



EXTENDED CONSOLIDATED  
QUARTERLY REPORT  
of the CIECH Group for three quarters of 2020



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



## CIECH GROUP — SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	9 months ended 30.09.2020	9 months ended 30.09.2019	9 months ended 30.09.2020	9 months ended 30.09.2019
Sales revenues	2,168,446	2,507,806	488,169	582,047
Operating profit/(loss)	176,549	165,995	39,745	38,526
Profit/(loss) before tax	129,390	126,595	29,129	29,382
Net profit / (loss) for the period	76,189	80,132	17,152	18,598
Net profit/(loss) attributable to shareholders of the parent company	77,277	80,924	17,397	18,782
Net profit/(loss) attributed to non-controlling interest	(1,088)	(792)	(245)	(184)
Other comprehensive income net of tax	(11,321)	(23,096)	(2,549)	(5,360)
Total comprehensive income	64,868	57,036	14,603	13,238
Cash flows from operating activities	517,050	239,419	116,400	55,568
Cash flows from investment activities	(550,920)	(256,881)	(124,025)	(59,621)
Cash flows from financial activities	172,290	(8,380)	38,787	(1,945)
Total net cash flows	138,420	(25,842)	31,162	(5,998)
Earnings (loss) per ordinary share (in PLN/EUR)	1.47	1.54	0.33	0.36
	<b>as at 30.09.2020</b>	<b>as at 31.12.2019</b>	<b>as at 30.09.2020</b>	<b>as at 31.12.2019</b>
Total assets	5,297,947	5,046,545	1,170,352	1,185,052
Non-current liabilities	2,156,242	1,947,307	476,328	457,275
Current liabilities	1,100,038	1,122,459	243,006	263,581
Total equity	2,041,667	1,976,779	451,018	464,196
Equity attributable to shareholders of the parent	2,043,519	1,977,796	451,427	464,435
Non-controlling interest	(1,852)	(1,017)	(409)	(239)
Share capital	287,614	287,614	63,536	67,539

## CIECH S.A. — SELECTED SEPARATE FINANCIAL DATA

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	9 months ended 30.09.2020	9 months ended 30.09.2019	9 months ended 30.09.2020	9 months ended 30.09.2019
Sales revenues	1,239,119	1,637,298	278,955	380,007
Operating profit	28,225	12,455	6,354	2,891
Profit before tax	21,603	(8,590)	4,863	(1,994)
Net profit for the period	20,164	(9,330)	4,539	(2,165)
Other comprehensive income net of tax	(27,726)	(2,927)	(6,242)	(679)
Total comprehensive income	(7,562)	(12,257)	(1,703)	(2,844)
Cash flows from operating activities	30,199	(5,434)	6,799	(1,261)
Cash flows from investment activities	(146,924)	(31,003)	(33,076)	(7,196)
Cash flows from financial activities	208,831	48,606	47,013	11,281
Total net cash flows	92,106	12,169	20,736	2,824
	<b>as at 30.09.2020</b>	<b>as at 31.12.2019</b>	<b>as at 30.09.2020</b>	<b>as at 31.12.2019</b>
Total assets	4,073,803	3,889,932	899,929	913,451
Total non-current liabilities	1,845,755	1,632,936	407,739	383,453
Total current liabilities	772,404	793,790	170,629	186,401
Total equity	1,455,644	1,463,206	321,561	343,597
Share capital	287,614	287,614	63,536	67,539

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

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

as at 30.09.2020	as at 31.12.2019	9 months ended 30.09.2020	9 months ended 30.09.2019
EUR 1 = PLN 4.5268	EUR 1 = PLN 4.2585	EUR 1 = PLN 4.4420	EUR 1 = PLN 4.3086



**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2020**

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



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

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE CIECH GROUP

	01.01.-30.09.2020	01.01.-30.09.2019*	01.07.-30.09.2020	01.07.-30.09.2019*
<b>CONTINUING OPERATIONS</b>				
Sales revenues	2,168,446	2,507,806	690,523	773,996
Cost of sales	(1,687,736)	(1,955,289)	(542,388)	(615,817)
<b>Gross profit/(loss) on sales</b>	<b>480,710</b>	<b>552,517</b>	<b>148,135</b>	<b>158,179</b>
Other operating income	41,174	70,895	22,248	31,333
Selling costs	(117,570)	(186,274)	(40,658)	(56,284)
General and administrative expenses	(147,177)	(148,992)	(44,757)	(47,544)
Other operating expenses	(80,588)	(122,151)	(25,098)	(64,922)
<b>Operating profit/(loss)</b>	<b>176,549</b>	<b>165,995</b>	<b>59,870</b>	<b>20,762</b>
Financial income	28,212	8,726	16,162	8,647
Financial expenses	(7,264)	(8,244)	(4,485)	(1,983)
Profit / (loss) on financial instruments	(68,183)	(40,849)	(20,002)	(17,713)
<b>Net financial income/(expenses)</b>	<b>(47,235)</b>	<b>(40,367)</b>	<b>(8,325)</b>	<b>(11,049)</b>
Share of profit / (loss) of equity-accounted investees	76	967	(115)	204
<b>Profit/(loss) before tax</b>	<b>129,390</b>	<b>126,595</b>	<b>51,430</b>	<b>9,917</b>
Income tax	(59,465)	(47,900)	(14,829)	(14,905)
<b>Net profit/(loss) on continuing operations</b>	<b>69,925</b>	<b>78,695</b>	<b>36,601</b>	<b>(4,988)</b>
<b>DISCONTINUED OPERATIONS</b>				
Net profit/(loss) on discontinued operations	6,264	1,437	5,571	5,398
<b>Net profit / (loss) for the period</b>	<b>76,189</b>	<b>80,132</b>	<b>42,172</b>	<b>410</b>
including:				
Net profit/(loss) attributable to shareholders of the parent company	77,277	80,924	42,580	933
Net profit/(loss) attributed to non-controlling interest	(1,088)	(792)	(408)	(523)
<b>Earnings per share (in PLN):</b>				
Basic	1.47	1.54	0.81	0.02
Diluted	1.47	1.54	0.81	0.02
<b>Earnings/(loss) per share (in PLN) from continuing operations:</b>				
Basic	1.35	1.51	0.70	(0.08)
Diluted	1.35	1.51	0.70	(0.08)

\*Restated data.

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



## CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE CIECH GROUP

	01.01.-30.09.2020	01.01.-30.09.2019*	01.07.-30.09.2020	01.07.-30.09.2019*
<b>Net profit / (loss) for the period</b>	<b>76,189</b>	<b>80,132</b>	<b>42,172</b>	<b>410</b>
<b>Other comprehensive income before tax that may be reclassified to the statement of profit or loss</b>	<b>(25,798)</b>	<b>(28,835)</b>	<b>8,646</b>	<b>(25,056)</b>
Currency translation differences (foreign companies)	34,821	7,105	7,777	18,162
Cash flow hedge reserve	(61,010)	(39,873)	687	(43,792)
Costs of hedging reserve	399	3,933	187	574
Other components of other comprehensive income	(8)	-	(5)	-
<b>Other comprehensive income before tax that may not be reclassified to the statement of profit or loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income tax attributable to other comprehensive income</b>	<b>14,477</b>	<b>5,739</b>	<b>2,246</b>	<b>8,974</b>
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	14,477	5,739	2,246	8,974
<b>Other comprehensive income net of tax</b>	<b>(11,321)</b>	<b>(23,096)</b>	<b>10,892</b>	<b>(16,082)</b>
<b>Comprehensive income including attributable to:</b>	<b>64,868</b>	<b>57,036</b>	<b>53,064</b>	<b>(15,672)</b>
Shareholders of the parent company	65,727	57,748	53,407	(15,229)
Non-controlling interest	(859)	(712)	(343)	(443)

\*Restated data.

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



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CIECH GROUP

	30.09.2020	31.12.2019*	01.01.2019*
<b>ASSETS</b>			
Property, plant and equipment	3,102,421	2,891,207	2,857,199
Rights to use an asset	179,679	194,792	148,735
Intangible assets, including:	480,272	486,472	458,158
- goodwill	147,198	139,545	140,713
Investment property	36,647	36,717	37,766
Non-current receivables	61,156	57,624	64,603
Investments in associates and jointly-controlled entities measured under the equity method	6,413	5,958	5,556
Long-term financial assets	14,100	17,787	28,774
Deferred income tax assets	54,611	43,734	73,210
<b>Total non-current assets</b>	<b>3,935,299</b>	<b>3,734,291</b>	<b>3,674,001</b>
Inventory	326,323	455,704	438,518
Short-term financial assets	4,983	17,282	29,832
Income tax receivables	7,397	11,816	16,116
Trade and other receivables	433,175	527,082	595,163
Cash and cash equivalents	439,474	299,580	192,139
Non-current assets held for sale	151,296	790	790
<b>Total current assets</b>	<b>1,362,648</b>	<b>1,312,254</b>	<b>1,272,558</b>
<b>Total assets</b>	<b>5,297,947</b>	<b>5,046,545</b>	<b>4,946,559</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	287,614	287,614	287,614
Share premium	470,846	470,846	470,846
Cash flow hedge reserve	(30,436)	17,678	17,553
Costs of hedging reserve	183	(216)	(4,625)
Actuarial gains	(360)	(360)	119
Other reserve capitals	425,021	78,521	78,521
Currency translation reserve	(39,771)	(75,944)	(63,242)
Retained earnings	930,422	1,199,657	1,089,297
<b>Equity attributable to shareholders of the parent</b>	<b>2,043,519</b>	<b>1,977,796</b>	<b>1,876,083</b>
Non-controlling interest	(1,852)	(1,017)	288
<b>Total equity</b>	<b>2,041,667</b>	<b>1,976,779</b>	<b>1,876,371</b>
Loans, borrowings and other debt instruments	1,758,042	1,583,799	1,340,742
Lease liabilities	107,844	115,866	117,849
Other non-current liabilities	116,976	74,183	112,631
Employee benefits reserve	12,921	12,848	11,851
Other provisions	107,569	102,197	79,080
Deferred income tax liability	52,890	58,414	74,828
<b>Total non-current liabilities</b>	<b>2,156,242</b>	<b>1,947,307</b>	<b>1,736,981</b>
Loans, borrowings and other debt instruments	106,991	61,601	291,924
Lease liabilities	23,703	28,068	24,780
Trade and other liabilities	767,775	870,199	789,561
Income tax liabilities	54,427	47,501	53,041
Employee benefits reserve	3,086	15,465	877
Other provisions	120,059	99,625	173,024
Liabilities related to non-current assets classified as held for sale	23,997	-	-
<b>Total current liabilities</b>	<b>1,100,038</b>	<b>1,122,459</b>	<b>1,333,207</b>
<b>Total liabilities</b>	<b>3,256,280</b>	<b>3,069,766</b>	<b>3,070,188</b>
<b>Total equity and liabilities</b>	<b>5,297,947</b>	<b>5,046,545</b>	<b>4,946,559</b>

\*Restated data.

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





## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CIECH GROUP

	01.01.-30.09.2020	01.01.-30.09.2019*
<b>Cash flows from operating activities</b>		
<b>Net profit/(loss) for the period</b>	<b>76,189</b>	<b>80,132</b>
Adjustments		
Amortisation/depreciation	242,755	231,517
Recognition of impairment allowances	92	73,287
Foreign exchange (profit) /loss	(29,576)	(14,863)
Investment property revaluation	(137)	(311)
(Profit) / loss on investment activities	(789)	-
(Profit) / loss on disposal of property, plant and equipment	(3,246)	(201)
Dividends and interest	39,378	33,204
Interest from lease liabilities	1,959	1,950
Income tax	60,072	47,900
(Profit) / loss on the settlement of construction contracts (caverns)	-	(2,495)
Share of (profit) / loss on equity accounted investees	(76)	(969)
Change in liabilities due to loan arrangement fee	1,651	167
Valuation of derivatives	14,696	10,118
Ineffective portion of hedge accounting	(51)	230
Other adjustments	7,139	4,404
<b>Cash from operating activities before changes in working capital and provisions</b>	<b>410,056</b>	<b>464,070</b>
Change in receivables	63,528	(49,623)
Change in inventory	109,465	(11,541)
Change in current liabilities	19,923	(50,263)
Change in provisions and employee benefits	(10,679)	(2,024)
<b>Cash generated from operating activities</b>	<b>592,293</b>	<b>350,619</b>
Interest paid	(33,108)	(48,626)
(Profit) / loss on the settlement of construction contracts (caverns)	-	9,156
Income tax (paid)/returned	(39,726)	(69,637)
Expenses for research	(2,409)	(2,093)
<b>Net cash from operating activities</b>	<b>517,050</b>	<b>239,419</b>
<b>Cash flows from investment activities</b>		
Disposal of intangible assets and property, plant and equipment	2,627	2,247
Dividends received	114	781
Interest received	352	2,711
Interest received from lease	-	11
Subsidies received	558	2,201
Acquisition of a subsidiary (after deduction of acquired cash)	(4,634)	(4,758)
Acquisition of intangible assets and property, plant and equipment	(436,530)	(222,506)
Acquisition of financial assets	(216)	-
Development expenditures	(5,326)	(9,418)
Borrowings paid out	(120)	-
Expenditure on the purchase of emission rights	(107,745)	(28,150)
<b>Net cash from investment activities</b>	<b>(550,920)</b>	<b>(256,881)</b>
<b>Cash flows from financial activities</b>		
Proceeds from loans and borrowings	208,274	272,523
Repayment of loans and borrowings	(12,149)	(263,296)
Payments of lease liabilities	(23,835)	(17,607)
<b>Net cash from financial activities</b>	<b>172,290</b>	<b>(8,380)</b>
<b>Total net cash flows</b>	<b>138,420</b>	<b>(25,842)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	<b>299,567</b>	<b>192,139</b>
<i>Impact of foreign exchange differences</i>	3,996	10,668
<b>Cash and cash equivalents as at the end of the period</b>	<b>441,983**</b>	<b>176,965</b>

\*Restated data.

\*\*The difference in relation to cash and cash equivalents presented in the consolidated statement of financial position results from the presentation of cash held by CIECH Żywice Sp. z o.o. as assets held for sale.

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



## CONDENSED STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF THE CIECH GROUP

	Attributable to shareholders of the parent company							Retained earnings	Equity attributable to shareholders of the parent	Non-controlling interest	Total equity
	Share capital	Share premium	Cash flow hedge reserve	Costs of hedging reserve	Other reserve capitals	Actuarial gains	Currency translation reserve				
<b>01.01.2020</b>	<b>287,614</b>	<b>470,846</b>	<b>17,678</b>	<b>(216)</b>	<b>78,521</b>	<b>(360)</b>	<b>(75,944)</b>	<b>1,199,657</b>	<b>1,977,796</b>	<b>(1,017)</b>	<b>1,976,779</b>
<b>Transactions with the owners</b>	-	-	-	-	<b>346,500</b>	-	-	<b>(346,504)</b>	<b>(4)</b>	<b>24</b>	<b>20</b>
Change in the Group's structure	-	-	-	-	-	-	-	(4)	(4)	24	20
Reserve fund for the purchase of own shares	-	-	-	-	346,500	-	-	(346,500)	-	-	-
<b>Total comprehensive income for the period</b>	-	-	<b>(48,114)</b>	<b>399</b>	-	-	<b>36,173</b>	<b>77,269</b>	<b>65,727</b>	<b>(859)</b>	<b>64,868</b>
Net profit / (loss) for the period	-	-	-	-	-	-	-	77,277	77,277	(1,088)	76,189
Other comprehensive income	-	-	(48,114)	399	-	-	36,173	(8)	(11,550)	229	(11,321)
<b>30.09.2020</b>	<b>287,614</b>	<b>470,846</b>	<b>(30,436)</b>	<b>183</b>	<b>425,021</b>	<b>(360)</b>	<b>(39,771)</b>	<b>930,422</b>	<b>2,043,519</b>	<b>(1,852)</b>	<b>2,041,667</b>
<b>31.12.2018</b>	<b>287,614</b>	<b>470,846</b>	<b>3,115</b>	<b>(4,625)</b>	<b>78,521</b>	<b>119</b>	<b>(63,242)</b>	<b>1,126,491</b>	<b>1,898,839</b>	<b>288</b>	<b>1,899,127</b>
Adjustments of prior period errors	-	-	14,438	-	-	-	-	(37,194)	(22,756)	-	(22,756)
<b>01.01.2019*</b>	<b>287,614</b>	<b>470,846</b>	<b>17,553</b>	<b>(4,625)</b>	<b>78,521</b>	<b>119</b>	<b>(63,242)</b>	<b>1,089,297</b>	<b>1,876,083</b>	<b>288</b>	<b>1,876,371</b>
<b>Total comprehensive income for the period</b>	-	-	<b>(34,554)</b>	<b>3,933</b>	-	-	<b>7,445</b>	<b>80,924</b>	<b>57,748</b>	<b>(712)</b>	<b>57,036</b>
Net profit / (loss) for the period	-	-	-	-	-	-	-	80,924	80,924	(792)	80,132
Other comprehensive income	-	-	(34,554)	3,933	-	-	7,445	-	(23,176)	80	(23,096)
<b>30.09.2019*</b>	<b>287,614</b>	<b>470,846</b>	<b>(17,001)</b>	<b>(692)</b>	<b>78,521</b>	<b>119</b>	<b>(55,797)</b>	<b>1,170,221</b>	<b>1,933,831</b>	<b>(424)</b>	<b>1,933,407</b>

\*Restated data.

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



## 2

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

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

These interim consolidated financial statements were prepared in compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” as approved by the European Union and the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State (Journal of Laws 2018.757 of 29 March 2018). These financial statements present the financial position of the CIECH Group as at 30 September 2020 and as at 31 December 2019, results of the Group’s operations and cash flows for the period of 9 months ended 30 September 2020 and 30 September 2019, and were approved by the Management Board of CIECH S.A. on 18 November 2020.

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

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

The Management Board of CIECH S.A. represents that to the best of its knowledge these interim condensed consolidated financial statements, including corresponding figures, have been prepared in accordance with the generally acceptable accounting principles and that they represent a true, accurate and fair reflection of the CIECH Group’s financial position and the results of operations. Furthermore, the Management Board of CIECH S.A. represents that the Directors’ Report for the period of 9 months ended 30 September 2020 contains a true image of the Group’s developments, achievements, and condition, including the description of major risks and threats.

Preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”) requires the Management Board to make professional judgements, estimates and assumptions which affect the adopted principles and presented values of assets, equity and liabilities, income and expenses. The estimates and assumptions associated with them are based on historical accuracy and various other factors that are considered to be reasonable under the specific circumstances, and their results provide a basis for professional judgement about the value of assets and liabilities that are not directly apparent from other sources. Actual value may differ from the estimated value. The estimates and the underlying assumptions are reviewed on a continuous basis. Revisions of accounting estimates are recognised in the period in which the changes were made, only if it affects that period or the present and future in case they concern both the current and future periods. The Management Board’s professional judgements which have a significant impact on the consolidated financial statements, and the estimates bearing a risk of significant changes in future years have been presented in Sections 2.6, 2.7, 2.8 and 2.13 hereof. Information on the impact of the COVID-19 pandemic on the operations of the CIECH Group is presented in Sections 3.5.5 and 3.6 hereof. During the current quarterly period there were no significant revisions to the estimates presented in previous reporting periods.

### 2.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH Group’s accounting principles are described in the Consolidated Financial Statements of the CIECH Group for the year 2019, published on 31 March 2020. The aforementioned Financial Statement include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data presented, except for changes described in Section 2.2.1.



The CIECH Group intends to adopt amendments to the IFRS that are published but not effective as at the date of publication of this report in accordance with their effective date. The estimated impact of amendments and impact of new IFRSs on the consolidated financial statements of the CIECH Group was presented in the Consolidated Financial Statements of the CIECH Group for the year 2019, published on 31 March 2020.

### 2.2.1. ADJUSTMENTS OF PRIOR PERIOD ERRORS

As a result of an analysis, an incorrect approach to the recognition of the valuation of the hedging instruments held by the Group was identified. After consulting with the Advisor, the Company decided to change its approach to:

**a) the accounting recognition of the CCIRS transaction designated as a hedging instrument in two cash flow hedging relationships – with the change relating to the settlement of a series of FX Forward transactions which hedge sales revenues.**

The Group applies hedge accounting in accordance with the provisions of IFRS 9 for the hedging of currency risk and interest rate risk using CCIRS fix-to-float transactions. The CCIRS derivative has been decomposed to two instruments: series of synthetic F/X Forwards to hedge expected sales revenues in EUR and Interest Rate Swap (IRS).

The company corrected the previously applied approach to the settlement of the F/X forward component. In the former approach, the Company settled the hedged sales revenues according to the exchange rates of cash flows included in the hedging instrument (despite the fact that the exchange rate values were non-market).

In the corrected approach, the amount recognised in other comprehensive income as at the balance sheet date will represent the effective part of the change in valuation of cash flows falling after the balance sheet date, occurring between the balance sheet date and the date of these cash flows designation to hedge accounting. The amount accumulated in this way in equity (OCI) will be transferred to sales revenues at the moment when the hedged item is recognised in the statement of profit or loss – which is in line with economic substance of the hedge transaction and in line with IFRS 9. Moreover if the hedged item occurs in several points in time – the value accumulated in other comprehensive income is recognised in sales revenues proportionally to the value of the hedged item realised in the relevant periods. The changed approach also assumes that the hedge effectiveness will be measured not only as at the balance sheet date (as in the former approach) but also as at the hedge settlement date so that only effective part will be transferred to the statement of profit or loss.

Therefore in the changed approach, the valuation accumulated in other comprehensive income is settled using forward rates determined as at the date of concluding the instrument and establishing the hedging relationship and, in consequence, the settlement of forward transactions will result in an adjustment to the hedged item (designated sales revenues in a given period) by the difference between the valuation of a given forward transaction as at the designation date and as at the moment of its realisation (with an adjustment, if any, for an ineffective part of the instrument).

**b) recognition of futures transactions hedging the purchase price of CO<sub>2</sub> emission allowances.**

The futures transactions concluded so far for the purchase of CO<sub>2</sub> emission allowances have been designated by the Company for hedge accounting. After re-analysis, the Company concluded that IFRS 9 should not be applied in this respect as the allowances are purchased for the Group's own needs and therefore the exception specified in the standard applies in this situation (own use exemption). Therefore, the amounts resulting from settlements with the Clearing House for particular balance sheet dates should not be included in the item "Cash flow hedge reserve" and in the item "Settlement with the Clearing House" (reported under "Trade and other liabilities").

Therefore, the Group corrected an error from previous years in the consolidated financial statements. In order to ensure comparability of data concerning the periods presented, a retrospective approach was applied in the first reporting period after identifying errors from previous years, restating the data from comparative periods. The impact of the adjustments on the previously reported consolidated data is presented below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	01.01.2019 after adjustment	FUTURES	CIRS	01.01.2019 before adjustment
<b>ASSETS</b>				
Deferred income tax assets	73,210	5,338	-	67,872
<b>Total non-current assets</b>	<b>3,674,001</b>	<b>5,338</b>	-	<b>3,668,663</b>
<b>Total current assets</b>	<b>1,272,558</b>	-	-	<b>1,272,558</b>
<b>Total assets</b>	<b>4,946,559</b>	<b>5,338</b>	-	<b>4,941,221</b>
<b>EQUITY AND LIABILITIES</b>				
Cash flow hedge reserve	17,553	(22,756)	37,194	3,115
Retained earnings	1,089,297	-	(37,194)	1,126,491

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	01.01.2019 after adjustment	FUTURES	CIRS	01.01.2019 before adjustment
Equity attributable to shareholders of the parent	1,876,083	(22,756)	-	1,898,839
Non-controlling interest	288			288
<b>Total equity</b>	<b>1,876,371</b>	<b>(22,756)</b>	-	<b>1,899,127</b>
<b>Total non-current liabilities</b>	<b>1,736,981</b>	-	-	<b>1,736,981</b>
Trade and other liabilities	789,561	28,094	-	761,467
<b>Total current liabilities</b>	<b>1,333,207</b>	<b>28,094</b>	-	<b>1,305,113</b>
<b>Total liabilities</b>	<b>3,070,188</b>	<b>28,094</b>	-	<b>3,042,094</b>
<b>Total equity and liabilities</b>	<b>4,946,559</b>	<b>5,338</b>	-	<b>4,941,221</b>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2019 after adjustment	FUTURES	CIRS	31.12.2019 before adjustment
<b>ASSETS</b>				
Deferred income tax assets	43,734	103	-	43,631
<b>Total non-current assets</b>	<b>3,734,291</b>	<b>103</b>	-	<b>3,734,188</b>
<b>Total current assets</b>	<b>1,312,254</b>	-	-	<b>1,312,254</b>
<b>Total assets</b>	<b>5,046,545</b>	<b>103</b>	-	<b>5,046,442</b>

<b>EQUITY AND LIABILITIES</b>				
Cash flow hedge reserve	17,678	(438)	44,524	(26,408)
Retained earnings	1,199,657	-	(44,524)	1,244,181
<b>Equity attributable to shareholders of the parent</b>	<b>1,977,796</b>	<b>(438)</b>	-	<b>1,978,234</b>
Non-controlling interest	(1,017)	-	-	(1,017)
<b>Total equity</b>	<b>1,976,779</b>	<b>(438)</b>	-	<b>1,977,217</b>
<b>Total non-current liabilities</b>	<b>1,947,307</b>	-	-	<b>1,947,307</b>
Trade and other liabilities	870,199	541	-	869,658
<b>Total current liabilities</b>	<b>1,122,459</b>	<b>541</b>	-	<b>1,121,918</b>
<b>Total liabilities</b>	<b>3,069,766</b>	<b>541</b>	-	<b>3,069,225</b>
<b>Total equity and liabilities</b>	<b>5,046,545</b>	<b>103</b>	-	<b>5,046,442</b>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS	01.01.-30.09.2019 after adjustments	Presentation change due to discontinued operations	CIRS	01.01.-30.09.2019 previously presented
Sales revenues	2,507,806	(236,276)	(1,406)	2,745,488
Cost of sales	(1,955,289)	214,165	-	(2,169,454)
<b>Gross profit/(loss) on sales</b>	<b>552,517</b>	<b>(22,111)</b>	<b>(1,406)</b>	<b>576,034</b>
Other operating income	70,895	(366)	-	71,261
Selling costs	(186,274)	9,487	-	(195,761)
General and administrative expenses	(148,992)	3,822	-	(152,814)
Other operating expenses	(122,151)	5,962	-	(128,113)
<b>Operating profit/(loss)</b>	<b>165,995</b>	<b>(3,206)</b>	<b>(1,406)</b>	<b>170,607</b>
Financial income	12,536	(2,692)	-	13,503
Financial expenses	(52,903)	4,461	-	(55,639)
<b>Net financial income/(expenses)</b>	<b>(40,367)</b>	<b>1,769</b>	-	<b>(42,136)</b>
Share of profit / (loss) of equity-accounted investees	967	-	-	967
<b>Profit/(loss) before tax</b>	<b>126,595</b>	<b>(1,437)</b>	<b>(1,406)</b>	<b>129,438</b>
Income tax	(47,900)	-	267	(48,167)
<b>Net profit / (loss)</b>	<b>78,695</b>	<b>(1,437)</b>	<b>(1,139)</b>	<b>81,271</b>
Net profit/(loss) on discontinued operations	1,437	1,437	-	-
<b>Net profit / (loss) for the period</b>	<b>80,132</b>	-	<b>(1,139)</b>	<b>81,271</b>
including:				
Net profit/(loss) attributable to shareholders of the parent company	80,924	-	(1,139)	82,063

CONSOLIDATED STATEMENT OF PROFIT OR LOSS	01.01.-30.09.2019 after adjustments	Presentation change due to discontinued operations	CIRS	01.01.-30.09.2019 previously presented
Net profit/(loss) attributed to non-controlling interest	(792)	-	-	(792)
<b>Earnings per share (in PLN):</b>				
Basic	1.54	-	(0.02)	1.56
Diluted	1.54	-	(0.02)	1.56
<b>Earnings/(loss) per share (in PLN) from continuing operations:</b>				
Basic	1.51	(0.03)	(0.02)	1.56
Diluted	1.51	(0.03)	(0.02)	1.56

## 2.3. FUNCTIONAL AND REPORTING CURRENCY

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

NBP exchange rate as at the end day of the reporting period	30.09.2020 <sup>1</sup>	31.12.2019 <sup>2</sup>
EUR	4.5268	4.2585
RON	0.9291	0.8901
Average NBP rate for the reporting period	9 months ended 30.09.2020 <sup>3</sup>	9 months ended 30.09.2019 <sup>4</sup>
EUR	4.4420	4.3086
RON	0.9191	0.9081

<sup>1</sup> NBP's average foreign exchange rates table applicable as at 30 September 2020.

<sup>2</sup> NBP's average foreign exchange rates table applicable as at 31 December 2019.

<sup>3</sup> 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 2020 to 30 September 2020.

<sup>4</sup> 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 30 September 2019.

## 2.4. SEASONALITY AND CYCLICALITY OF ACTIVITY OF THE CIECH GROUP

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

## 2.5. SEGMENT REPORTING

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

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.

	01.01.-30.09.2020	01.01.-30.09.2019
<b>Net profit/(loss) on continuing operations</b>	<b>69,925</b>	<b>78,695</b>
Income tax	59,465	47,900
Share of profit / (loss) of equity-accounted investees	(76)	(967)
Financial expenses	78,145	52,903
Financial income	(30,910)	(12,536)
Amortisation/depreciation	237,516	223,412
<b>EBITDA on continued operations</b>	<b>414,065</b>	<b>389,407</b>
EBITDA on discontinued operations	16,455	11,312
<b>EBITDA on continued and discontinued operations</b>	<b>430,520</b>	<b>400,719</b>

	01.01.-30.09.2020	01.01.-30.09.2019
<b>EBITDA on continued operations</b>	<b>414,065</b>	<b>389,407</b>
One-offs including:	(495)	75,746
Impairment (a)	3,891	73,179
Cash items (b)	(7,292)	2,326
Non-cash items (without impairment) (c)	2,906	241
<b>Adjusted EBITDA on continued operations</b>	<b>413,570</b>	<b>465,153</b>
Adjusted EBITDA on discontinued operations	15,704	11,315
<b>Adjusted EBITDA on continued and discontinued operations</b>	<b>429,274</b>	<b>476,468</b>

For discontinued operations, EBITDA and adjusted EBITDA figures are as follows:

<b>DISCONTINUED OPERATIONS</b>	01.01.-30.09.2020	01.01.-30.09.2019
Operating profit/(loss)	11,216	3,206
Amortisation and depreciation	5,239	8,106
One-offs	751	(3)
EBITDA from discontinued operations	16,455	11,312
<b>Adjusted EBITDA from discontinued operations</b>	<b>15,704</b>	<b>11,315</b>

(a) Impairment losses are associated with the recognition/reversal of impairment write-downs of assets value.

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

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

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



## OPERATING SEGMENTS OF THE CIECH GROUP

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

OPERATING SEGMENTS 01.01.-30.09.2020	Soda segment	Organic segment	Silicates and glass segment	Transport segment	Other operations segment	Corporate functions - reconciliation item	Eliminations (consolidation adjustments)	TOTAL
Revenues from third parties	1,478,002	451,730	180,791	7,695	50,228	-	-	2,168,446
Revenue from inter-segment transactions	43,871	1,674	5	84,175	27,054	-	(156,779)	-
<b>Total sales revenues</b>	<b>1,521,873</b>	<b>453,404</b>	<b>180,796</b>	<b>91,870</b>	<b>77,282</b>	-	<b>(156,779)</b>	<b>2,168,446</b>
Cost of sales	(1,145,258)	(371,028)	(130,976)	(85,450)	(56,391)	-	101,367	(1,687,736)
<b>Gross profit /(loss) on sales</b>	<b>376,615</b>	<b>82,376</b>	<b>49,820</b>	<b>6,420</b>	<b>20,891</b>	-	<b>(55,412)</b>	<b>480,710</b>
Selling costs	(105,713)	(33,810)	(24,672)	(1,700)	(5,184)	-	53,509	(117,570)
General and administrative expenses	(48,281)	(24,477)	(4,967)	(4,041)	(8,661)	(62,017)	5,267	(147,177)
Result on management of receivables	(12,393)	(310)	(25)	(361)	38	-	-	(13,051)
Result on other operating activities	(9,945)	(7,158)	(2,734)	695	(2,522)	(957)	(3,742)	(26,363)
<b>Operating profit /(loss)</b>	<b>200,283</b>	<b>16,621</b>	<b>17,422</b>	<b>1,013</b>	<b>4,562</b>	<b>(62,974)</b>	<b>(378)</b>	<b>176,549</b>
Exchange differences and interest on trade settlements	(1,444)	(2,305)	821	(316)	(658)	-	-	(3,902)
Group borrowing costs	-	-	-	-	-	(43,709)	-	(43,709)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	376	-	376
Share of profit / (loss) of equity-accounted investees	76	-	-	-	-	-	-	76
<b>Profit /(loss) before tax</b>	<b>198,915</b>	<b>14,316</b>	<b>18,243</b>	<b>697</b>	<b>3,904</b>	<b>(106,307)</b>	<b>(378)</b>	<b>129,390</b>
Income tax	-	-	-	-	-	-	-	(59,465)
Net profit /(loss) on continuing operations	-	-	-	-	-	-	-	69,925
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-	6,264
<b>Net profit /(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,189</b>
Amortization/depreciation	173,279	24,715	13,729	14,303	579	10,911	-	237,516
EBITDA on continued operations	373,562	41,336	31,151	15,316	5,141	(52,063)	(378)	414,065
Adjusted EBITDA on continued operations *	374,165	40,072	31,947	15,180	4,119	(51,824)	(89)	413,570

\* Adjusted EBITDA for the 9-month period ended 30 September 2020 is calculated as EBITDA adjusted for untypical one-off events: impairment losses: PLN -3.9 million; provisions: PLN -2.4 million; disposal of fixed assets: PLN 2.5 million, fines and compensation: PLN 5.6 million; other: PLN -1.3 million.





OPERATING SEGMENTS 01.01.-30.09.2019	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	1,826,293	411,408	186,681	9,087	74,337	-	-	2,507,806
Revenue from inter-segment transactions	48,569	235	146	96,254	29,341	-	(174,545)	-
<b>Total sales revenues</b>	<b>1,874,862</b>	<b>411,643</b>	<b>186,827</b>	<b>105,341</b>	<b>103,678</b>	-	<b>(174,545)</b>	<b>2,507,806</b>
Cost of sales	(1,412,442)	(314,880)	(139,174)	(100,458)	(79,830)	-	91,495	(1,955,289)
<b>Gross profit /(loss) on sales</b>	<b>462,420</b>	<b>96,763</b>	<b>47,653</b>	<b>4,883</b>	<b>23,848</b>	-	<b>(83,050)</b>	<b>552,517</b>
Selling costs	(175,816)	(56,169)	(24,637)	(3,483)	(8,334)	(531)	82,696	(186,274)
General and administrative expenses	(52,802)	(22,140)	(4,560)	(3,017)	(4,306)	(65,078)	2,911	(148,992)
Result on management of receivables	(373)	396	12	(40)	359	-	-	354
Result on other operating activities	(29,299)	(10,374)	(900)	432	(7,276)	(491)	(3,702)	(51,610)
<b>Operating profit /(loss)</b>	<b>204,130</b>	<b>8,476</b>	<b>17,568</b>	<b>(1,225)</b>	<b>4,291</b>	<b>(66,100)</b>	<b>(1,145)</b>	<b>165,995</b>
Exchange differences and interest on trade settlements	(8,126)	(1,515)	221	(144)	(264)	-	-	(9,828)
Group borrowing costs	-	-	-	-	-	(36,123)	-	(36,123)
Result on financial activity (non-attributable to segments)	-	-	-	-	-	5,584	-	5,584
Share of profit/ (loss) of equity-accounted investees	967	-	-	-	-	-	-	967
<b>Profit /(loss) before tax</b>	<b>196,971</b>	<b>6,961</b>	<b>17,789</b>	<b>(1,369)</b>	<b>4,027</b>	<b>(96,639)</b>	<b>(1,145)</b>	<b>126,595</b>
Income tax	-	-	-	-	-	-	-	(47,900)
Net profit /(loss) on continuing operations	-	-	-	-	-	-	-	78,695
Net profit /(loss) on discontinued operations	-	-	-	-	-	-	-	1,437
<b>Net profit /(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,132</b>
Amortization/depreciation	165,515	22,800	15,659	11,730	987	6,721	-	223,412
EBITDA on continued operations	369,645	31,276	33,227	10,505	5,278	(59,379)	(1,145)	389,407
Adjusted EBITDA on continued operations **	443,553	31,876	34,620	10,136	3,454	(58,539)	53	465,153

\*Restated data.

\*\*Adjusted EBITDA for the 9-month period ended 30 September 2019 is calculated as EBITDA adjusted for untypical one-off events: fortuitous events: PLN -2.0 million; impairment losses: PLN -73.2 million; other: PLN -0.5 million.

## ASSETS AND LIABILITIES BY OPERATING SEGMENTS

	ASSETS		LIABILITIES	
	30.09.2020	31.12.2019*	30.09.2020	31.12.2019*
Soda segment	3,242,468	3,035,136	202,034	216,795
Organic segment	886,986	951,633	113,218	146,613
Silicates and glass segment	111,138	135,117	23,325	26,917
Transport segment	99,241	107,712	15,570	18,185
Other operations segment	68,229	65,072	17,016	36,846
Corporate functions - reconciliation item	935,680	801,177	2,930,086	2,672,341
Eliminations (consolidation adjustments)	(45,795)	(49,302)	(44,969)	(47,931)
<b>TOTAL</b>	<b>5,297,947</b>	<b>5,046,545</b>	<b>3,256,280</b>	<b>3,069,766</b>

\*Restated data.

## INFORMATION ON GEOGRAPHICAL AREAS

ASSETS DIVIDED ON GEOGRAPHICAL REGIONS	Non-current assets other than financial instruments	Deferred income tax assets	Other assets	Total assets
<b>30.09.2020</b>				
Poland	2,311,326	54,611	1,027,375	3,393,312
European Union (excluding Poland)	1,568,180	-	305,748	1,873,928
Other European countries	-	-	10,331	10,331
Africa	-	-	4,484	4,484
Asia	-	-	5,160	5,160
Other regions	-	-	10,732	10,732
<b>TOTAL</b>	<b>3,879,506</b>	<b>54,611</b>	<b>1,363,830</b>	<b>5,297,947</b>
<b>31.12.2019*</b>				
Poland	2,349,617	43,734	938,761	3,332,112
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
<b>TOTAL</b>	<b>3,685,679</b>	<b>43,734</b>	<b>1,317,132</b>	<b>5,046,545</b>

\*Restated data.

## SALES REVENUES – GEOGRAPHICAL STRUCTURE OF MARKETS

	01.01.-30.09.2020	01.01.-30.09.2019*	Change 2020/2019
<b>Poland</b>	<b>1,071,037</b>	<b>1,042,684</b>	<b>12.9%</b>
<b>European Union (excluding Poland)</b>	<b>989,996</b>	<b>1,136,610</b>	<b>(10.8%)</b>
Germany	496,099	481,830	3.1%
Romania	20,255	101,646	(80.1%)
Czech Republic	116,588	114,829	1.5%
Italy	22,310	43,812	(49.1%)
The Netherlands	85,978	78,165	10.0%
Finland	36,745	39,007	(5.8%)
Sweden	14,372	29,139	(50.7%)
Belgium	23,476	21,576	8.8%
United Kingdom	3,200	23,134	(86.2%)
Denmark	29,244	29,604	(1.2%)
Spain	68,050	56,350	20.8%
Austria	13,838	18,044	(23.3%)
France	6,537	8,661	(24.5%)

	01.01.-30.09.2020	01.01.-30.09.2019*	Change 2020/2019
Luxembourg	15,973	18,023	(11.4%)
Lithuania	10,016	10,816	(7.4%)
Other EU countries	27,315	61,974	(55.9%)
<b>Other European Countries</b>	<b>54,261</b>	<b>93,460</b>	<b>(41.9%)</b>
Switzerland	2,613	10,812	(75.8%)
Norway	32,643	33,778	(3.4%)
Russia	3,260	1,283	154.1%
Other European countries	15,745	47,587	(66.9%)
<b>Africa</b>	<b>13,511</b>	<b>71,496</b>	<b>(81.1%)</b>
<b>Asia</b>	<b>26,054</b>	<b>129,749</b>	<b>(79.9%)</b>
India	1,049	59,203	(98.2%)
Singapore	2,616	723	261.8%
Bangladesh	-	29,154	(100.0%)
Hong Kong	-	14,857	(100.0%)
Turkey	10,105	11,676	(13.5%)
Other Asian countries	12,261	14,136	(13.3%)
<b>Other regions</b>	<b>21,210</b>	<b>27,742</b>	<b>(23.5%)</b>
Cash flow hedge adjustment	(7,623)	6,065	(225.7%)
<b>TOTAL</b>	<b>2,168,446</b>	<b>2,507,806</b>	<b>(13.5%)</b>

\*Restated data.

At the CIECH Group, sales revenues are recognized upon the provision of services or delivery of products or goods. Detailed information on sales revenues broken down by products by operating segment is provided in Section 3.5.2 hereof.

## 2.6. PROVISIONS AND IMPAIRMENT ALLOWANCES ON ASSETS

During the first three quarters and in the third quarter of 2020, the following changes in provisions and impairment allowances on assets were recognised in the consolidated financial statements of the CIECH Group.

PROVISIONS FOR EMPLOYEE BENEFITS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2020</b>					
Long-term	12,848	268	(79)	(116)	12,921
Short-term	15,465	376	(13,166)	411	3,086
<b>01.01.-30.09.2019</b>					
Long-term	11,851	222	(198)	61	11,936
Short-term	877	1,432	(377)	(2)	1,930
<b>01.07.-30.09.2020</b>					
Long-term	12,742	119	(4)	64	12,921
Short-term	3,212	201	(323)	(4)	3,086
<b>01.07.-30.09.2019</b>					
Long-term	11,824	83	(84)	113	11,936
Short-term	831	1,296	(217)	20	1,930

In addition, other long-term liabilities also include the corresponding portion of 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. As at 30 September 2020, 749 units were granted out of 1000 units issued, and the discounted value of the programme as at the end of the third quarter of 2020 amounted to PLN 30,084 thousand (including PLN 25,433 thousand attributable to CIECH S.A.). The liabilities were measured by the Group using a discount rate of 3.53%. For details of the programme, see Note 7.2 of the Consolidated financial statements of the CIECH Group for 2019.

CHANGE IN OTHER LONG-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2020</b>					
Provision for liabilities and expected losses	8,762	-	-	-	8,762
Provision for environmental protection	93,435	-	-	5,372	98,807
<b>TOTAL</b>	<b>102,197</b>	<b>-</b>	<b>-</b>	<b>5,372</b>	<b>107,569</b>
<b>01.01.-30.09.2019</b>					
Provision for liabilities and expected losses	3,286	-	(2,013)	-	1,273
Provision for environmental protection	75,794	-	-	1,813	77,607
<b>TOTAL</b>	<b>79,080</b>	<b>-</b>	<b>(2,013)</b>	<b>1,813</b>	<b>78,880</b>
<b>01.07.-30.09.2020</b>					
Provision for liabilities and expected losses	8,762	-	-	-	8,762
Provision for environmental protection	97,574	-	-	1,233	98,807
<b>TOTAL</b>	<b>106,336</b>	<b>-</b>	<b>-</b>	<b>1,233</b>	<b>107,569</b>
<b>01.07.-30.09.2019</b>					
Provision for liabilities and expected losses	1,273	-	-	-	1,273
Provision for environmental protection	75,482	-	-	2,125	77,607
<b>TOTAL</b>	<b>76,755</b>	<b>-</b>	<b>-</b>	<b>2,125</b>	<b>78,880</b>

CHANGE IN OTHER SHORT-TERM PROVISIONS	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2020</b>					
Provision for liabilities and expected losses	97,998	22,206	(2,628)	1,960	119,536
Provision for environmental protection	1,516	-	(1,104)	-	412
Restructuring provision	111	-	-	-	111
<b>TOTAL</b>	<b>99,625</b>	<b>22,206</b>	<b>(3,732)</b>	<b>1,960</b>	<b>120,059</b>
<b>01.01.-30.09.2019</b>					
Provision for liabilities and expected losses	170,495	8,792	(77,936)	196	101,547
Provision for environmental protection	2,311	-	(1,195)	-	1,116
Restructuring provision	218	-	(107)	-	111
Other provisions	-	-	-	442	442
<b>TOTAL</b>	<b>173,024</b>	<b>8,792</b>	<b>(79,238)</b>	<b>638</b>	<b>103,216</b>
<b>01.07.-30.09.2020</b>					
Provision for liabilities and expected losses	116,066	3,168	(118)	420	119,536
Provision for environmental protection	735	-	(323)	-	412
Restructuring provision	111	-	-	-	111
<b>TOTAL</b>	<b>116,912</b>	<b>3,168</b>	<b>(441)</b>	<b>420</b>	<b>120,059</b>
<b>01.07.-30.09.2019</b>					
Provision for liabilities and expected losses	108,880	2,283	(9,936)	320	101,547
Provision for environmental protection	1,476	-	(363)	3	1,116
Restructuring provision	185	-	(74)	-	111
Other provisions	613	-	-	(171)	442
<b>TOTAL</b>	<b>111,154</b>	<b>2,283</b>	<b>(10,373)</b>	<b>152</b>	<b>103,216</b>

CHANGE IN IMPAIRMENT ALLOWANCES	Opening balance	Recognition	Use and reversal	Other changes (including exchange differences)	Closing balance
<b>01.01.-30.09.2020</b>					
Property, plant and equipment	74,915	-	(95)	2,125	76,945
Intangible assets, including:	453,861	691	-	24,626	479,178
<i>Goodwill</i>	408,650	-	-	23,424	432,074
Long-term receivables	975	-	-	61	1,037
Long-term financial assets	1,343	-	-	-	1,343
Inventories	33,327	3,366	(2,972)	(146)	33,575
Short-term financial assets	27,942	779	-	(779)	27,942
Trade and other receivables	56,879	19,226	(2,037)	(4,486)	69,582
Cash and cash equivalents	200	509	(186)	16	539
<b>TOTAL</b>	<b>649,442</b>	<b>24,571</b>	<b>(5,290)</b>	<b>21,417</b>	<b>690,141</b>
<b>01.01.-30.09.2019</b>					
Property, plant and equipment	3,390	73,661	1	582	77,634
Intangible assets, including:	460,216	-	-	6,119	466,335
<i>Goodwill</i>	414,383	-	-	5,410	419,793
Long-term receivables	1,441	-	(112)	24	1,352
Long-term financial assets	1,343	-	-	-	1,343
Inventories	40,695	5,001	(14,146)	(22)	31,528
Short-term financial assets	27,953	-	-	-	27,953
Trade and other receivables	58,991	3,402	(5,404)	506	57,495
Cash and cash equivalents	142	20	(29)	-	133
<b>TOTAL</b>	<b>594,171</b>	<b>82,084</b>	<b>(19,690)</b>	<b>7,209</b>	<b>663,773</b>
<b>01.07.-30.09.2020</b>					
Property, plant and equipment	76,987	-	-	(42)	76,945
Intangible assets, including:	473,422	691	-	5,065	479,178
<i>Goodwill</i>	426,902	-	-	5,172	432,074
Long-term receivables	1,023	-	-	14	1,037
Long-term financial assets	1,343	-	-	-	1,343
Inventories	34,109	955	(1,356)	(133)	33,575
Short-term financial assets	27,942	779	-	(779)	27,942
Trade and other receivables	65,806	7,095	(784)	(2,535)	69,582
Cash and cash equivalents	461	77	-	-	539
<b>TOTAL</b>	<b>681,093</b>	<b>9,597</b>	<b>(2,140)</b>	<b>1,590</b>	<b>690,141</b>
<b>01.07.-30.09.2019</b>					
Property, plant and equipment	39,520	36,831	1	1,282	77,634
Intangible assets, including:	454,122	-	-	12,213	466,335
<i>Goodwill</i>	408,748	-	-	11,045	419,793
Long-term receivables	1,314	-	(1)	39	1,352
Long-term financial assets	1,343	-	-	-	1,343
Inventories	33,499	765	(2,888)	152	31,528
Short-term financial assets	27,953	-	-	-	27,953
Trade and other receivables	56,293	1,615	(346)	(67)	57,495
Cash and cash equivalents	140	-	(7)	1	133
<b>TOTAL</b>	<b>614,184</b>	<b>39,211</b>	<b>(3,241)</b>	<b>13,620</b>	<b>663,773</b>

**Detailed information on impairment losses**

In connection with the suspension in 2019 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 thousand as at 31 December 2019. The decision to recognise the impairment loss 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,
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.

The impairment loss was recognised for buildings, premises, civil and marine engineering structures, technical equipment and machinery, fixed assets under construction.

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 in 2019 was as follows:

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

As at the balance sheet date, the analysis of the situation in CIECH Soda Romania S.A. has been performed. To date, the situation has not changed – possible scenarios are still being analysed.

In addition, the Group analysed the list fixed assets and fixed assets under construction that could potentially be used by other CIECH Group companies and relocated there, and confirmed its validity. In addition, the financial statements for the three quarters of 2020 include a depreciation charge that takes into account the wear and tear of these fixed assets in the amount of PLN 7,195 thousand, which is presented under other operating expenses as the cost of idle capacity which, in the opinion of the Management Board, reflects the status of the above-mentioned fixed assets.

At the same time, the Group still 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.

**2.7. INCOME TAX, DEFERRED TAX ASSETS AND LIABILITY**

The main components of tax expense include:

THE MAIN COMPONENTS OF TAX EXPENSE (TAX INCOME)	01.01.-30.09.2020	01.01.-30.09.2019
Current income tax	(63,516)	(47,297)
Deferred tax	4,051	(603)
<b>INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS</b>	<b>(59,465)</b>	<b>(47,900)</b>

Deferred income tax is attributable to the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITY	30.09.2020			31.12.2019*		
	Total asset	Total liability	Net value	Total asset	Total liability	Net value
Property, plant and equipment	1,435	131,780	(130,345)	1,647	143,006	(141,359)
Intangible assets	4,758	22,906	(18,148)	6,055	23,113	(17,058)
Right of perpetual usufruct	-	4,881	(4,881)	-	4,933	(4,933)
Investment property	1,573	1,264	309	1,573	1,562	11
Financial assets	7,112	4,434	2,678	641	3,677	(3,036)
Inventory	852	421	431	650	3,012	(2,362)
Trade and other receivables	5,045	435	4,610	4,757	1,177	3,580
Provisions for employee benefits	3,122	-	3,122	5,119	-	5,119
Other provisions	18,222	-	18,222	18,553	-	18,553
Tax losses carried forward	28,933	-	28,933	28,627	-	28,627
Foreign exchange differences	(30)	377	(407)	2,620	289	2,331
Liabilities	43,491	330	43,161	30,907	-	30,907
Special economic zone	100,133	-	100,133	109,870	-	109,870
Other	326	1,162	(836)	272	914	(642)
Net value of lease liabilities	(32)	-	(32)	68	-	68
Cash and cash equivalents	104	-	104	105	-	105
<b>Deferred tax assets/liability</b>	<b>215,044</b>	<b>167,990</b>	<b>47,054</b>	<b>211,464</b>	<b>181,683</b>	<b>29,781</b>
Set - off of deferred tax assets/ liability	(115,100)	(115,100)	-	(123,269)	(123,269)	-
Unrecognized deferred tax assets	(45,333)	-	(45,333)	(44,461)	-	(44,461)
<b>Deferred tax assets/liability recognised in the statement of financial position</b>	<b>54,611</b>	<b>52,890</b>	<b>1,721</b>	<b>43,734</b>	<b>58,414</b>	<b>(14,680)</b>

\*Restated data.

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

## 2.8. INFORMATION ON FAIR VALUE OF FINANCIAL INSTRUMENTS

The following list presents the fair value of financial instruments.

Classes of financial instruments	30.09.2020		31.12.2019		Categories of financial instruments
	Carrying amount	Fair value	Carrying amount	Fair value	
Cash and cash equivalents	439,474	439,474	299,580	299,580	Financial assets measured at amortised cost
Loans granted	1,934	1,934	1,800	1,800	Financial assets measured at amortised cost
Trade receivables	188,550	188,550	293,895	293,895	Financial assets measured at amortised cost
Hedging derivatives with positive value	185	185	15,118	15,118	Hedging instruments
Derivatives with positive value	3,869	3,869	2,997	2,997	Financial assets measured at fair value through profit or loss

Classes of financial instruments	30.09.2020		31.12.2019		Categories of financial instruments
	Carrying amount	Fair value	Carrying amount	Fair value	
Embedded instruments with positive value	149	149	2,206	2,206	Hedging instruments
Factoring receivables	61,964	61,964	43,590	43,590	Financial assets measured at amortised cost
<b>ASSETS</b>	<b>696,126</b>	<b>696,126</b>	<b>659,187</b>	<b>659,187</b>	
Credits and loans	(1,865,033)	(1,858,827)	(1,645,400)	(1,647,439)	Financial assets measured at amortised cost
Trade liabilities	(312,240)	(312,240)	(393,794)	(393,794)	Financial assets measured at amortised cost
Hedging derivatives with negative value	(76,188)	(76,188)	(22,233)	(22,233)	Hedging instruments
Derivatives with negative value	(13,098)	(13,098)	(2,787)	(2,787)	Financial liabilities measured at fair value through profit or loss.
Lease liabilities	(131,547)	(131,547)	(143,934)	(143,934)	Financial liabilities excluded from IFRS 9
Factoring liabilities	(20,541)	(20,541)	(25,536)	(25,536)	Financial assets measured at amortised cost
<b>LIABILITIES</b>	<b>(2,418,647)</b>	<b>(2,412,440)</b>	<b>(2,233,684)</b>	<b>(2,235,723)</b>	

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

	30.09.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>	<b>(13,081)</b>	<b>4,203</b>	<b>36,647</b>	-	<b>20,321</b>	<b>36,717</b>
Investment property	-	-	36,647	-	-	36,717
Hedging instruments	-	185	-	-	15,118	-
Derivatives with positive value	-	3,869	-	-	2,997	-
Futures contracts (sales)	(13,081)	-	-	-	-	-
Embedded instruments	-	149	-	-	2,206	-
<b>Liabilities</b>	<b>(13,947)</b>	<b>(89,286)</b>	-	<b>(10,092)</b>	<b>(25,020)</b>	-
Futures contracts (purchase)	(13,947)	-	-	(10,092)	-	-
Hedging instruments	-	(76,188)	-	-	(22,233)	-
Derivatives with negative value	-	(13,098)	-	-	(2,787)	-
<b>TOTAL</b>	<b>(27,028)</b>	<b>(85,082)</b>	<b>36,647</b>	<b>(10,092)</b>	<b>(4,699)</b>	<b>36,717</b>

### 2.8.1. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 September 2020, the CIECH Group held the following types of financial instruments measured at fair value:

- futures contracts for the purchase of CO<sub>2</sub> certificates concluded by CIECH Soda Polska S.A., hedging the cost of purchase of CO<sub>2</sub> 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 concluded by CIECH S.A. — Level 2, according to the fair value hierarchy,
- gas forward contracts concluded by the SDC Group – Level 2, according to the fair value hierarchy,
- futures contracts for the sale of CO<sub>2</sub> certificates concluded by CIECH Soda Romania S.A. — Level 1, according to the fair value hierarchy.

During three quarters of 2020, there were no transfers within the fair value hierarchy of instruments measured at fair value. There were no changes in the classification of financial instruments, or in business conditions that could affect the fair value of financial assets or liabilities.

As compared to the previous reporting period, the CIECH Group has not made any changes in methods of measurement of financial instruments held. The descriptions of methods of measurement to fair value was presented in Section 8.4 of the Consolidated Financial Statements of the CIECH Group for 2019, published on 31 March 2020.

In the consolidated financial statements, all financial instruments concluded and described above – except for one currency forward, EUR/PLN, and one of the CIRS contracts as well as futures transactions for the purchase of CO<sub>2</sub> certificates – were designated for hedge accounting, and details of the designation were presented in Section 8.2 of the Consolidated Financial Statements of the CIECH Group for 2019, published on 31 March 2020.

In the separate financial statements, interest rate swaps were designated for hedge accounting, and details of the designation were presented in Section 8.2 of the CIECH S.A.'s Financial Statements for 2019, published on 31 March 2020.

#### Fair value of derivative instruments and embedded instruments

	Cash and cash equivalents	Long-term financial assets	Short-term financial assets	Other long-term liabilities	Trade and other liabilities	TOTAL
<b>30.09.2020</b>						
IRS EUR	-	-	-	(374)	(289)	(663)
IRS PLN	-	-	-	(21,125)	(13,711)	(34,837)
CIRS	-	1,183	1,133	(13,098)	(40,036)	(50,817)
Forward EUR/PLN	-	-	1,738	-	-	1,738
Forward SDC	-	-	-	-	(652)	(652)
Embedded derivatives	-	-	149	-	-	149
Futures contracts for the purchase of CO <sub>2</sub> certificates	-	-	-	-	(13,947)	(13,947)
Futures contracts for the sale of CO <sub>2</sub> certificates	(13,081)	-	-	-	-	(13,081)
<b>TOTAL</b>	<b>(13,081)</b>	<b>1,183</b>	<b>3,020</b>	<b>(34,597)</b>	<b>(68,635)</b>	<b>(112,109)</b>
<b>31.12.2019</b>						
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 derivatives	-	-	2,206	-	-	2,206
Futures contracts for the purchase of CO <sub>2</sub> certificates	-	-	-	-	(10,092)	(10,092)
<b>TOTAL</b>	<b>-</b>	<b>4,879</b>	<b>15,442</b>	<b>(6,487)</b>	<b>(28,625)</b>	<b>(14,791)</b>

## 2.8.2. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The CIECH Group has taken out term and revolving credit facilities whose book value, as at 30 September 2020, was PLN 1,856,033 thousand, and whose fair value amounted to PLN 1,858,827 thousand (Level 2 of fair value hierarchy). In the case of the remaining financial instruments held by the CIECH Group (classified mainly as cash and cash equivalents, financial assets and liabilities measured at amortised cost), the fair value is close to the book value.

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

In the period from 1 January to 30 September 2020, the CIECH Group carried out the following transactions increasing and decreasing the gross value of property, plant and equipment:

01.01.-30.09.2020	Land	Buildings, premises, civil and marine engineering structures	Machinery and equipment	Vehicles	Other fixed assets	Property, plant and equipment under construction	TOTAL
<b>Gross value of property, plant and equipment at the beginning of the period</b>	<b>83,826</b>	<b>1,281,139</b>	<b>3,147,510</b>	<b>79,627</b>	<b>61,134</b>	<b>701,150</b>	<b>5,354,386</b>
Purchase	122	2,308	2,530	4,587	1,917	394,246	405,710
Reclassifications	102	(43,630)	16,576	353	3,576	(162,529)	(185,552)
Capitalised borrowing costs	-	-	-	-	-	10,245	10,245
Foreign exchange differences	4,926	14,478	54,984	934	729	33,093	109,144
Sale	(6)	(1,125)	(298)	(202)	(462)	(3,040)	(5,133)
Liquidation	-	(1,053)	(14,285)	(1,746)	(193)	-	(17,277)
Change of the Group's structure	-	25	98	10	(3,427)	-	(3,294)
Other	-	-	-	-	(44)	10,290	10,246
<b>Gross value of property, plant and equipment at the end of the period</b>	<b>88,970</b>	<b>1,252,142</b>	<b>3,207,115</b>	<b>83,563</b>	<b>63,230</b>	<b>983,455</b>	<b>5,678,475</b>
<b>01.01.-30.09.2019</b>							
<b>Gross value of property, plant and equipment at the beginning of the period</b>	<b>82,164</b>	<b>1,258,088</b>	<b>3,131,875</b>	<b>115,384</b>	<b>53,975</b>	<b>400,455</b>	<b>5,041,941</b>
Purchase	1,025	751	8,265	2,302	1,951	205,339	219,633
Reclassifications	-	23,210	33,782	(36,125)	1,027	(76,655)	(54,761)
Capitalised borrowing costs	-	-	-	-	-	7,643	7,643
Foreign exchange differences	1,108	2,825	11,905	47	128	5,670	21,683
Sale	-	-	(274)	(1,705)	(102)	-	(2,081)
Liquidation	-	(128)	(5,385)	(199)	(156)	-	(5,868)
Other	-	(2,305)	(3,054)	-	-	(38)	(5,397)
<b>Gross value of property, plant and equipment at the end of the period</b>	<b>84,297</b>	<b>1,282,441</b>	<b>3,177,114</b>	<b>79,704</b>	<b>56,823</b>	<b>542,414</b>	<b>5,222,793</b>

Purchases of property, plant and equipment were made with own financial resources. As at 30 September 2020, commitments to purchase property, plant and equipment amounted to PLN 140,747 thousand (PLN 153,731 thousand as at 31 December 2019). The increase in the value of property, plant and equipment is related to investment projects carried out in the CIECH Group, mainly in the production companies of the Group.

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

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



All information concerning the financing conditions, which results from the agreements and arrangements with the banks, has been presented in the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2019, published on 31 March 2020.

## 2.11. INFORMATION ON TRANSACTIONS WITH RELATED ENTITIES

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

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

<b>TRANSACTIONS BETWEEN CONSOLIDATED ENTITIES AND OTHER RELATED PARTIES</b>	<b>01.01.-30.09.2020</b>	<b>01.01.-30.09.2019</b>
Revenues from sales of products and services, including:	3,663	3,115
<i>associates</i>	1,427	1,172
Revenues from sales of goods and materials, including:	33,690	61,097
<i>associates</i>	24,184	37,124
Other operating income, including:	11	-
<i>associates</i>	11	-
Financial income, including:	117	149
<i>associates</i>	117	136
Purchase of services, including:	33,653	28,967
<i>KI One S.A.</i>	175	45
<i>associates</i>	12,112	7,909
Other operating expenses, including:	3	110
<i>associates</i>	-	-
Financial expenses, including:	4	308
<i>associates</i>	4	118
	<b>30.09.2020</b>	<b>31.12.2019</b>
Trade receivables, including:	5,902	15,813
<i>associates</i>	2,801	5,665
Trade liabilities, including:	4,209	4,452
<i>associates</i>	1,497	1,313

### Terms of transactions with related entities

Material sales to and purchases from related entities are carried out on terms which do not differ from arm's length terms. Overdue liabilities and receivables are not secured and are settled through bank transfers. No material non-standard or non-routine transactions were concluded with related entities in the three quarters of 2020, except for transactions described in Section 3.3 hereof.

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.

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

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

## 2.13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES INCLUDING GUARANTEES AND SURETIES

	30.09.2020	31.12.2019
<b>Contingent assets</b>	<b>31,077</b>	<b>31,077</b>
Other contingent receivables*	31,077	31,077
<b>Contingent liabilities</b>	<b>637,821</b>	<b>661,580</b>
Guarantees and sureties granted**	549,888	545,528
Other***	87,933	116,052

\* Including:

- Contingent asset in the amount of PLN 18,864 thousand related to the action against GZNF "FOSFOR" Sp. z o.o. for the payment of compensation for making an alleged untrue declaration by GZNF "FOSFOR" 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 30 September 2020, 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 2019 that have not been recorded yet in the account kept by the Polish Power Exchange.

\*\* Including:

- guarantee granted up to the amount of 125% of liability related to term loan in the amount of PLN 1,212,520 thousand and revolving loan in the amount of PLN 250,000 thousand – contingent liability in the amount of PLN 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 33,951 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 11,317 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 28,293 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 mainly:

- contingent liability in the SDC Group relating to environmental protection in the amount of PLN 16,487 thousand (EUR 3,642 thousand),
- contingent liability in CIECH Soda Polska S.A. regarding environmental penalty fees in the amount of PLN 8,732 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 agrochemical preparations in the amount of PLN 14,581 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 11,991 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 development projects in the amount of PLN 5,015 thousand.

As at 30 September 2020, contingent liabilities amounted to PLN 637,821 thousand and decreased as compared to 31 December 2019 by PLN 23,759 thousand. The change resulted primarily from the receipt of decisions concerning the reduction of environmental penalty fees at CIECH Soda Polska S.A.

Other guarantees and sureties granted are described in Section 9.2 of the Consolidated Financial Statements of the CIECH Group for 2019, published on 31 March 2020.

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

On 21 May 2020, the Ordinary General Meeting resolved to distribute CIECH S.A.'s net profit for the financial year 2019, amounting to PLN 60,436 thousand, and to allocate the entire profit to CIECH S.A.'s 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.

## 2.15. INFORMATION ON DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE IN THE THREE QUARTERS OF 2020

### Discontinued operations

The accounting principles applied in the preparation of the statement of profit or loss for discontinued operations are consistent with the Group's accounting policy. The results of discontinued operations include:

For the period from 1 January to 30 September 2020 and for the period from 1 January to 30 September 2019:

- results of CIECH Żywiec Sp. z o.o. for the period of being in a subsidiary of the Group – in connection with the planned sale of the company and the conclusion of the preliminary agreement for the sale of 74,677 shares in CIECH Żywiec Sp. z o.o. to LERG S.A. – activities presented in the organic segment,
- elimination of results on transactions between consolidated entities of the CIECH Group and the entity reported under discontinued operations,
- results of the CIECH Group companies (including CIECH S.A.) generated from transactions with the entity reported under discontinued operations.

Below are the figures for the three quarters of 2020 of: CIECH Żywiec Sp. z o.o. – a company held for sale (for the corresponding period, the figures of CIECH Sarzyna S.A. with respect to the resins business are presented); CIECH S.A. – with respect to discontinued operations in the area of resins and the consolidated result on discontinued operations for the CIECH Group.

	01.01.-30.09.2020			01.01.-30.09.2019		
	Ciech Żywiec Sp. z o.o.	CIECH S.A.	CIECH Group	Ciech Żywiec Sp. z o.o.	CIECH S.A.	CIECH Group
<b>Net sales revenues</b>	<b>202,890</b>	<b>101,149</b>	<b>198,081</b>	<b>236,276</b>	<b>159,481</b>	<b>236,276</b>
Cost of sales	(171,174)	(100,585)	(170,667)	(212,258)	(153,919)	(214,165)
<b>Gross profit/(loss) on sales</b>	<b>31,716</b>	<b>564</b>	<b>27,414</b>	<b>24,018</b>	<b>5,562</b>	<b>22,111</b>
Other operating income	1,248	-	2,025	366	-	366
Selling costs	(12,454)	(960)	(7,325)	(14,174)	(288)	(9,487)
General and administrative expenses	(5,746)	-	(6,969)	(6,316)	-	(3,822)
Other operating expenses	(3,916)	(13)	(3,929)	(5,962)	-	(5,962)
<b>Operating profit/(loss)</b>	<b>10,848</b>	<b>(409)</b>	<b>11,216</b>	<b>(2,068)</b>	<b>5,274</b>	<b>3,206</b>
Financial income	4,048	-	(315)	2,700	-	2,692
Financial expenses	(8,393)	-	(4,030)	(4,469)	-	(4,461)
<b>Net financial income/(expenses)</b>	<b>(4,345)</b>	<b>-</b>	<b>(4,345)</b>	<b>(1,769)</b>	<b>-</b>	<b>(1,769)</b>
<b>Profit/(loss) before tax</b>	<b>6,503</b>	<b>(409)</b>	<b>6,871</b>	<b>(3,837)</b>	<b>5,274</b>	<b>1,437</b>
Income tax	(459)	-	(607)	-	-	-
<b>Net profit/(loss)</b>	<b>6,044</b>	<b>(409)</b>	<b>6,264</b>	<b>(3,837)</b>	<b>5,274</b>	<b>1,437</b>



Analysis of assets and liabilities held for sale – CIECH Żywiec Sp. z o.o.:

<i>in thousand PLN</i>	<b>30.09.2020</b>
<b>ASSETS</b>	
Property, plant and equipment	62,700
Right-of-use assets	919
Intangible assets, including:	13,841
Investment properties	199
Deferred tax assets	1,394
<b>Total non-current assets</b>	<b>79,053</b>
Inventories	25,520
Trade and other receivables	45,651
Cash and cash equivalents	2,509
<b>Total current assets</b>	<b>73,680</b>
<b>Total assets</b>	<b>152,733</b>
<b>EQUITY AND LIABILITIES</b>	
Share capital	3,734
Retained earnings	5,265
<b>Total equity</b>	<b>8,999</b>
Lease liabilities	73
Provisions for employee benefits	373
Deferred tax liabilities	1,630
<b>Total non-current liabilities</b>	<b>2,076</b>
Loans, borrowings and other debt instruments	57,635
Lease liabilities	69
Trade and other liabilities	83,926
Provisions for employee benefits	28
<b>Total current liabilities</b>	<b>141,658</b>
<b>Total liabilities</b>	<b>143,734</b>
<b>Total equity and liabilities</b>	<b>152,733</b>

Cash flows from discontinued operations for CIECH Żywiec Sp. z o.o.:

	<b>01.01.-30.09.2020</b>
Net cash from operating activities	(22,754)
Net cash from investing activities	25,072
Net cash from financing activities	-
<b>Total net cash flows</b>	<b>2,318</b>
<i>Free cash flows</i>	2,318

## 2.16. INFORMATION ON IMPORTANT EVENTS IN THE CIECH GROUP DURING THREE QUARTERS OF 2020

Information on important events taking place in the CIECH Group during three quarters of 2020 has been presented in Sections 3.3 and 3.4 hereof.

## 2.17. INFORMATION ON POST-BALANCE-SHEET EVENTS

There were no significant events in the CIECH Group after the balance sheet date.



## OTHER NOTES TO THE CONSOLIDATED QUARTERLY REPORT

## 3.1. DESCRIPTION OF THE CIECH GROUP'S ORGANISATION

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

Parent company	<b>CIECH Spółka Akcyjna</b>
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 12 <sup>th</sup> 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	<a href="http://www.ciechgroup.com">www.ciechgroup.com</a>
Branches held	CIECH S.A.'s Branch in Romania CIECH S.A.'s Branch in Germany
Ultimate parent company	KI Chemistry s. à r. l (a subsidiary of Kulczyk Investments)

As at 30 September 2020, the CIECH Group comprised 40 business entities, including:

- parent company,
- 33 subsidiaries, of which:
  - 23 domestic subsidiaries,
  - 10 foreign subsidiaries,
- 3 domestic affiliates,
- 1 foreign affiliate,
- 1 jointly controlled domestic entity,
- 1 jointly controlled foreign entity.

The parent company of CIECH S.A. has a branch in Romania, a branch in Germany, and operates through its offices in Inowrocław and Nowa Sarzyna. CIECH Trading Sp. z o.o. subsidiary has a branch in Bydgoszcz.

The trading activity is carried out mostly by CIECH S.A., domestic and foreign trading subsidiaries of CIECH S.A., as well as selected manufacturing companies (CIECH Sarzyna S.A., CIECH Żywiec Sp. z o.o., CIECH Vitrosilicon S.A., SDC Group, CIECH Pianki Sp. z o.o.) while the manufacturing activity is carried out by production companies, subsidiaries of CIECH S.A. The production is located in 9 plants, with four largest production plants (two in Poland, one in Germany and one in Romania) operate in the soda segment and manufacture soda ash and soda derived products (in the case of CIECH Soda Romania S.A., the plant also manufactured products in the silicates and glass segment, the soda plant in Janikowo also manufactures salt products and the plant in Germany produces electric energy sold to third parties). At present, the production of soda in the Romanian plant has been suspended and details on this are discussed in the Management Board Report on Activities of the CIECH Group and CIECH S.A. in 2019, published on 31 March 2020. The other 5 plants are dedicated to the organic segment, and to silicates and glass segment, and are located in Poland.



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

Company name	Registered office	Segment	Business	Share in equity as at 30.09.2020 / % of votes at the GMS	Share in equity as at 30.09.2019 / % of votes at the GMS
<b>Parent company</b>					
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.	-	-
<b>Fully consolidated direct and indirect subsidiaries</b>					
CIECH Trading Sp. z o.o.	Warsaw	Soda, Other	Wholesale and distribution of solid inorganic and organic chemicals, wholesale and distribution of raw materials for household chemicals, wholesale and distribution of raw materials for cosmetic and pharmaceutical products, wholesale and distribution of fillers, pigments, raw materials for paints and varnishes, wholesale and distribution of feed additives and fodder, wholesale and distribution of acids, bases and other liquid chemicals.	100%	100%
CIECH Soda Romania S.A.	Ramnicu Valcea, Romania	Soda, Silicates and Glass	Manufacture of other basic inorganic chemicals, wholesale of chemical products.	98.74%	98.74%
CIECH Vitrosilicon S.A.*	Łódź	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 Vitro Sp. z o.o.	Łódź	Other	Production of other basic inorganic chemicals, manufacture of hollow glass and technical glassware, manufacture of plastic packaging goods, manufacture of other plastic products.	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 Żywiec Sp. z o.o. (former name: Vasco Polska Sp. z o.o.)	Nowa Sarzyna	Organic **	Manufacture of plastics in primary forms.	100%	100%
CIECH Serwis i Remonty S.A. (former name: Bosten S.A.)	Warsaw	Other	Provision of repair and maintenance services.	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%	100%



Company name	Registered office	Segment	Business	Share in equity as at 30.09.2020 / % of votes at the GMS	Share in equity as at 30.09.2019 / % of votes at the GMS
<b>CIECH R&amp;D Group</b>					
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%
<b>CIECH Finance Group</b>					
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 Sp. z o.o.	Warsaw	Other	Since March 2017, the Company has been dormant.	100%	100%
<b>CIECH Soda Polska Group</b>					
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%
El-Pomiar Sp. z o.o.	Inowrocław	Other	Repair and maintenance of electrical equipment.	93.75%	-
<b>CIECH Sarzyna Group</b>					
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%
<b>SDC Group</b>					
SDC GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Soda Deutschland GmbH&Co. KG	Stassfurt, Germany	Soda		100%	100%
Sodawerk Holding Stassfurt GmbH	Stassfurt, Germany	Soda	Manufacture of other basic inorganic chemicals, wholesale of chemical products, power generation and distribution.	100%	100%
Sodawerk Stassfurt Verwaltungs GmbH	Stassfurt, Germany	Soda		100%	100%
CIECH Energy Deutschland GmbH	Stassfurt, Germany	Soda		100%	100%
Kavernengesellschaft Stassfurt GbmH*****	Stassfurt, Germany	Soda		50%	50%

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

\*\* The company is included in discontinued operations. Detailed information is presented in notes 2.15 and 3.4.

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

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

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



### 3.2. INFORMATION ON NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATES

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

The total share of data of subsidiaries not covered by consolidation under the full method, due to their irrelevance, in relation to the total values of the CIECH Group for the period from 1 January 2020 to 30 September 2020 does not exceed 2% of total consolidated assets of the Group and 2% of consolidated net revenues from sales of goods and products and financial operations.

Aggregated data of associates and jointly-controlled which were not measured under the equity method for the period from 1 January 2020 to 30 September 2020 did not exceed 2% of consolidated total assets of the Group 2% of the total consolidated equity of the CIECH Group.

### 3.3. SIGNIFICANT EFFECTS OF CHANGES TO THE ORGANISATIONAL STRUCTURE OF THE CIECH GROUP DURING THREE QUARTERS OF 2020

#### • CIECH Żywiec Sp. z o.o.

The Court registered the increase of the share capital of CIECH Żywiec Sp. z o.o. on 2 January 2020 and on this date CIECH S.A. became the holder of all newly created shares whilst remaining the sole shareholder of CIECH Żywiec Sp. z o.o. The share capital was increased at the Extraordinary Shareholders' Meeting of CIECH Żywiec Sp. z o.o. on 16 December 2019 which adopted a resolution on the demerger of CIECH Sarzyna S.A., following the adoption of the Demerger Plan of CIECH Sarzyna S.A., by deciding on:

- ✓ CIECH Żywiec Sp. z o.o.'s participation 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,
- ✓ approval of 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 Żywiec 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 and the total value of PLN 3,734 thousand. All newly created shares in the increased share capital of CIECH Żywiec 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 thousand shares in CIECH Sarzyna S.A. entitle to the receipt of 73,567 shares in CIECH Żywiec Sp. z o.o. As a result of the increase, the share capital of CIECH Żywiec Sp. z o.o. amounts to PLN 3,734 thousand and is divided into 74,677 shares with a value of PLN 50 per share and a total value of PLN 3,734 thousand.

On 20 July 2020, CIECH S.A. and LERG S.A. with its registered office in Pustków-Osiedle entered into a preliminary agreement for the sale of 74,677 shares representing 100% of the share capital in CIECH Żywiec Sp. z o.o. The value of this transaction is approx. PLN 160 million.

#### • CIECH Serwis i Remonty S.A. (until 22 April 2020: BOSTEN 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. The Extraordinary General Meeting also changed the name of the company from BOSTEN S.A. to: CIECH Serwis i Remonty S.A. The court registered the share capital increase and change of the company's name on 22 April 2020.

#### • CIECH Salz Deutschland GmbH

On 11 December 2019, the Shareholders' Meeting of CIECH Salz Deutschland GmbH increased the share capital from EUR 25 thousand to EUR 3,025 thousand, by creating 100 new shares with a value of EUR 30 thousand per share and a total value of EUR 3 million. New shares from the increase of the share capital of CIECH Salz Deutschland GmbH were acquired by CIECH S.A. in exchange for cash. The share capital increase was registered on 5 March 2020.



- **CIECH Vitro Sp. o.o.**

On 4 March 2020, the Deed of incorporation of CIECH Vitro Sp. z o.o., with its registered office in Iłowa and a share capital of PLN 5 thousand, divided into 100 equal and indivisible shares with a nominal value of PLN 50 each, was drawn up. The share capital was paid in full in cash of PLN 400 thousand by CIECH SA. The share premium of PLN 395 thousand was transferred to the supplementary capital. The Company was registered by the court on 7 May 2020.

- **CIECH Trading Sp. z o.o. (former name: CIECH Trading S.A.)**

On 27 March 2020, CIECH S.A. sold to BOSTEN S.A. 100 series A registered shares in CIECH Trading S.A. with a total nominal value of PLN 900, for a total price of PLN 300.

On 30 March 2020 the Management Board of CIECH Trading S.A. notified the shareholders of its intention to adopt a resolution on the transformation of CIECH Trading Spółka Akcyjna into a limited liability company under the name of CIECH Trading Spółka z ograniczoną odpowiedzialnością and presented the Transformation Plan prepared on 30 March 2020. The court registered the transformation on 18 June 2020. On 22 June 2020, CIECH Serwis i Remonty S.A. (formerly: BOSTEN S.A.) sold 18 shares in the Company to CIECH S.A. for the total price of PLN 300 and ceased to be a shareholder of the Company.

- **Janikowskie Zakłady Sodowe JANIKOSODA Sp. z o.o. (former name: Janikowskie Zakłady Sodowe JANIKOSODA S.A.)**

On 16 June 2020, the Extraordinary Shareholders' Meeting of Janikowskie Zakłady Sodowe JANIKOSODA S.A. adopted a resolution on the transformation of Janikowskie Zakłady Sodowe JANIKOSODA Spółka Akcyjna into a limited liability company under the name of Janikowskie Zakłady Sodowe JANIKOSODA Spółka z ograniczoną odpowiedzialnością.

The share capital of JANIKOSODA Sp. z o.o. amounts to PLN 44,330 thousand and is divided into 2 shares of unequal nominal value, i.e. PLN 36,530 thousand – one share held by CIECH FINANCE Sp. z o.o. and PLN 7,800 thousand – one share held by CIECH S.A. The court registered the transformation on 2 October 2020.

- **EL-POMIAR Spółka z ograniczoną odpowiedzialnością (indirect subsidiary of CIECH Soda Polska S.A.)**

On 9 December 2019, CIECH Soda Polska S.A. concluded with the Shareholders of El-Pomiar Sp. z o.o., holding a total of 67 shares, representing 32.2% of the Company's share capital, a Preliminary Sales Agreement for Shares in the Limited Liability Company. Under this agreement, the Shareholders who are parties to the Preliminary Agreement agreed to sell shares held and to convene a Shareholders' Meeting in order to adopt a resolution on granting consent to the sale of shares held by other shareholders of the Company to CIECH Soda Polska S.A. and to execute the Sales Agreement, provided that the conditions precedent included therein are met. On 18 December 2019, the Extraordinary Shareholders' Meeting of El-Pomiar Sp. z o.o. adopted a resolution to grant consent to all Shareholders of the Company to sell the shares held.

The first shares were acquired under conditional sales agreements of 28 January 2020, with the proviso that the agreements will be effective from the date of acquisition by CIECH Soda Polska S.A. of 110 shares in the Company. On 10 February 2020, CIECH Soda Polska S.A. acquired a total of 110 shares, representing 52.9% of the share capital, thus becoming the majority shareholder in El-Pomiar Sp. z o.o.

CIECH Soda Polska S.A. acquired two more shares, the ownership of one share was transferred to CIECH Soda Polska S.A. on 10 July 2020, and the ownership of the other share was transferred to CIECH Soda Polska S.A. on 24 July 2020. Thus, CIECH Soda Polska S.A. holds 195 shares representing 93.75% of the share capital.

- **CIECH Nieruchomości S.A.**

On 28 May 2020, the General Meeting of CIECH Nieruchomości S.A. resolved to increase the share capital by issuing 200,008,926 series E shares with a total nominal value of PLN 4,000 thousand and an issue price equal to the nominal value of the shares. Series E shares were earmarked to and acquired by CIECH S.A. The agreement to take up series E shares was concluded on 2 June 2020. The court registered the increase of the share capital on 2 September 2020. On 2 November 2020, Extraordinary General Meeting of CIECH Nieruchomości S.A. adopted a resolution on the transformation of a joint-stock company into a limited liability company. We are waiting for the court to register the conversion.

- **CIECH SERVICES Sp. z o.o. – a new company in the CIECH Group**

On 14 September 2020, the Deed of incorporation by CIECH S.A. of CIECH SERVICES Sp. z o.o., with its registered office in Bydgoszcz and a share capital of PLN 5 thousand, divided into 100 equal and indivisible shares with a nominal value of PLN 50 each, was drawn up. The share capital was paid in full in cash of PLN 5 thousand. The new company is a special purpose vehicle and will become a shared service center. The Court registered CIECH SERVICES Sp. z o.o. on 19 October 2020.



### 3.4. THE MOST IMPORTANT EVENTS IN THE CIECH GROUP DURING THREE QUARTERS OF 2020

#### Demerger of CIECH Sarzyna S.A.

On 2 January 2020, the District Court in Rzeszów, 12<sup>th</sup> 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 Żywiec 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 Żywiec 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.

#### Sale of an organised part of the enterprise

On 7 January 2020 the Extraordinary Shareholders' Meeting of CIECH R&D Sp. z o.o. adopted resolution on the sale to CIECH Żywiec 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.

#### Appointment of a Supervisory Board Member

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.

#### Cooperation agreement

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.

#### Signing of letter of intent

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 soda ash. 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 CO<sub>2</sub> 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 GmbH&Co.KG and a heat supplier from the REMONDIS Group. Detailed information is provided in current report No 11/2020.

#### Use of available financing

In the first quarter of 2020, all funds available under the revolving credit lines made available to CIECH S.A. under the agreement with the consortium of banks of 9 January 2018 and the facility agreements of 18 April 2019 were disbursed:

- ✓ 17 February 2020 – disbursement of the amount of PLN 60,000 thousand – funds disbursed to finance the Group's current liquidity needs,
- ✓ 19 March 2020 and 23 March 2020 - disbursement of the amount of PLN 442,788 thousand - funds disbursed in order to maximize the level of available liquidity and minimize the risk of unavailability of financing in



connection with the growing uncertainty of economic developments due to the COVID-19 epidemic.

The current debt balance is shown in section 3.5.7.

#### **Letter of intent concerning the construction of a waste treatment installation**

On 23 March 2020, a letter of intent was signed between CIECH S.A., 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, on their cooperation in the implementation of the investment project, consisting in the construction by EEW, EEW Polska and FBSerwis of a thermal waste treatment installation. The primary objective of the installation will be to supply CIECH Soda Polska S.A.'s production plant, located in Janikowo, with thermal energy (process steam). For details on the planned project, see current report No 13/2020.

#### **Voluntary redundancy programme**

On 25 March 2020, a decision was made to implement, as of 1 April 2020, the Voluntary Redundancy Programme with regard to employees of CIECH Soda Romania S.A. and the CIECH S.A. Branch in Romania, and to launch, as of 27 March 2020, the collective redundancy procedure with regard to employees of CIECH Soda Romania S.A. For details, see current report No 14/2020.

#### **Agreement for the execution of a significant project**

On 2 April 2020, as part of a significant investment project, involving the construction of an evaporated salt production plant in Stassfurt, Germany, a subsidiary of CIECH S.A. – CIECH Salz Deutschland GmbH – signed an agreement with Adamietz Sp. z o.o. with its registered office in Strzelce Opolskie, for the execution of design, construction and assembly works aimed at constructing the facilities making up the Project. The total value of the Agreement is EUR 44,100 thousand. CIECH Salz Deutschland GmbH is a special purpose vehicle and a wholly-owned subsidiary of CIECH S.A., which took over the salt business in Germany from CIECH Soda Deutschland GmbH & Co.KG.

#### **Reverse factoring agreements**

On 7 April 2020, CIECH S.A. and its subsidiaries: CIECH Sarzyna S.A., CIECH Pianki sp. z o.o., CIECH Soda Polska S.A. and CIECH Vitrosilicon S.A. entered into a supplier financing agreement (reverse factoring agreement) with BNP Paribas Faktoring sp. z o.o. The conclusion of the Agreement fits in well with the CIECH Group's policy aimed at limiting risks related to the current market situation. Reverse factoring is to ensure an improvement in the companies' liquidity. For details on the agreement, see current reports No 17/2020 and 21/2020.

#### **Appointment of a Member of the Management Board**

On 20 April 2020, the Supervisory Board of CIECH S.A. appointed Mr Jarosław Romanowski as a Member of the Management Board of CIECH S.A.

#### **Resignation of a Supervisory Board Member**

On 20 May 2020, Mr Tomasz Mikołajczak resigned as Member of the Supervisory Board of CIECH S.A. Mr Tomasz

Mikołajczak served as Vice-Chairman of the Supervisory Board of CIECH S.A.

#### **Appointment of a Supervisory Board Member**

On 21 May 2020, the Annual Shareholders' Meeting of CIECH S.A. appointed Mr Martin Laundenbach as a new member of the Supervisory Board of CIECH S.A.

#### **Consent to raising financing**

On 21 May 2020, the Annual General Meeting of CIECH S.A. gave its consent to CIECH S.A. or its subsidiaries raising financing through the issue of bonds by CIECH S.A. or its subsidiaries on international markets or the Polish market, contracting credit facilities, contracting loans, incurring debt in any other form or by combining various financing instruments, provided however that the claims of entities providing such financing may be subordinated to the claims of creditors of CIECH S.A.'s existing debt. The total amount of additional financing will not exceed PLN 500 million or its equivalent in other currencies. For details, see current report No 24/2020.

#### **Authorisation to purchase CIECH S.A.'s treasury shares**

On 21 May 2020, the Annual General Meeting of CIECH S.A. authorised the Management Board of CIECH S.A. to purchase fully paid shares issued by CIECH S.A. ("Treasury Shares") from one or more of CIECH S.A.'s shareholders. Treasury Shares may be acquired in particular for the purpose of:

- ✓ their cancellation by way of reduction of the share capital of CIECH S.A.,
- ✓ their resale against remuneration;
- ✓ using them to acquire or exchange shares or interest in any other companies.

The total number of Treasury Shares purchased will not be greater 7.7 million shares of CIECH S.A., representing approx. 14.61% of the share capital, provided however that under no circumstances will the total number of Shares purchased be greater 20% of CIECH S.A.'s share capital, taking into account the nominal value of any other treasury shares that have not been sold by CIECH S.A. The purchase price per a Treasury Share will not be lower than PLN 1 or higher than PLN 45. The maximum amount of remuneration for shareholders will not be higher than PLN 346.5 million for a total of up to 7.7 million Treasury Shares. The authorisation for the Management Board to purchase Treasury Shares covers a period of 2 years. For details, see current report No 24/2020.

#### **Preliminary agreement for the sale of shares in CIECH Żywiec Sp. z o.o.**

On 20 July 2020, CIECH S.A. and LERG S.A. entered into a preliminary agreement for the sale of 74,677 shares representing 100% of the share capital in CIECH Żywiec Sp. z o.o. On 20 July 2020, the Supervisory Board of CIECH S.A. adopted a resolution approving the conclusion of the Transaction in question. The value of the Transaction, taking into account, among others, the share purchase price, is approximately PLN 160 million. Detailed information on the planned transaction is provided in current report No 27/2020.

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

#### 3.5.1. BASIC FINANCIAL DATA

During three quarters of 2020, the CIECH Group earned net profit from continuing operations of PLN 69,925 thousand, net cash increased by PLN 138,420 thousand and the balance sheet total as at the end of the third quarter of 2020 amounted to PLN 5,297,947 thousand. The table below presents selected financial data and basic financial ratios for the three quarters of 2020 and 2019.

##### Selected financial data

	01.01.-30.09.2020	01.01.-30.09.2019*	Change 2020/2019
<b>CONTINUING OPERATIONS</b>			
Sales revenues	2,168,446	2,507,806	(13.5%)
Cost of sales	(1,687,736)	(1,955,289)	13.7%
<b>Gross profit/(loss) on sales</b>	<b>480,710</b>	<b>552,517</b>	<b>(13.0%)</b>
Selling costs	(117,570)	(186,274)	36.9%
General and administrative expenses	(147,177)	(148,992)	1.2%
Other operating income/expense	(39,414)	(51,256)	23.1%
<b>Operating profit/(loss)</b>	<b>176,549</b>	<b>165,995</b>	<b>6.4%</b>
Net financial income/expenses	(47,235)	(40,367)	(17.0%)
Share of profit of equity-accounted investees	76	967	(92.1%)
Income tax	(59,465)	(47,900)	(24.1%)
<b>Net profit/(loss) on continuing operations</b>	<b>69,925</b>	<b>78,695</b>	<b>(11.1%)</b>
<b>DISCONTINUED OPERATIONS</b>			
Net profit/(loss) on discontinued operations	6,264	1,437	335.9%
<b>Net profit / (loss) for the period</b>	<b>76,189</b>	<b>80,132</b>	<b>(4.9%)</b>
including:			
Net profit/(loss) attributed to non-controlling interest	(1,088)	(792)	(37.4%)
Net profit/(loss) attributable to shareholders of the parent company	77,277	80,924	(4.5%)
EBITDA from continuing operations	414,065	389,407	6.3%
Adjusted EBITDA from continuing operations**	413,570	465,153	(11.1%)

\*Restated data.

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

#### 3.5.2. SALES REVENUES

Consolidated net sales revenues from continued operations of the CIECH Group for three quarters of 2020 amounted to PLN 2,168,446 thousand. Compared to the corresponding period of the previous year, revenues decreased by PLN 339,360 thousand.

Consolidated net sales revenues from discontinued operations of the CIECH Group for three quarters of 2020 amounted to PLN 198,081 thousand, as compared to PLN 236,276 thousand in the corresponding period.

This decline was mainly driven by a decreased sales volume in the soda segment, where revenues fell by PLN 353.0 million (18.8%) year-on-year, primarily due to a decrease in sales of light soda ash. The key factor behind the decrease in revenue in the soda segment is the hibernation of the Romanian plant and the resulting decrease in sales volume and, consequently, in sales revenue. Additionally, a decrease in orders for soda segment products was also observed during the first wave of the COVID-19 epidemic, i.e. in the second quarter of 2020. In the following months, the sales volume in the soda segment was slowly recovering.

At the end of the third quarter of 2020, sales revenues in the organic segment increased by PLN 41.8 million (10.1%) year-on-year. The most significant growth was recorded in the sales of crop protection products, which is mainly attributable to higher



sales to local Iberian distributors, an increase in industrial sales and the successful expansion of the distribution network in the Portuguese market at the end of 2019. In the period in question, a decrease in revenue from sales of PUR foams was recorded, driven by trade restrictions and the closure of shopping and furniture centers both in Poland and Europe due to the COVID-19 pandemic. The decrease in revenues from sales of PUR foams, observed particularly in the second quarter of 2020, was partially offset by a significant increase in revenues in the third quarter when both planned sales and some of the orders not delivered in the previous quarter were completed.

At the end of the third quarter of 2020, sales revenues in the silicates and glass segment decreased by PLN 6.0 million (3.2%) year-on-year. The biggest drops in this segment were reported in sales of sodium silicates and packaging glass, driven – similarly to other segments – by the effect of the first wave of the COVID-19 pandemic in the second quarter of 2020 and the resulting decline in demand for silicates in the automotive industry (mainly tire manufacturers). On the other hand, in the third quarter of 2020 the volume of sales increased steadily, partially offsetting the previously recorded decreases in revenues in this segment.

Other segments, i.e. the transport segment, reported a decrease in sales by PLN 13.5 million (12.8%) year-on-year, which is largely due to a decrease in turnover in the soda segment, for which transport services are provided. In addition, there was a reduced demand for the transport of coal dust in the period.

In turn, in the other activity segment sales revenues decreased by PLN 26.3 million (25.5%) year-on-year to PLN 77.3 million at the end of September 2020. The decrease in revenue is a consequence of the fact that manufacturers from the detergent sector are more focused on the production of disinfectants than on other products. In addition, a decrease in prices of petrochemical products can be observed.

The level of revenues earned during three quarters of 2020 was also adjusted for the settlement of foreign exchange differences related to debt issued in EUR, previously designated as a hedge of revenues in EUR as of 2020. This settlement will be continued in subsequent quarters until the accumulated negative principal amount from revenues hedging is fully covered. The total value of principal on this account is PLN -22.5 million, of which PLN -14.2 million was settled for the three quarters.

During three quarters of 2020, the CIECH Group's activities were focused on four business segments: soda, organic, silicates and glass, and on the transport segment. These segments generate in total more than 90% of the Group's sales revenues. The structure of sales revenues, by business segment, has not changed significantly in comparison with 2019. Invariably, the largest share in revenues was attributed to the sales of soda segment products, i.e. 70.2%.

#### Sales revenues — business segments

	01.01.-30.09.2020	01.01.-30.09.2019	Change 2020/2019	Change %
<b>Soda segment, including:</b>	<b>1,521,873</b>	<b>1,874,862</b>	<b>(352,989)</b>	<b>(18.8%)</b>
Dense soda ash	845,666	1,015,597	(169,931)	(16.7%)
Light soda ash	197,811	368,202	(170,391)	(46.3%)
Salt	139,950	150,147	(10,197)	(6.8%)
Sodium bicarbonate	143,614	126,493	17,121	13.5%
Energy	107,732	110,811	(3,079)	(2.8%)
Gas*	249	86	163	189.5%
Calcium chloride	12,237	18,237	(6,000)	(32.9%)
Other products	30,743	36,720	(5,977)	(16.3%)
Revenues from inter-segment transactions	43,871	48,569	(4,698)	(9.7%)
<b>Organic segment, including:</b>	<b>453,404</b>	<b>411,643</b>	<b>41,761</b>	<b>10.1%</b>
Resins**	-	-	-	-
Polyurethane foams	182,972	191,972	(9,000)	(4.7%)
Crop protection chemicals	259,162	213,396	45,766	21.4%
Other	9,596	6,040	3,556	58.9%
Revenues from inter-segment transactions	1,674	235	1,439	612.3%
<b>Silicates and Glass segment, including:</b>	<b>180,796</b>	<b>186,827</b>	<b>(6,031)</b>	<b>(3.2%)</b>
Sodium silicates	120,717	123,682	(2,965)	(2.4%)

	01.01.-30.09.2020	01.01.-30.09.2019	Change 2020/2019	Change %
Potassium silicates	6,838	4,944	1,894	38.3%
Container glass	52,708	57,473	(4,765)	(8.3%)
Other	528	582	(54)	(9.3%)
Revenues from inter-segment transactions	5	146	(141)	(96.6%)
<b>Transport segment, including:</b>	<b>91,870</b>	<b>105,341</b>	<b>(13,471)</b>	<b>(12.8%)</b>
Transport services	7,695	9,087	(1,392)	(15.3%)
Revenues from inter-segment transactions	84,175	96,254	(12,079)	(12.5%)
<b>Other segment, including:</b>	<b>77,282</b>	<b>103,678</b>	<b>(26,396)</b>	<b>(25.5%)</b>
Revenues from third parties	50,228	74,337	(24,109)	(32.4%)
Revenues from inter-segment transactions	27,054	29,341	(2,287)	(7.8%)
<b>Consolidation adjustments</b>	<b>(156,779)</b>	<b>(174,545)</b>	<b>17,766</b>	<b>10.2%</b>
<b>TOTAL</b>	<b>2,168,446</b>	<b>2,507,806</b>	<b>(339,360)</b>	<b>(13.5%)</b>

\* Resale of surpluses of the gas purchased.

\*\*Transferred to discontinued operation.

Source: CIECH S.A.

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

After three quarters of 2020, gross profit on sales amounted to PLN 480,710 thousand, whereas in the same period of the previous year it amounted to PLN 552,517 thousand. The operating profit amounted to PLN 176,549 thousand, in the comparable period it amounted to PLN 165,995 thousand.

For discontinued operations, these figures were as follows: PLN 27,414 thousand of gross profit on sales for discontinued operations in the three quarters of 2020, compared to PLN 22,111 thousand in the corresponding period. The operating profit for discontinued operations stood at PLN 11,216 thousand, whereas in the corresponding period it amounted to PLN 3,206 thousand.

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

- Generally lower European prices of energy raw materials used in the production of soda ash (compared to the levels reported in 2019).
- A few percent increase in the prices of soda ash in EUR on the European markets since the beginning of 2020 (compared to the previous year) reflecting the supply-demand relations.
- Very strong decline in crude oil prices on the global markets (by approx. 30% on average during three quarters of 2020 compared to the corresponding period of 2019) and, consequently, lower prices of some raw materials for the organic industry – favourable for operations in the organic segment of the CIECH Group.
- Quantitative increase in domestic production of paints and other coating products – increase by nearly 9% during 9 months of 2020, as compared with the same period of the previous year (the paint industry is a recipient of resins produced by the CIECH Group); strong growth in the third quarter of this year.
- Weakening of PLN during three quarters of 2020 against EUR and USD, as compared to the corresponding period of the previous year – advantageous for the profitability of CIECH Group exports.

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

- The collapse of domestic industry activity that has not been experienced for many years (also in the chemical sector) caused by the COVID-19 pandemic; confirmed by a drop in total output sold by 3.2% during nine months of 2020 (at constant prices as compared to the corresponding period of the previous year); however, with some signs of a return to growth in the third quarter - increased sales compared to the corresponding period of the previous year.
- Decrease in domestic sales of construction and assembly production by 1.6% during nine months of 2020 in constant prices in comparison to the same period of the previous year (the chemical industry produces many raw materials and semi-finished products used in this production); an effect of a strong reduction in the third quarter of this year.
- Continued uncertainty about the general economic situation in the European Union; particularly in the EURO zone (as reflected in this year's very large fluctuations of the PMI (Purchasing Managers' Index) readings, not recorded in this century; however, with an upward tendency in the third quarter of this year).



- Decreased demand on the European market for soda ash in glass segments as a result of the COVID-19 pandemic; in the area of flat glass (collapse of automotive industry production and weakening of construction activity) and packaging glass.
- Downturn in some segments of the evaporated salt market (especially in the area of electrolysis plants closely related to the plastics industry for construction, automotive and furniture sectors) as a result of the COVID-19 pandemic.
- A very strong decrease in domestic production of sleeping furniture by approx. 10% in 9 months of 2020 year-on-year (in volume terms); however, a clear rebound in the third quarter of this year after the collapse of production in the second quarter. The furniture sector, especially upholstered furniture sector, is a recipient of polyurethane foams manufactured by the Ciech Group.
- Increase in prices of raw materials for the production of polyurethane foams in the third quarter of this year (rapid growth in demand after a period of a major slowdown in the second quarter due to the COVID-19 pandemic; disruption in the supply chain of raw materials on the part of European manufacturers).

For continuing operations, the EBIT margin for the three quarters of 2020 amounted to 8.1% (6.6% in the prior year), and the EBITDA margin amounted to 19.1% (15.5% in the prior year). The EBIT margin (excluding one-off events) for three quarters of 2020 amounted to 8.1% (9.6% in the prior year), and the EBITDA margin (excluding one-off events) amounted to 19.1% (18.5% in the prior year).

#### 3.5.4. FINANCING ACTIVITIES AND NET PROFIT/LOSS

Financial income for the three quarters of 2020 amounted to PLN 30,910 thousand and increased compared to the corresponding period of the previous year, when it amounted to PLN 12,536 thousand.

Financial expenses for the nine months of 2020 amounted to PLN 78,145 thousand and increased compared to the corresponding period of the previous year, when it amounted to PLN 52,903 thousand.

The area of financing activities was mainly affected by higher foreign exchange gains, interest on loans and valuation of financial instruments.

The consolidated net profit for three quarters of 2020 (taking into account discontinued operations) amounted to PLN 76,189 thousand (of which PLN 77,277 thousand was a net profit attributable to the shareholders of the parent company and PLN -1,088 thousand as the loss of non-controlling interest). The decrease in net profit as compared to the corresponding period of 2019 results from negative valuations of financial instruments and numerous tax expenses.

#### 3.5.5. ASSET POSITION OF THE CIECH GROUP

##### Basic consolidated balance sheet data

	30.09.2020	31.12.2019	Change 2020/2019
<b>Total assets</b>	<b>5,297,947</b>	<b>5,046,545</b>	<b>5.0%</b>
Total non-current assets	3,935,299	3,734,291	5.4%
Total current assets	1,362,648	1,312,254	3.8%
Inventory	326,323	455,704	(28.4%)
Current receivables	440,572	538,898	(18.2%)
Cash and cash equivalents	439,474	299,580	46.7%
Short-term financial assets	4,983	17,282	(71.2%)
Non-current assets held for sale	151,296	790	19,051.4%
<b>Total equity</b>	<b>2,041,667</b>	<b>1,976,779</b>	<b>3.3%</b>
Equity attributable to shareholders of the parent	2,043,519	1,977,796	3.3%
Non-controlling interest	(1,852)	(1,017)	(82.1%)
Total non-current liabilities	2,156,242	1,947,307	10.7%
Total current liabilities	1,100,038	1,122,459	(2.0%)

##### Assets

As at the end of September 2020, the Group's non-current assets amounted to PLN 3,935,299 thousand. As compared to the balance as at 31 December 2019, the value of non-current assets increased by PLN 201,008 thousand. This change was mainly affected by further investments in non-current assets in the companies.

The Group's current assets amounted to PLN 1,362,648 thousand as at 30 September 2020.



Compared to the end of December 2019, the value of current assets increased by PLN 50,394 thousand.

This change resulted from, among other factors:

- higher balance of cash accumulated in companies – in the first quarter of 2020 all funds available under the revolving credit line have been disbursed; funds disbursed in order to maximize the level of available liquidity and minimize the risk of unavailability of financing in connection with the growing uncertainty of economic developments due to the COVID-19 epidemic. In the third quarter of 2020, one of the revolving credit facility was repaid, but compared to the end of 2019, the use of revolving credit facilities is higher by nearly PLN 260 million.
- lower balance of trade receivables,
- higher balance of factoring receivables which have not been settled as at the balance sheet date,
- lower balance of public-law receivables,
- decrease in inventories resulting mainly from a decrease in inventories in the organic segment.

Moreover, current assets include assets held for sale in connection with the planned sale of CIECH Żywiec Sp. z o.o. On this account, the value of the company's total assets as at 30 September 2020, amounting to PLN 152,733 thousand, was reported in this item. For details of the planned transaction, see Sections 2.15 and 3.4 hereof.

### Capital resources

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

### Liabilities

As at 30 September 2020, the CIECH Group's liabilities (total non-current and current) amounted to PLN 3,256,280 thousand, which is an increase compared to the end of December 2019 by PLN 186,514 thousand.

The debt ratio amounted to 61.5% as at 30 September 2020 (at the end of December 2019 to 60.8%). The consolidated net debt of the Group amounted to PLN 1,664,617 thousand as at 30 September 2020 and increased in comparison to the balance as at the end of December 2019 by PLN 142,256 thousand (the figures do not include assets and liabilities disclosed as held for sale).

### Debt instruments currently used

The Group's sources of debt financing include: term loan, revolving credit, overdrafts as well as lease liabilities. Additional information about the management of financial resources is provided in Section 4.6. of the Management Board Report on Activities of the CIECH Group and CIECH S.A. in 2019, published on 31 March 2020.

### Analysis of the impact of the COVID-19 coronavirus pandemic on the measurement of assets and liabilities of the CIECH Group

#### Impairment of property, plant and equipment or intangible assets

On the basis of analyses carried out in the CIECH Group companies, no indication of any significant risk of impairment of property, plant and equipment and intangible assets in use or investments in progress was found.

No significant impact of the situation related to COVID-19 on the value of the shares held and goodwill has been found and therefore the amount of impairment losses on these assets has not changed.

#### Assessment of credit situation

The CIECH Group analysed the impact of the pandemic on its credit risk level. As at the date of publication of this report, no significant deterioration of receivables repayment dates was found. Therefore, no changes were made to the assumptions used for credit loss estimation and calculation models at the moment. Moreover, most of the receivables of the CIECH Group companies are insured and financed through non-recourse factoring.

#### Liquidity situation

As at the date of publication of this report, the financial standing of the CIECH Group is stable. As at the end of September 2020, the CIECH Group has a revolving credit facility of PLN 250 million available, and the cash balance was approximately PLN 440 million.



The Group does not currently identify any risk of non-performance of credit facility agreements or failure to meet the level of ratios tested under the loan agreements.

### 3.5.6. CASH POSITION OF THE CIECH GROUP

	01.01.-30.09.2020	01.01.-30.09.2019	Change 2020/2019
Net cash from operating activities	517,050	239,419	116.0%
Net cash from investment activities	(550,920)	(256,881)	(114.5%)
Net cash from financial activities	172,290	(8,380)	-
<b>Total net cash flows</b>	<b>138,420</b>	<b>(25,842)</b>	-
Free cash flow	(33,870)	(17,462)	(94.0%)

Total net cash flows in the three quarters of 2020 was positive and amounted to PLN 138,420 thousand. Compared to the same period of the previous year, the cash flows generated by the Group were higher by PLN 164,262 thousand. Cash flows from operating activities were positive and amounted to PLN 517,050 thousand. They increased as compared to the same period in 2019 by PLN 277,631 thousand.

During three quarters of 2020, the net cash flows from investing activities were negative, which was mainly the result of expenses for an investment programme implemented by the Group and of expenses related to the purchase of CO<sub>2</sub> certificates. The net cash from financing activities was positive and amounted to PLN 172,290 thousand.

	01.01.-30.09.2020	01.01.-30.09.2019
Financial surplus ((net profit/(loss) on continuing operations + depreciation)	318,944	311,649
Other adjustments to net profit/(loss) on continuing operations	5,190	39,197
<b>Adjusted financial surplus (1+2)</b>	<b>324,134</b>	<b>350,846</b>
Change in working capital	192,916	(111,427)
<b>Net cash from operating activities (3+4)</b>	<b>517,050</b>	<b>239,419</b>
Net cash from investing activities	(550,920)	(256,881)
<b>Free cash flow (5+6)</b>	<b>(33,870)</b>	<b>(17,462)</b>

During the three quarters of 2020, the CIECH Group generated negative free cash flows i.e. it was unable to finance its capital expenditure with cash flows from operating activities.

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

#### Liquidity of the CIECH Group

Liquidity ratios as at 30 September 2020 increased as compared to their level as at 31 December 2019. The current ratio, calculated as the ratio of total current assets to total current liabilities, amounted to 1.24 as at 30 September 2020, while the quick liquidity ratio amounted to 0.94.

	30.09.2020	31.12.2019
Current ratio	1.24	1.17
Quick ratio	0.94	0.76

#### Working capital of the CIECH Group

As at the end of the third quarter of 2020, working capital, defined as the difference between current assets and short-term liabilities, adjusted by relevant balance sheet items (cash and cash equivalents and short-term loans) was positive and amounted to PLN 24,076 thousand, which is an increase by PLN 17,406 thousand compared to the end of 2019.



	30.09.2020	31.12.2019
1. Current assets, including:	1,362,648	1,312,254
Inventory	326,323	455,704
Trade receivables and services and advances for deliveries	194,324	295,534
2. Cash and cash equivalents and short-term investments	444,457	316,862
<b>3. Adjusted current assets (1-2)</b>	<b>918,191</b>	<b>995,392</b>
4. Current liabilities, including:	1,100,038	1,122,459
Trade liabilities and advances taken	313,978	397,426
5. Short-term credits and other current financial liabilities*	205,923	133,737
<b>6. Adjusted current liabilities (4-5)</b>	<b>894,115</b>	<b>988,722</b>
<b>7. Working capital including short-term credits(1-4)</b>	<b>262,610</b>	<b>189,795</b>
<b>8. Working capital (3-6)</b>	<b>24,076</b>	<b>6,670</b>

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

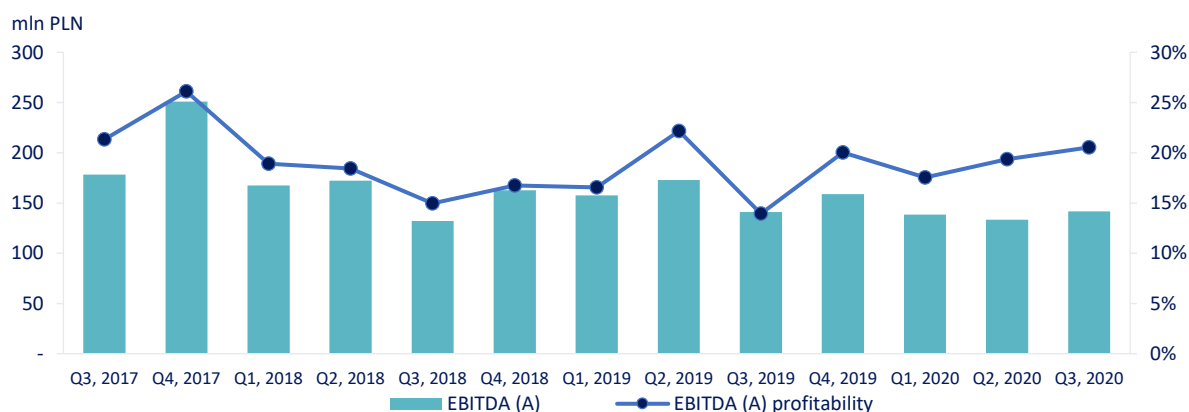
### The CIECH Group's profitability ratios

During the three quarters of 2020, profitability ratios of the CIECH Group in respect of the continuing operations were similar to those recorded in the corresponding period of the previous year.

### THE CIECH GROUP'S PROFITABILITY RATIOS

	01.01.-30.09.2020	01.01.-30.09.2019	Change 2020/2019
<b>CONTINUING OPERATIONS</b>			
Gross return on sales	22.2%	22.0%	0.2p.p.
Return on sales	10.0%	8.7%	1.3p.p.
EBIT margin	8.1%	6.6%	1.5p.p.
EBITDA margin	19.1%	15.5%	3.6p.p.
Adjusted EBIT margin	8.1%	9.6%	(1.5) p.p.
Adjusted EBITDA margin	19.1%	18.5%	0.6p.p.
Net return on sales (ROS)	3.2%	3.1%	0.1p.p.
Return on assets (ROA)	1.3%	1.6%	(0.3) p.p.
Return on equity (ROE)	3.4%	4.1%	(0.7) p.p.
Earnings/(loss) per share (in PLN) from continuing operations	1.35	1.51	(0.16)

### PROFITABILITY LEVELS OF THE CIECH GROUP



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

Source: CIECH S.A.



## Indebtedness

The debt ratio increased slightly in comparison to December 2019 and amounts to 61.5%. The level of net debt (net financial liabilities in relation to EBITDA) increased as compared to the end of 2019. The increase in debt results from:

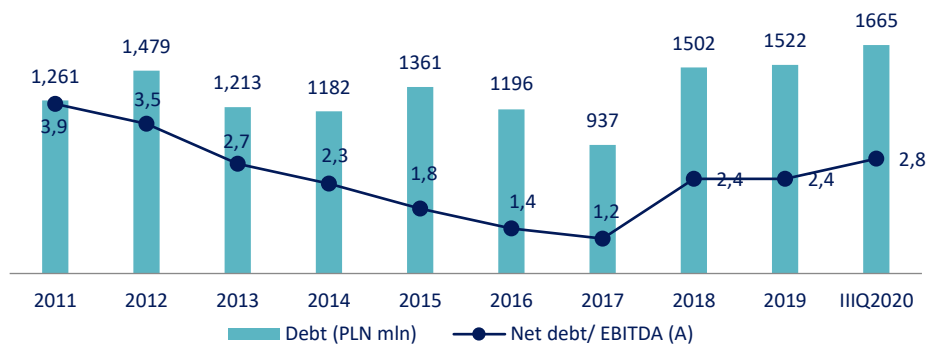
- utilisation of available credit limits by CIECH S.A.,
- significantly negative valuation of derivative financial liabilities.

	30.09.2020	31.12.2019
Loans, borrowings and other debt instruments	1,865,033	1,645,400
Lease liabilities	131,547	143,934
Factoring liabilities*	20,541	25,536
Negative net valuation of derivatives	86,970	7,071
<b>Gross debt</b>	<b>2,104,091</b>	<b>1,821,941</b>
Cash and cash equivalents	439,474	299,580
<b>Net debt</b>	<b>1,664,617</b>	<b>1,522,361</b>

\* 8%-10% of recourse factoring liabilities.

## The CIECH Group's debt ratios

	30.09.2020	31.12.2019	Change 2020/2019
Debt ratio	61.5%	60.8%	0.7 p.p.
Long term debt ratio	40.7%	38.6%	2.1 p.p.
Debt to equity ratio	159.5%	155.3%	4.2 p.p.
Equity to assets ratio	38.5%	39.2%	(0.7) p.p.
Gross debt	2,104,091	1,821,941	15.5%
Net debt	1,664,617	1,522,361	9.3%
EBITDA annualized	577,127	552,468	4.5%
Adjusted EBITDA (annualised)	586,485	638,068	(8.1%)
Net debt / EBITDA annualized	2.9	2.8	4.7%
Net debt / Adjusted EBITDA (annualised)	2.8	2.4	19.0%
Gross debt / EBITDA annualised	3.6	3.3	10.6%
Gross debt / Adjusted EBITDA (annualised)	3.6	2.9	25.6%



## 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 dated 9 January 2018:
  - o term loan in the amount of PLN 1,212,520 thousand and EUR 30,000 thousand (the total amount of the loan as at 30 September 2020 was PLN 1,348,324 thousand),
  - o revolving credit facility granted to CIECH S.A. in the amount of up to PLN 250,000 thousand (the amount of used credit as at 30 September 2020 was PLN 0 thousand),
2. overdraft facilities up to PLN 100,000 thousand and EUR 10,000 thousand under agreements dated 28 and 29 August 2018 (as at 30 September 2020, the amount used was PLN 0 thousand),



3. revolving credit facilities up to PLN 300,000 thousand, PLN 92,788 thousand and EUR 25,000 thousand, under three agreements dated 18 April 2019 (as at 30 September 2020, the amount used was PLN 505,958 thousand).

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.

#### Factors and events that may affect future performance

The CIECH Group intends to implement the development strategy adopted, although – as a result of the situation caused by the COVID-19 pandemic – the deadline for its implementation will change. The Group is currently conducting analyses in this respect. Pursuant to the Strategy, the CIECH Group will focus on the following actions conducive to further development:

- development of the soda business, among others, through a growth of sales of high-margin specialist products,
- development of the salt business by entering new markets and increasing sales thanks to the construction of a new production plant,
- increase in operational efficiency thanks to, among others optimization of production costs and process improvements,
- implementation of ambitious projects in the field of decarbonisation (including the energy strategy) that will allow the Group to remain competitive in the long term,
- optimisation of costs of repairs and maintenance of assets, especially in the area of maintenance in all CIECH Group production plants, incl. by increasing the scope of work performed internally,
- discipline in the field of fixed costs,
- further changes in the functioning of the organic segment, especially in the area of crop protection chemicals - striving for operational excellence, optimization of the product portfolio,
- continuous process of improving business and operational processes in all companies of the CIECH Group,
- optimisation of the corporate and organisational model of the CIECH Group.

It should be noted that due to the prevailing COVID-19 pandemic, the economic situation in the world is uncertain and the directions of its development are difficult to predict. The Management Board of the CIECH Group analyzes the scenarios of possible development on an ongoing basis and will make decisions taking care of the Group's long-term value.

### 3.6. SIGNIFICANT RISK FACTORS

In connection with its operations, the CIECH Group is exposed to a number of risks, including financial risks. The most important risk factors are presented in details in Section 3.4 of the Management Board Report on activities of the CIECH Group and CIECH S.A. in 2019, published on 31 March 2020.

There were no significant changes in relation to the Group's risk management policy.

In 2020, a significant new risk related to the ongoing global coronavirus pandemic COVID -19 emerged. The first information on the impact of the pandemic has already been presented in the Consolidated Financial Statements of the CIECH Group for 2019, published on 31 March 2020.

The outbreak of the COVID-19 coronavirus pandemic and the resulting decisions and recommendations of the state authorities affected the operations of the CIECH Group, but did not disrupt its core operating activities. The impact of the COVID-19 pandemic on the CIECH Group's situation is monitored on an ongoing basis. When making decisions related to counteracting the effects of the pandemic, the Management Board is guided by concern for the health of employees and care for the long-term value of the Group.

Both during the period in which the most severe restrictions announced by the government were in force, during the periods of their easing, the CIECH Group conducted its operations on an ongoing basis and did not record any complete interruptions in production. There were also no cases of supply chain disruptions due to interruptions in transport, availability of raw materials or for other reasons.

The COVID-19 pandemic had no significant impact on the CIECH Group in the first quarter of 2020. It was only at the beginning of the second quarter, after the introduction of restrictions and a partial lockdown in many countries around the world, that the pandemic affected the CIECH Group's operations and performance. Depressed business climate, high level of uncertainty and – in some segments – a drop in customer orders were particularly noticeable in April and May. Starting from June, the CIECH Group has been recording an increase in demand and improved market sentiment. In the third quarter, there were signs that the situation has normalized – customers and suppliers are adapting to operating in a changed environment.



However, there is still a great deal of uncertainty and risk caused by the unknown development of the pandemic, so it is difficult to estimate the direction and scale of changes in the economies.

#### **Soda segment**

In the soda segment, as a result of reduced demand for flat glass (mainly in the automotive industry), sales of soda ash have decreased. The Group estimates the decrease in its sales of soda ash to be smaller than that of its main competitors, due to, among other reasons, a favourable geographical location – close to customers from Central and Eastern Europe who have been relatively less affected by the decline in production. The Group also saw a decrease in sales of salt, which was primarily caused by a decline in salt consumption in the HORECA segment. As in the case of soda ash, the decrease in sales was recorded mainly in April and May. In the third quarter, there was a gradual normalization (U-shaped rebound), although due to economic weakness in the case of most products, the total volume of customer orders did not return to the pre-pandemic level. The exceptions are the sales of sodium bicarbonate – where the growth is mainly driven by the increase in production at the new plant in Germany and the sales of salt tablets for water treatment. In the first nine months of 2020, revenues in the soda segment decreased by PLN 353 million year-on-year to PLN 1,522 million, whereby approximately PLN 315 million of the decrease is due to the hibernation of the Romanian plant.

#### **Organic segment**

In the organic segment, the COVID-19 pandemic did not significantly affect the sales of crop protection products, as the demand for them is less sensitive to the current economic situation. Owing to the measures taken in previous periods, including streamlining processes, standardizing agreements and relations with customers and expanding the product portfolio, the performance in the area of crop protection products stabilized the performance of the Group in the first half of 2020, largely compensating for the deterioration in the production and sales of polyurethane foams reported in the first six months of the year. The pandemic still did not significantly affect the performance in the field of crop protection products in the third quarter, but it is, for seasonal reasons, the quarter with the lowest sales, where most of the effort is focused on preparing for preseasonal sales in the fourth quarter and the first quarter of the following year. In the area of polyurethane foams, on the other hand, a very strong rebound and increase in sales volume was observed in the third quarter. After declines in sales of foams in the second quarter, caused primarily by a decline in orders from the furniture industry as a result of closing down shopping centers in Europe and restrictions on the movement of people, the demand for furniture and consequently the foam produced by the Group exceeded the levels recorded before the pandemic and largely offset the declines from previous periods. On the other hand, a deterioration in the availability of raw materials for foam production on the international market was observed, which increased the risk of maintaining the continuity of their supply.

In the three quarters of 2020, the organic segment's revenues increased by PLN 41.8 million year-on-year to PLN 453 million.

#### **Silicates and Glass segment**

In the Group's Silicates and Glass segment, as in other segments, the third quarter brought a gradual improvement in sentiment. Sales of silicates increased to levels higher than in the corresponding period of the previous year, while sales of glass packaging were lower. During nine months of 2020, the Silicates and Glass segment's revenues decreased by PLN 6 million year-on-year to PLN 181 million.

#### **Cost reduction**

Responding to the market situation, the CIECH Group has taken a number of optimization measures on the cost side, in particular in the area of maintenance at the production plants. Extending the scope of services provided by internal entities and reducing the use of outsourced services enabled savings to be generated as early as in the second quarter of 2020, but the effects of these measures will be fully visible in the second half of 2020. These and other savings in fixed costs helped to significantly reduce the negative impact of lower revenues on the Group's EBITDA and cash flows. With respect to variable costs, the Group renegotiated the contracts for strategic raw materials, thereby recovering a portion of the margin that was lost due to the economic slowdown triggered by the COVID-19 pandemic.

#### **Strategy implementation and investment programme**

The CIECH Group believes that the COVID-19 pandemic and the related economic slowdown do not significantly affect the objectives and directions of development set out in the Group's Strategy, although their implementation within the previously assumed deadlines may be hindered. Currently, the CIECH Group is carrying out detailed analyses of the impact of the current situation on the timely implementation of strategic objectives.

The COVID-19 pandemic and related restrictions imposed by the authorities (temporary lock-down in economies, disruption in the functioning of authorities and administrative bodies) may affect the timeframe of the Group's investment programme.



In particular, the Group expects that the salt work in the production plant in Stassfurt will be launched in the second quarter of 2021, and not as previously assumed in the first quarter of 2021.

#### There is no indication of a risk of impairment of assets

It should be emphasized that the analyses carried out in the Group for the three quarters of 2020 did not show any evidence indicating a risk of impairment of property, plant and equipment and intangible assets in use or investments in progress was found. No significant impact of the situation related to COVID-19 on the value of the shares held and goodwill has been found. It should be noted, however, that the pandemic caused great uncertainty in the economy and, depending on further developments, a negative impact on the valuation of the Group's assets in the future cannot be excluded. In the Group's opinion, the COVID-19 pandemic did not affect the value of inventories of both the production raw materials and finished products.

#### No significant impact on credit risk and level of receivables

In the three quarters of 2020, the CIECH Group did not identify any impact of the pandemic on the level of credit risk, and the timelines of payment of receivables by counterparties did not deteriorate. At the end of the third quarter, the share of receivables past due for more than 7 days in total receivables remained at a level similar to that of the end of the first quarter. Moreover, the vast majority of the company's receivables are insured and financed through non-recourse factoring. The Group's unsecured exposure at the end of the third quarter was lower than at the end of the first quarter.

#### Financial position of the CIECH Group

As at the date of publication of this report, the financial standing of the CIECH Group is stable. The Group does not currently identify any risk of non-performance of credit facility agreements or failure to meet the level of ratios tested under the loan agreements.

#### Impact of the pandemic on future performance

A comprehensive and accurate assessment of the impact of the COVID-19 pandemic on the CIECH Group's performance, is currently difficult as it will depend mainly on the further development of the pandemic and future economic policies of individual countries. The Group is well positioned to act in different scenarios of developments of the present situation.

#### Exposure to currency risk

The table below presents the estimated currency exposure of the CIECH Group in EUR and USD as at 30 September 2020 due to financial instruments (for EUR – excluding figures of the SDC Group, Ciech Group Financing AB, Proplan Plant Protection Company, S.L. and CIECH Salz Deutschland GmbH, because EUR is their functional currency):

Exposure to currency risk	EUR ('000)	USD ('000)	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income*
<b>Assets</b>				
Loans granted sensitive to FX rate changes	152,400	-	x	
Trade and other receivables	12,547	2,837	x	
Cash including bank deposits	34,429	4,570	x	
<b>Liabilities</b>				
Trade and other liabilities	(4,968)	(4,019)	x	
Term loan liabilities	(30,000)	-		x
Working capital facility liabilities	(25,000)	-	x	
Other liabilities in respect of credits and loans	(2,032)	-	x	
Forward	(36,784)	-		x
Forward (not designated to hedge accounting)	(67,000)	-	x	
CIRS (not designated to hedge accounting)	(60,000)	-	x	
Hedging instruments: CIRS (forward transactions isolated as part of decomposition of CIRS)	(136,035)	-		x
<b>Total exposure</b>	<b>(162,442)</b>	<b>3,388</b>		

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



The table contains an analysis of the sensitivity of individual statement of financial position items to exchange rate changes as at 30 September 2020.

Analysis of sensitivity to currency risk – EUR	(PLN '000)*	Impact on the statement of profit or loss	Impact on the statement of other comprehensive income
<b>EUR</b>			
Foreign-currency balance sheet items	104	404	(300)
Hedging instruments: Forward and CIRS	(1,728)	-	(1,728)
<b>USD</b>			
Foreign-currency balance sheet items	34	34	-
Hedging instruments: Forward	-	-	-

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

The CIECH Group applies hedge accounting. For details on hedging relationships, see Note 8.2 to the Consolidated financial statements of the CIECH Group for 2019, published on 31 March 2020.

### 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; approx 17% of receivables is not insured). 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.

Expected credit losses on:	As at 01.01.2020	Increases	Decreases	Foreign exchange differences	As at 30.09.2020
Long-term receivables in relation to caversns	(975)	-	-	(61)	(1,037)
Trade receivables	(3,889)	(2,947)	1,510	-	(5,326)
Factoring receivables	(49)	(33)	-	-	(82)
Cash and cash equivalents	(200)	(525)	186	-	(539)
<b>TOTAL</b>	(5,113)	(3,505)	1,696	(61)	(6,984)

### 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 30 September 2020, the facility was drawn down in the amount of PLN 0 million), and overdraft facilities (as at the end of September 2020, they were drawn down in the amount of PLN 505,958 thousand) have been made available to the Group.

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

30.09.2020	Carrying amount	Contractual cash flows	Less than 6 months	up to 12 months	1-2 years	3-5 years	More than 5 years
<b>Other financial liabilities:</b>	<b>(2,197,814)</b>	<b>(2,243,278)</b>	<b>(344,894)</b>	<b>(14,811)</b>	<b>(373,290)</b>	<b>(1,510,282)</b>	-
<i>Trade liabilities</i>	<i>(312,240)</i>	<i>(312,240)</i>	<i>(312,240)</i>	-	-	-	-
<i>Credits and loans</i>	<i>(1,865,033)</i>	<i>(1,910,497)</i>	<i>(12,114)</i>	<i>(14,811)</i>	<i>(373,290)</i>	<i>(1,510,282)</i>	-
<i>Factoring</i>	<i>(20,541)</i>	<i>(20,541)</i>	<i>(20,541)</i>	-	-	-	-
<b>Lease liabilities</b>	<b>(131,547)</b>	<b>(241,953)</b>	<b>(13,271)</b>	<b>(11,235)</b>	<b>(33,030)</b>	<b>(15,739)</b>	<b>(168,678)</b>
<b>Hedging derivatives with negative value</b>	<b>(70,994)</b>	<b>(75,392)</b>	<b>(44,353)</b>	<b>(9,669)</b>	<b>(19,410)</b>	<b>(1,960)</b>	-
<b>Derivatives with negative value</b>	<b>(7,042)</b>	<b>(13,138)</b>	-	-	<b>(13,138)</b>	-	-
<b>TOTAL</b>	<b>(2,407,397)</b>	<b>(2,573,761)</b>	<b>(402,519)</b>	<b>(35,715)</b>	<b>(438,868)</b>	<b>(1,527,982)</b>	<b>(168,678)</b>

Information on the levels of liquidity ratios is provided in Section 3.5.7 of this report.

A detailed description of information on financial risks is provided in Section 8.3 of the Consolidated Financial Statements of the CIECH Group for 2019, published on 31 March 2020.

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

The CIECH Group did not publish any forecasts for 2020.

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

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

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

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

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

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

According to the data of the Central Statistical Office, the sold industrial output at constant prices during 9 months of 2020 decreased by 3.2% year on year (in 2019 — an increase by 4.5%). After 9 months of 2020, the relevant dynamics of production in the industries of significant importance to the Group's activities (as receiving or target markets) were: manufacture of motor vehicles (decrease by 20.3%); manufacture of furniture (decrease by 1.9%, including furniture for sleeping – decrease by approx. 10% in terms of volume); manufacture of rubber and plastic products (decrease by 1.8%); construction and



assembly production (decrease by 1.6%); manufacture of chemicals and chemical products (increase by 0.5%); manufacture of food (increase by 1.3%).

Over the past few years, the Polish economy has been growing at a GDP growth rate of 4%-5%, which is clearly faster than the average for the European Union. In view of the crisis related to the COVID-19 pandemic, a significant drop in the national GDP by 3.5%-5% is assumed for 2020 (according to the November forecast of European Commission by 3.6%). The economic recovery is expected as early as 2021 with growth rates exceeding 3% (according to EC +3.3%). Similar trends should be expected in the chemical industry which usually develops similarly to the economy as a whole.

#### Economic situation in Europe and in the world

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

In 2019 already, the dynamics of global economic development has weakened significantly year on year (as a result of, among other factors, increased trade barriers between the USA and China and weak situation in the automotive industry). Due to the COVID-19 pandemic, all forecasts for 2020 indicate a global crisis not witnessed in the last few decades. The IMF's projections from the end of October assume that this year will be marked by a much larger fall in global GDP (-4.4%) compared to the 2008-2009 crisis (-0.1% in 2009). According to the IMF, even higher negative GDP growth rates should be expected in highly developed countries (EURO zone - 8.3%; USA - 4.3%; Japan - 5.3%). Of all the large economies, only China is expected to see GDP growth (+1.9%). In other developing countries that are important for global growth, high GDP declines are projected: India (-10.3%), Mexico (-9.0%), Brazil (-5.8%), Russia (-4.1%). Slightly smaller drops are expected in ASEAN countries (-3.4%). However, IMF predicts that a visible return to growth can be expected as early as in 2021, with global GDP growth rate of 5.2%.

In turn, for the European Union itself (27), a similar sequence of GDP changes is expected, but with greater fluctuations (according to the IMF forecast of November: -7.4% in 2020; +4.1% in 2021).

The EU chemical industry will probably not resist the general crisis of 2020, as its products are sold to virtually all other industries and branches of the economy. However, given that the efforts to extinguish the COVID-19 pandemic require continuity or increase in the production of, among others, certain chemicals, not all sectors of the chemical industry will necessarily be affected by significant declines.

The year 2020 will probably prove to be very severe for the European construction sector as well. According to Euroconstruct's forecasts, construction output in Western and Central Europe will fall by about 12% (especially in countries such as the UK, France, Spain and Italy). Relatively smaller declines are expected in Central Europe. For Poland, maintaining a positive growth rate in the current year is a big question mark (forecasts for the domestic sector are within a fairly wide range according to various sources: from +2% to -3%). In general, a return to a growth path is expected as early as 2021, although not in all countries.

#### OTHER FACTORS AFFECTING THE CIECH GROUP'S ACTIVITIES

Factors	Description
Economic situation on raw material market	<p>Due to the fact that costs of raw materials account for a large share of total costs of the Group, the situation on key raw material markets (availability and price) significantly affect the CIECH Group's activities and financial performance. Price and availability of raw materials depends largely on economic and political developments across the globe.</p> <p><b>Hard coal</b> – situation on the market depends on a number of macroeconomic factors. The largest producer of hard coal in the European Union is Poland, but EU's import of coal (primarily from Russia, Columbia, USA, South Africa and Australia) is nearly two times higher than production. Most of the coal imported to the EU is power coal, i.e. coal used by the CIECH Group in the production of process steam and electricity in soda plants in Poland. Despite the fact that the Group buys it usually from Polish mines, the price of thermal coal for the CIECH Group in a long term depends on the European and global situation in the area of demand and supply.</p>



Factors	Description
	<p><b>Gas</b> – the main energy resource used by the combined heat and power plant at the Stassfurt plant. The situation on the gas market depends on many factors, such as the price of oil, demand for gas due to the current weather conditions and the current share of gas in the energy mix. CIECH Energy Deutschland GmbH burns two types of natural gas, from local sources and imported. Gas imports to Germany are from Russia, Norway and the Netherlands. In the gas combustion process, steam and electricity are generated, which is also sold outside the Group. Gas supplies are realized on the basis of bilateral delivery contracts, long-term contracts or short-term purchases (spot).</p> <p><b>Process steam</b> – this form of heat energy was used by CIECH Soda Romania S.A. in the production process of soda ash and liquid silicates, the company bought it from an external supplier. At the end of the first half of 2019, the agreement was terminated and the production of soda in the Romanian plant was suspended in the third quarter.</p> <p><b>Furnace fuel (coke/anthracite)</b> – coke prices depend primarily on prices of coking coal, from which it is produced. The largest global producer of coke is China which, at the same time, is one of the largest consumers of this raw material. In Europe, coke is produced mainly in Poland, Germany and the Czech Republic. In its business activity, the Group uses anthracite as a substitute for coke. The main source of anthracite for Europe is Russia. Due to relatively high prices of coke, in the first quarter of 2020 the Group used anthracite to a large extent in the furnace mixture. In the second quarter, the share of coke in the mix was increasing due to the reduction in the price of this fuel compared to anthracite. In the third quarter, the share of coke in the mix increased again, due to the continuing downward trend in the price of coke compared to anthracite.</p> <p><b>Oil-derivative raw materials</b> – used primarily in the organic segment, are linked to oil prices. Oil prices depend primarily on macroeconomic and political factors which translate into global demand and supply situation.</p>
Exchange rates of Polish zloty (PLN) and Romanian leu (RON) to euro (EUR) and US dollar (USD)	The CIECH Group's main source of exposure to foreign currency risk is related to EUR and USD in which export sales are denominated. Weakening of PLN and RON (in which significant costs are incurred) in relation to EUR and USD (in which a material portion of sales is made) has a positive impact on the CIECH Group's financial performance. The Group applies natural hedging and hedging instruments.
Volume of chemical production capacity on markets where the CIECH Group operates	<p>In the sectors of mass chemical products, in which the CIECH Group operates, the capital expenditures are an important barrier to entry, and in the case of the soda segment – an access to natural resources. For this reason, in the scope of the most important segment of the CIECH Group, the soda segment, green field investments are rare and generally done outside Europe.</p> <p>According to the information published in the third quarter of this year, in the next 2-3 years, new capacities will be put into operation mainly in China and the USA. This will mainly concern natural sodium. More distant projects are also announced in the USA and later in China. Due to the COVID-19 pandemic and the delays observed in the launch of projects based on natural resources in the past, it is expected that the performance of all these projects will be delayed.</p> <p>In general, in the long term the average annual growth rate of global soda ash capacity is expected to be similar to the growth rate of global demand.</p>
Environmental requirements	<p><b>REACH system implementation</b></p> <p>In accordance with the REACH regulation, the Group's companies selling substances in quantities exceeding 1 tonne p.a. have completed or plan to complete full registration of these substances by defined deadlines, which will enable them to continue their operations in the current scope.</p> <p><b>Emission trading system</b></p> <p>Production companies of the CIECH Group are included in the emission trading system. External analyses performed by the CIECH Group companies indicate that the amount of free CO<sub>2</sub> emission allowances in the 3<sup>rd</sup> settlement period (2013–2020) will be insufficient to cover the actual demand for this type of settlement units. In addition to the direct costs connected with the purchase of CO<sub>2</sub> emission allowances, the CIECH Group companies will bear higher costs of electricity due to their assumption of the costs of purchase of emission allowances from the producers.</p>



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

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

#### SHAREHOLDERS

As of the date of publishing the previous financial statements (i.e. the date of publication of the Extended consolidated report of the CIECH Group for the first half of 2020, i.e. 8 September 2020), CIECH S.A. has not received any information about a change in interests held by shareholders in the total number of shares. Therefore, to the best knowledge of CIECH S.A., as at the day of approving this report, shareholders holding significant blocks of shares (at least 5%) include the following entities:

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

Shareholder	Type of shares	Number of shares	Number of votes at the General Meeting of Shareholders	Share in the total number of votes at the General Meeting of Shareholders	Stake in share capital (%)
KI Chemistry s. à r. l. with its registered office in Luxembourg*	Ordinary bearer	26,952,052	26,952,052	51.14%	51.14%
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	3,086,000	3,086,000	5.86%	5.86%
Other	Ordinary bearer	19,131,857	19,131,857	36.30%	36.30%

\* 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 Ordinary General Meeting of Shareholders of CIECH S.A. on 21 May 2020, CR 25/2020 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).

\*\*\*On the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of Shareholders of CIECH S.A. on 21 May 2020, CR 25/2020 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).

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

The following managers and supervisors held shares of CIECH S.A. as at the date of publication of the Extended report of the CIECH Group for the first half of 2020, i.e. as at 8 September 2020:

- Mr Dawid Jakubowicz – President of the Management Board of CIECH S.A. held 18,213 shares of CIECH S.A.
- Mr Mirosław Skowron – Member of the Management Board of CIECH S.A., held 8,656 shares of CIECH S.A.
- Mr Sebastian Kulczyk – President of the Supervisory Board of CIECH S.A., held indirectly 26,952,052 shares of CIECH S.A., representing 51.14% of the company's share capital.
- Mr Rafał Czubiński – Managing Director of CIECH S.A. held 6,500 shares of CIECH S.A.

On 28 September 2020:

- Mr Dawid Jakubowicz acquired 3,500 shares of CIECH S.A.
- Mr Rafał Czubiński acquired 2,200 shares of CIECH S.A.

On 29 September 2020, Mr Marek Kośnik, Member of the Supervisory Board of CIECH S.A., acquired 3,582 shares of CIECH S.A.



The following managers and supervisors held shares of CIECH S.A. as at the date of issue of this report:

- Mr Dawid Jakubowicz – President of the Management Board of CIECH S.A. held 21,713 shares of CIECH S.A.
- Mr Mirosław Skowron – Member of the Management Board of CIECH S.A., held 8,656 shares of CIECH S.A.
- Mr Sebastian Kulczyk – President of the Supervisory Board of CIECH S.A., held indirectly 26,952,052 shares of CIECH S.A., representing 51.14% of the company's share capital.
- Mr Marek Kośnik – Member of the Supervisory Board of CIECH S.A., held 3,582 shares of CIECH S.A.
- Mr Rafał Czubiński – Managing Director of CIECH S.A. held 8,700 shares of CIECH S.A.

Managers and supervisors of CIECH S.A., as at 30 September 2020 and the date of approval hereof, did not hold any shares in other companies of the CIECH Group and this situation did not change in the period from the publication of the Extended consolidated report of the CIECH Group for the first half of 2020, i.e. from 8 September 2020.

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

#### 3.11.1. SIGNIFICANT DISPUTED LIABILITIES OF THE CIECH GROUP

As at 30 September 2020, the CIECH Group did not have any significant disputed liabilities of CIECH S.A. and CIECH S.A.'s subsidiaries, pursued in all types of proceedings before court, body appropriate for arbitration proceedings or public administration bodies, except for the cases described in Section 3.12, in "Audits of tax settlements at the CIECH Group".

#### 3.11.2. SIGNIFICANT DISPUTED RECEIVABLES OF THE CIECH GROUP

As at 30 September 2020, 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, except for the case described in Section 2.13 as contingent assets, in "Contingent assets and liabilities, including sureties and guarantees".

### 3.12. LOAN OR BORROWING SURETIES OR GUARANTEES GRANTED BY CIECH S.A. OR ITS SUBSIDIARY AND OTHER CONTINGENT LIABILITIES

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

#### Letters of support

As at 30 September 2020, 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 30 September 2020. 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 the period from January to September 2020, the CIECH Group companies were at various stages of proceedings, including inspections, tax proceedings or administrative court cases concerning the settlement of corporate income tax (CIT) and value added tax (VAT).

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). The disputed amount of tax and interest were covered by the provision, which was used as a result of their payment. 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 (hereinafter: Head of the Małopolskie Province Customs and Tax Office in Kraków) on 13 November 2019. The Company received the outcome of the audit on 22 May 2020. The authority claims that the Company has overestimated the tax deductible cost by including interest on external financing contributed to the capital reserves of Soda Deutschland Ciech GmbH (hereinafter: SDC) and the costs of obtaining this financing in tax deductible costs. Moreover, the authority is of the opinion that expenses incurred on account of trade mark fees paid to the CIECH Group company should not be recognised by CIECH S.A. as a tax deductible cost. The taxable amount challenged by the authority is PLN 32.5 million which translates into a potential tax liability of PLN 6.2 million. The Company does not agree with the findings made by the auditors. As a result, the customs and fiscal audit was converted into tax proceedings. On 15 October 2020, the Company received a report on the audit of the books in which the Head of the Małopolskie Province Customs and Tax Office leaves only the charge that the company overestimated the tax deductible cost by including interest on external financing contributed to the capital reserves of SDC and the costs of obtaining this financing in tax deductible costs (the taxable amount is PLN 22.7 million which translates into a potential tax liability of PLN 4.3 million). Thus, the office has refrained from questioning the expenses incurred for trade mark fees as a tax deductible cost. In the same month, the company submitted objections to the report on the audit of the books. Tax proceedings are currently underway.



In addition, on 6 October 2020 the company received from the Head of the Małopolskie Province Customs and Tax Office a notice of suspension, as of 1 September 2020, of the statute of limitations for tax liabilities for 2014 due to initiation of proceedings for fiscal offences.

**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. In February 2020, 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. In February 2020, 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. In February 2020, 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. The Company and its tax advisors do not agree with the position of the auditors. 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. The Company and its tax advisors do not agree with the position of the auditors.

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. The Company and its tax advisors do not agree with the position of the auditors. 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 with interest due. Tax proceedings are currently underway.

**Tax proceedings concerning CIT for 2018 at CIECH R&D Sp. z o.o.** were initiated by the Head of the First Mazowieckie Province Tax Office in Warsaw. On 20 July 2020, the Company received a letter dated 15 July 2020 informing about tax proceedings conducted with respect to determination of overpayment in corporate income tax for 2018. The proceedings were initiated as a result of the Company's submission of a correction to the CIT return for 2018 (the Company applied for a tax refund of PLN 0.09 million). On 10 September 2020, the office returned the entire amount of tax to the company and thus the proceedings were concluded.

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 144.9 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 144.9 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 further dispute at the judicial stage, the total tax amount of PLN 53.7 million was paid, a provision was recognised for potential tax liabilities in the amount of PLN 38.4 million, and an impairment loss on deferred tax asset was recognised in the amount of PLN 26.7 million. The Group also paid interest in the total amount of PLN 26.9 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 Sp. z o.o.

**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 of CIECH Sarzyna S.A. 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. At a hearing on 22 July 2020, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling dismissing the complaint filed by the Company, accepting the position of the Małopolskie Province Customs and Tax Office in Kraków. The company received a written statement of reasons for the judgment and lodged a cassation complaint with the Supreme Administrative Court in November 2020.

**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. At a hearing on 29 July 2020, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling dismissing the complaint filed by the Company, accepting the position of the Małopolskie Province Customs and Tax Office in Kraków. After receipt of a written statement of reasons, the Company intends to lodge a cassation complaint with the Supreme Administrative Court.

**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 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. (CSP), 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 September 2019, CSP 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 Sp. z o.o. had no right to deduct VAT in the amount of PLN 25.3 million. CSP 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 CSP 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. At a hearing on 22 September 2020, after considering the appeal filed by the Company, the Provincial Administrative Court issued a ruling dismissing the complaint filed by the Company, accepting the position of the Małopolskie Province Customs and Tax Office in Kraków. After receipt of a written statement of reasons, the Company intends to lodge a cassation complaint with the Supreme Administrative Court.

**VAT audit for the period from January to June 2018 at CIECH Trading Sp. z o.o.** 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 lodged an appeal against the Decision received with the Head of the Kujawsko-Pomorskie Province Customs and Tax Office. Regardless of the appeal filed, in order to avoid further accrual of interest, on 5 June 2020 the Company paid the amount of this additional tax liability together with interest. On 21 July 2020, the Company received the decision of the Head of the Kujawsko-Pomorskie Province Customs and Tax Office in Toruń (appeal body). The decision upholds the decision of the first instance authority to set the additional VAT liability in CIECH Trading Sp. z o.o. at 100%, i.e. in the amount of PLN 1.4 million. This Decision is final. On 19 August 2020, the Company appealed against the decision of the second instance to the Provincial Administrative Court in Bydgoszcz. The date of the hearing was set for 18 November 2020.

In case of the audit of VAT settlements for the period of May and June 2018 carried out by the Head of the Silesian Customs and Tax Office in Katowice, in September 2020 the company received the results of the audit relating to each of the months audited, in which the office refused the company the right to deduct input tax in the amount of PLN 1.5 million. In October 2020, the company paid the disputed amount of tax plus interest. The company recognised a provision for possible VAT arrears, interest and a sanction for the period of May-June 2018 in the amount of PLN 3.8 million.

**The audit at the Ciech Group in Germany** concerns income tax settlements. The CIT audit concerns the following companies: Sodawerk Staßfurt Verwaltungs GmbH, CIECH Soda Deutschland GmbH & Co. KG, Sodawerk Holding Staßfurt GmbH, SDC GmbH, CIECH Energy Deutschland GmbH. The audits cover settlements for 2007-2009 and 2010-2015 and concern various factual and legal matters. 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/decisions from the tax authorities. Under the prudence principle, the companies have, however, recognized provisions for potential tax liabilities and interest in the total amount of EUR 14.4 million (after conversion into PLN according to the exchange rate quoted on the balance sheet date – about PLN 65.2 million).

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

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



**QUARTERLY FINANCIAL INFORMATION  
OF THE PARENT COMPANY  
CIECH S.A.  
FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2020**



4

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

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

	01.01.-30.09.2020	01.01.-30.09.2019*	01.07.-30.09.2020	01.07.-30.09.2019*
<b>CONTINUING OPERATIONS</b>				
Sales revenues	1,239,119	1,637,298	401,574	505,425
Cost of sales	(1,063,042)	(1,420,008)	(346,508)	(440,173)
<b>Gross profit on sales</b>	<b>176,077</b>	<b>217,290</b>	<b>55,066</b>	<b>65,252</b>
Other operating income	5,655	4,834	249	1,173
Selling costs	(76,513)	(140,947)	(26,282)	(42,373)
General and administrative expenses	(63,127)	(66,087)	(19,618)	(24,168)
Other operating expenses	(13,867)	(2,635)	(582)	(1,474)
<b>Operating profit</b>	<b>28,225</b>	<b>12,455</b>	<b>8,833</b>	<b>(1,590)</b>
Financial income	72,154	14,340	7,084	9,982
Financial expenses	(20,013)	(32,826)	(6,225)	(5,142)
Profit/(loss) from financial instruments	(58,763)	(2,559)	(19,812)	(33,283)
<b>Net financial income/(expenses)</b>	<b>(6,622)</b>	<b>(21,045)</b>	<b>(18,953)</b>	<b>(28,443)</b>
<b>Profit before tax</b>	<b>21,603</b>	<b>(8,590)</b>	<b>(10,120)</b>	<b>(30,033)</b>
Income tax	(1,030)	(6,014)	(2,032)	3,307
<b>Net profit on continuing operations</b>	<b>20,573</b>	<b>(14,604)</b>	<b>(12,152)</b>	<b>(26,726)</b>
<b>DISCONTINUED OPERATIONS</b>				
Net profit/(loss) on discontinued operations	(409)	5,274	(452)	3,962
<b>Net profit for the year</b>	<b>20,164</b>	<b>(9,330)</b>	<b>(12,604)</b>	<b>(22,764)</b>
<b>Earnings per share (in PLN):</b>				
Basic	0.38	(0.18)	(0.24)	(0.43)
Diluted	0.38	(0.18)	(0.24)	(0.43)
<b>Earnings per share (in PLN) from continuing operations:</b>				
Basic	0.39	(0.28)	(0.23)	(0.51)
Diluted	0.39	(0.28)	(0.23)	(0.51)

\*Restated data.

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

	01.01.-30.09.2020	01.01.-30.09.2019	01.07.-30.09.2020	01.07.-30.09.2019
<b>Net profit / (loss)</b>	<b>20,164</b>	<b>(9,330)</b>	<b>(12,604)</b>	<b>(22,764)</b>
<b>Other comprehensive income before tax that may be reclassified to the statement of profit or loss</b>	<b>(34,228)</b>	<b>(3,630)</b>	<b>(1,620)</b>	<b>(7,337)</b>
Cash flow hedge reserve	(34,222)	(3,630)	(1,614)	(7,337)
Other components of other comprehensive income	(6)	-	(6)	-
<b>Income tax attributable to other comprehensive income</b>	<b>6,502</b>	<b>703</b>	<b>311</b>	<b>1,398</b>
Income tax attributable to other comprehensive income that may be reclassified to the statement of profit or loss	6,502	703	311	1,398
<b>Other comprehensive income net of tax</b>	<b>(27,726)</b>	<b>(2,927)</b>	<b>(1,309)</b>	<b>(5,939)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(7,562)</b>	<b>(12,257)</b>	<b>(13,913)</b>	<b>(28,703)</b>



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

	30.09.2020	31.12.2019
<b>ASSETS</b>		
Property, plant and equipment	8,939	14,131
Intangible assets	52,749	54,414
Long-term financial assets	2,615,022	2,416,967
Deferred income tax assets	15,964	2,166
Rights to use an asset	28,655	29,336
<b>Total non-current assets</b>	<b>2,721,329</b>	<b>2,517,014</b>
Inventory	10,077	30,694
Short-term financial assets	825,152	794,231
Trade and other receivables	221,122	378,010
Cash and cash equivalents	266,108	169,983
Non-current assets held for sale	30,015	-
<b>Total current assets</b>	<b>1,352,474</b>	<b>1,372,918</b>
<b>Total assets</b>	<b>4,073,803</b>	<b>3,889,932</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	287,614	287,614
Share premium	470,846	470,846
Cash flow hedge reserve	(28,755)	(1,035)
Actuarial gains	(37)	(37)
Other reserve capitals	422,699	76,199
Retained earnings	303,277	629,619
<b>Total equity</b>	<b>1,455,644</b>	<b>1,463,206</b>
Loans, borrowings and other debt instruments	1,757,164	1,580,756
Lease liabilities	23,727	24,405
Other non-current liabilities	63,731	26,686
Employee benefits reserve	1,133	1,089
<b>Total non-current liabilities</b>	<b>1,845,755</b>	<b>1,632,936</b>
Loans, borrowings and other debt instruments	360,346	301,762
Lease liabilities	6,692	5,035
Trade and other liabilities	370,033	451,356
Employee benefits reserve	809	2,312
Other provisions	34,524	33,325
<b>Total current liabilities</b>	<b>772,404</b>	<b>793,790</b>
<b>Total liabilities</b>	<b>2,618,159</b>	<b>2,426,726</b>
<b>Total equity and liabilities</b>	<b>4,073,803</b>	<b>3,889,932</b>



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

	01.01.-30.09.2020	01.01.-30.09.2019
<b>Cash flows from operating activities</b>		
<b>Net profit for the period</b>	<b>20,164</b>	<b>(9,330)</b>
Amortisation/depreciation	14,100	10,073
Recognition of impairment allowances	3,452	(83)
Foreign exchange (profit) /loss	(23,054)	(12,979)
(Profit) / loss on disposal of property, plant and equipment	(146)	(2)
Dividends and interest	(43,648)	2,578
Income tax	1,030	6,014
Change in liabilities due to loan arrangement fee	1,651	167
Value of derivatives	43,487	15,946
Other	-	2,863
<b>Cash from operating activities before changes in working capital and provisions</b>	<b>17,036</b>	<b>15,247</b>
Change in receivables	140,406	(70,476)
Change in inventory	20,617	20,791
Change in current liabilities	(108,145)	116,406
Change in provisions and employee benefits	(260)	(1,014)
<b>Cash generated from operating activities</b>	<b>69,654</b>	<b>80,954</b>
Interest paid	(35,482)	(51,811)
Income tax (paid)	(3,973)	(48,015)
Set-off receivables from interest on loans	-	13,438
<b>Net cash from operating activities</b>	<b>30,199</b>	<b>(5,434)</b>
<b>Cash flows from investment activities</b>		
Disposal of intangible assets and property, plant and equipment	3,518	24
Dividends received	55,160	5,268
Interest received	24,332	11,595
Proceeds from cash-pooling	5,472	-
Proceeds from repaid borrowings	-	75,143
Acquisition of a subsidiary	(4,923)	(4,742)
Acquisition of intangible assets and property, plant and equipment	(7,042)	(18,093)
Raise capital expenditures and extra charge on capital	(4,850)	(1,051)
Borrowings paid out	(218,591)	(98,198)
Cash pooling outflows	-	(949)
<b>Net cash from investment activities</b>	<b>(146,924)</b>	<b>(31,003)</b>
<b>Cash flows from financial activities</b>		
Proceeds from loans and borrowings	204,880	257,636
Cash pooling inflows	8,692	50,164
Repayment of loans and borrowings	-	(256,500)
Payments of lease liabilities	(4,741)	(2,694)
<b>Net cash from financial activities</b>	<b>208,831</b>	<b>48,606</b>
<b>Total net cash flows</b>	<b>92,106</b>	<b>12,169</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	<b>169,984</b>	<b>54,988</b>
<i>Impact of foreign exchange differences</i>	<i>4,018</i>	<i>10,663</i>
<b>Cash and cash equivalents as at the end of the period</b>	<b>266,108</b>	<b>77,820</b>





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

	Share capital	Share premium	Cash flow hedge reserve	Other reserve capitals	Actuarial gains	Retained earnings	Total equity
<b>01.01.2020</b>	<b>287,614</b>	<b>470,846</b>	<b>(1,035)</b>	<b>76,199</b>	<b>(37)</b>	<b>629,619</b>	<b>1,463,206</b>
<b>Transactions with shareholders</b>	-	-	-	<b>346,500</b>	-	<b>(346,500)</b>	-
Reserve fund for the purchase of own shares	-	-	-	346,500	-	(346,500)	-
<b>Total comprehensive income for the period</b>	-	-	<b>(27,720)</b>	-	-	<b>20,158</b>	<b>(7,562)</b>
Net profit / (loss) for the period	-	-	-	-	-	20,164	20,164
Other comprehensive income	-	-	(27,720)	-	-	(6)	(27,726)
<b>30.09.2020</b>	<b>287,614</b>	<b>470,846</b>	<b>(28,755)</b>	<b>422,699</b>	<b>(37)</b>	<b>303,277</b>	<b>1,455,644</b>
<b>01.01.2019</b>	<b>287,614</b>	<b>470,846</b>	<b>(1,152)</b>	<b>76,199</b>	<b>11</b>	<b>569,183</b>	<b>1,402,701</b>
<b>Total comprehensive income for the period</b>	-	-	<b>(2,927)</b>	-	-	<b>(9,330)</b>	<b>(12,257)</b>
Net profit / (loss) for the period	-	-	-	-	-	(9,330)	(9,330)
Other comprehensive income	-	-	(2,927)	-	-	-	(2,927)
<b>30.09.2019</b>	<b>287,614</b>	<b>470,846</b>	<b>(4,079)</b>	<b>76,199</b>	<b>11</b>	<b>559,853</b>	<b>1,390,444</b>



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

### 5.1. BASIS OF PREPARATION

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

These interim condensed separate financial statements were prepared in compliance with IAS 34 "Interim Financial Reporting" as approved by the European Union and the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent information required by the law of a Non-Member State (Journal of Laws 2018.757 of 2018). These financial statements present the financial position of CIECH S.A. as at 30 September 2020 and as at 31 December 2019, results of the Company's operations and cash flows for the period of 9 months ended 30 September 2020 and 30 September 2019, and were approved by the Management Board of CIECH S.A. on 18 November 2020.

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

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

These interim condensed separate financial statements should be read together with the interim condensed consolidated financial statements of the CIECH Group for the 9-month period ended 30 September 2020.

### 5.2. ADOPTED ACCOUNTING PRINCIPLES

The CIECH S.A.'s accounting principles are described in the Financial Statements of CIECH S.A. for 2019, published on 31 March 2020. The aforementioned Financial Statements include detailed information regarding the principles and methods of valuation of assets, equity and liabilities and measurement of the financial result as well as the method of preparing the financial statements and comparative information. These principles have been applied on a continuous basis with relation to currently published data, the last annual financial statements and comparative data presented.

### 5.3. CHANGES IN ESTIMATES

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



## RATIO CALCULATION METHODOLOGY

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

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



## REPRESENTATION BY THE MANAGEMENT BOARD

This Extended consolidated quarterly report of the CIECH Group for the three quarters of 2020 was approved by the Management Board of CIECH S.A. on 18 November 2020.

Warsaw, 18 November 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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**Jarosław Romanowski — Member of the Management Board of CIECH Spółka Akcyjna**

*(signed on the polish original)*

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

*(signed on the polish original)*

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**Katarzyna Rybacka — Chief Accountant of CIECH Spółka Akcyjna**