKA	Warsaw	Other	Financing activities, direct lending to the CIECH Group companies.	100%	100%
CIECH Żywice Sp. z o.o. (formerly: Vasco Polska Sp. z o.o.)	Nowa Sarzyna	Other	Manufacture of plastics in primary forms.	100%	100%
Bosten S.A. (new company name: CIECH Serwis i Remonty S.A.)	Warsaw	Other	Research and developments activities.	100%	100%
CIECH Nieruchomości S.A.**	Warsaw	Other	Real property agency, real property management.	100%	100%
Proplan Plant Protection Company S.L.	Madrid, Spain	Organic	Production of crop protection chemicals.	100%	100%
CIECH Salz Deutschland GmbH	Stassfurt, Germany	Soda	Production and sales of salt products.	100%	-
CIECH R&D Group					

Company name	Registered office	Segment	Business	Share in equity as at 31.12.2019 / % of votes at the GMS	Share in equity as at 31.12.2018 / % of votes at the GMS
CIECH R&D Sp. z o.o.	Warsaw	Other	Research and developments activities, granting licenses to the CIECH Group companies to use the trademarks: "Ciech", "Ciech Trading" and "Sól Kujawska naturalna czysta".	100%	100%
Smart Fluid Sp. z o.o.	Warsaw	Other	Research & Development	52.83%	52.83%
CIECH Finance Group					
CIECH Finance Sp. z o.o.	Warsaw	Other	Implementing divestment projects concerning obsolete fixed assets (property) and financial assets (shares in companies), carrying out purchases of selected raw materials.	100%	100%
JANIKOSODA S.A.	Warsaw	Other	Since March 2017, the Company has been dormant.	100%	100%
CIECH Soda Polska Group					
CIECH Soda Polska S.A.	Inowrocław	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Cargo Sp. z o.o.	Inowrocław	Transport	Freight transport services.	100%	100%
Cerium Sp. z o.o. w likwidacji (in liquidation)	Warsaw	Other	Dormant. Company in the process of liquidation.	100%	100%
Gamma Finanse Sp. z o.o.***	Warsaw	Other	Financing activities.	100%	100%
CIECH Sarzyna Group					
CIECH Sarzyna S.A.	Nowa Sarzyna	Organic	Manufacture of resins, manufacture of pesticides and other chemical products.	100%	100%
Verbis KAPPA Sp. z o.o.	Nowa Sarzyna	Organic	General partner of Verbis KAPPA Sp. z o.o. SKA, other financial intermediation.	100%	100%
Verbis KAPPA Sp. z o.o. SKA	Nowa Sarzyna	Organic	Other financial intermediation.	100%	100%
Algete Sp. z o.o.	Nowa Sarzyna	Organic	Granting CIECH Sarzyna Group companies the license for using the trademark of "Chwastox" for the purpose of business.	100%	100%
SDC Group					
SDC GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda		100%	100%
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda		100%	100%
Kaverngesellschaft Stassfurt GbmH****	Stassfurt, Germany	Soda		50%	50%

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

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

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

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

9.6. EVENTS AFTER THE BALANCE SHEET DATE

- On 2 January 2020, the District Court of Warsaw, 12th Commercial Division of the National Court Register, registered the demerger of CIECH Sarzyna S.A. The demerger was made through the spin-off of BU Resins to CIECH Żywice Sp. z o.o. The Demerger is aimed at achieving the key objective under the Strategy, i.e. creating an effective and diversified chemical holding company that generates positive value for shareholders in the long term. The demerger allows for further steps in the ongoing review of strategic options for BU Resins.
  At the same time, following the registration of the demerger, the District Court registered the increase of the share capital of CIECH Żywice Sp. z o.o. from PLN 56 thousand by PLN 3,678 thousand, i.e. to PLN 3,734 thousand, through the creation of 73,567 new shares with a nominal value of PLN 50 per share. These shares were allotted to CIECH S.A.

- On 7 January 2020 the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. adopted resolution on the sale to CIECH Żywice Sp. z o.o. of an organized part of the enterprise constituting an organisationally, functionally and financially separated set of tangible and intangible assets (including liabilities) of CIECH R&D Sp. z o.o. intended for the performance of specific economic tasks related to carrying out activities in the area of implementation of new products related to production of unsaturated polyester resin products, saturated polyester resin products, epoxy resin products and a complementary products, as well as the rights resulting from the employment relationships, including working positions related to the above activities. The value of the organized part of the enterprise was measured based on a valuation prepared by an independent appraiser and amounts to PLN 1,988 thousand.

- 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 31 January 2020, the Extraordinary Shareholders' Meeting of BOSTEN S.A. increased the Company's share capital by PLN 450, i.e. from PLN 100 thousand to PLN 550 thousand, by way of issue of 45,000 new C series shares with the nominal value of PLN 10 per share and total nominal value of PLN 450 thousand. The issue price of C series shares is equal to the nominal price per share and amounts to PLN 10 per share. C series shares were earmarked for acquisition by CIECH S.A. in exchange for a cash contribution of PLN 450 thousand, in a private placement. Registration of the increase of the share capital by the court is pending.

- 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.

- On 28 February 2020, a letter of intent was signed between CIECH Soda Polska S.A. and REMONDIS Energy & Services Sp. z o.o. (REMONDIS) on their cooperation in the implementation of the investment project, consisting in the construction by REMONDIS of an incineration plant for municipal waste or waste of municipal origin. The electricity and heat generated in the process of thermal waste transformation will be supplied by REMONDIS to CIECH Soda Polska S.A. The cooperation is aimed at reducing the heat price and increasing the availability of the heat source at the CIECH Soda Polska S.A.'s plant. CIECH S.A. assumes that the collection of heat and electricity from the Incineration Plant will have a positive impact on the consolidated financial results of the CIECH Group by reducing the price of steam, i.e. a key raw material/ingredient in the production of sodium carbonate. In addition, as a result of the cooperation between the Parties, the CIECH Soda Polska S.A.'s production plant would be able to reduce CO2 emissions. The project will be implemented and fully financed by REMONDIS. However, CIECH Soda Polska S.A. will provide the necessary organisational, technical and formal assistance in implementing the Project. The commencement of the Project and cooperation between the Parties, depends on the fulfilment of certain conditions, including:
  1. entry of the Incineration Plant on the list to be published by the Minister competent for the environment in the form of a regulation;
  2. conclusion by the Parties of an agreement for the receipt of electricity and heat, under which the Parties will define the financial and any other conditions related to supplies.

Upon the execution of the Letter of Intent, the Parties intend to negotiate the Agreement. In the event that the Incineration Plant is not entered on the said List by 31 December 2020, the Letter of Intent shall expire on that date. The objective of the Parties is to commence the supply of heat and electricity to CIECH Soda Polska S.A. by 2026 at the latest. The parties assume that CIECH Soda Polska S.A. will be collecting heat for a period of approximately 25 years. As estimated by CIECH Soda Polska S.A., the minimum value of the Agreement over a 25-year period will be approximately PLN 350 million. CIECH S.A. expects the cooperation consisting in the heat supply from the Incineration Plant to be analogous to solutions already functioning in the CIECH Group, where similar cooperation exists between CIECH Soda Deutschland and a heat supplier from the REMONDIS Group.

- 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 Group 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 the CIECH Group. The CIECH Group 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 the CIECH Group. 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 the CIECH Group 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. The CIECH Group has taken intensive measures to ensure uninterrupted supply of raw materials necessary for production and products for its 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. The CIECH Group 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 potential risk of disruptions in the timeliness of project implementation also applies to the largest investment project currently implemented by CIECH Salz Deutschland GmbH, i.e. construction of the evaporated salt production plant in Germany due to the aforementioned difficulties and the closing of the Polish border for Poles working in Germany. 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 the CIECH Group companies does not pose any risk of disrupting the continuity of their business.

5. Potential threat of deteriorated liquidity as a result of payment gridlocks. The CIECH Group 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 the CIECH Group 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 is observing the developments on an ongoing basis, while actively preparing the CIECH Group 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 of the CIECH Group is as follows:

Soda Segment

As at the date of publication of this report, there are no material disruptions to the operation of production plants of the CIECH Group. To date, no significant logistics issues have been observed. However, there is a risk of disruption in this area, especially in the case of export sales, which account for approximately 30% of plant sales in Poland and approximately 13% of plant sales in Germany. The level of raw material stocks in production plants ensures continuity of production and the risk in this area is not material at the moment. As at the date of publication of this report, no significant decrease in demand for soda segment products has been observed, however, in the case of a prolonged decline in the level of global industrial production, there is a risk of a decrease in the number of orders placed by customers.

Organic Segment

As at the date of publication of this report, the CIECH Group production facilities manufacturing resins and plant protection products are operating without any significant interference. There is a risk in terms of the supply of raw materials for production, some of which originate from foreign manufacturers, including Asian ones. The Group has taken measures in order to secure the necessary raw materials to maintain production continuity. As at the date of publication of this report, no significant reduction in demand for plant protection products and resins has been observed. In the case of Proplan (a PPP distributor), due to the location of its headquarters and main market (Spain, i.e. a country relatively heavily affected by the pandemic), there is a risk of a material impact of the current situation on the operating activity and financial results of this company. However, as at the date of publication of this report, no significant business disruptions have been observed.

There is a noticeable decrease in orders on the foam market, associated with the furniture sector in Poland and in Europe. As at the date of publication of this report, the main furniture and mattress manufacturers have either suspended or intend to suspend production in the near future. The situation on the furniture market has forced CIECH Pianki Sp. z o.o. to reduce its foam production. In week 13, 2020, foam production was reduced by 30%. There are plans to reduce foam production by 60% in week 14, 2020. As at the date of publication of this report, it is difficult to clearly assess whether the market situation will deteriorate. However, the CIECH Group expects a further decline in foam production. In terms of ensuring continuity of foam production, as at the date of publication of this report, the CIECH Group has not identified any significant risks in terms of raw materials supply (polyols and TDI).

Silicates and Glass Segment

As at the date of publication of this report, the production facilities of CIECH Vitrosilicon S.A. are operating without significant disruptions. To date, the CIECH Group has not received any signals of the market situation deteriorating significantly in the area of glass packaging production.

In terms of silicate products, customers from the automotive industry value chain (tire manufacturers) are reporting a decline in the number of their orders in the coming weeks. The main recipient of vitreous silicate has introduced weekly downtime in its production facilities in each month until the end of June 2020. The second major recipient of vitreous silicate has reduced production to 40% at its facility. The reduced production by the main recipients of vitreous silicate has forced CIECH Vitrosilicon S.A. to limit its own production by 10%. As at the date of publication of this report, it is difficult to clearly assess whether the market situation will deteriorate. In the event of a further decrease in the production volume, CIECH Vitrosilicon S.A. is ready for product storage.

Other

As at the date of publication of this report, any other operations of the CIECH Group are conducted without significant disruptions.

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 Group's operations is currently unknown and impossible to estimate, and depends on factors that are beyond the control of the CIECH Group 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 the CIECH Group, including the implementation of its investment projects. However, in the near future, an increase in the risk of a significant negative impact of the COVID-19 pandemic on the CIECH Group's operations cannot be excluded.

REPRESENTATION BY THE MANAGEMENT BOARD

These consolidated financial statements of the CIECH Group 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