

**CIECH CAPITAL GROUP**  
**WARSAW, ul. PUŁAWSKA 182**

**CONSOLIDATED FINANCIAL**  
**STATEMENT FOR FINANCIAL YEAR 2007**  
**WITH CHARTERED AUDITOR'S OPINION AND**  
**AUDIT REPORT**

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### **STATEMENT FROM THE ACTIVITY OF CIECH GROUP IN 2007**

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## **INDEPENDENT CHARTERED AUDITOR'S OPINION**

### **To the Shareholders and the Supervisory Board of CIECH S.A.**

We have carried out the examination of the enclosed consolidated financial statement of the Ciech Capital Group, whose parent company is CIECH S.A. with the registered office in Warsaw, ul. Puławska 182; the audit includes the following:

- consolidated balance sheet drawn up at 31 December 2007, whose assets and liabilities show the amount of PLN 4,234,262 thousand;
- consolidated profit and loss account for the period from 1 January 2007 to 31 December 2007 showing net profit in the amount of PLN 241,857 thousand;
- changes in equity for the period from 1 January 2007 to 31 December 2007 showing an increase in equity in the amount of PLN 196,821 thousand;
- consolidated cash flow account for the period from 1 January 2007 to 31 December 2007 showing a decrease of cash in the amount of PLN 35,915 thousand;
- additional information and explanations.

The Management Board of the Parent Company bears the responsibility for the preparation of the said consolidated financial statement. Our task was to examine and give an opinion on the reliability, correctness and clarity of this consolidated statement.

The consolidated financial statement was drawn up by full method in relation to fifteen subsidiaries. The financial statement of one subsidiary was the subject of examination by a different entity authorized to conduct audits of financial statements. We have received the financial statement of that entity and the opinion from the examination thereof. Our opinion from the examination of the consolidated financial statement in relation to the data of that entity is based on the opinion of the chartered auditor authorized to conduct the examination. Data from the financial statement of the subsidiary, as for which we have fully relied on the opinion of a different chartered auditor, constitute respectively 0.3 % and 0.6% of consolidated assets and consolidated sales revenues prior to consolidation adjustments.

We have planned and carried out the examination of the consolidated financial statement in compliance to the following resolutions:

- Chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 694 as amended),
- norms regarding working in the capacity of a chartered auditor, issued by the National Council of Statutory Auditors in Poland

in a manner enabling to obtain a rational, and sufficient basis to give an opinion determining if the consolidated financial statement contains essential errors. The examination included in particular the verification of the consolidated documentation, whereof amounts and information included in the consolidated financial statement arise, as well as the evaluation of the accounting principles applied for the preparation of the consolidated financial statement and significant estimates related thereto, as well as the general evaluation of the presentation of the consolidated financial statement. We are convinced that the examination carried out by us provided us with sufficient basis to give our opinion.

In our opinion – on the basis of the carried out examination, and the examination of a different chartered auditor – the evaluated Financial Statement of CIECH Capital Group for the financial year 2007 duly and clearly presents all information relevant for the evaluation of the asset and financial position as well as the financial result of CIECH Capital Group for the period ending on and as at 31 December 2007, and it was prepared in accordance with the International Financial Reporting Standards in the form approved by the European Union

Without raising objections to the correctness and reliability of the evaluated consolidated Financial Statement we have pointed out to:


- I. Point 16.2 of the additional information and explanations to the annual consolidated statement, wherein the Management Board of the Parent Company informed on the completed process of settling the acquisition of ZACHEM S.A., Z.Ch. Organika-Sarzyna S.A. and S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. The record of the initial settlement's adjustments was introduced in compliance with the International Accounting Standard no. 8, which means that the comparable data currently presented in the consolidated financial statement are different to the data presented in the approved consolidated financial statement at 31 December 2006, which was presented in the additional explanatory note no. 42.
- II. Point no. 16.1 of the additional information and explanations to the annual consolidated statement, in which the Management Board of the Parent Company informed that at 31 December 2007 it does not have information on fair value, which should be attributable to identify assets, liabilities and contingent liabilities of the newly acquired Soda Deutschland Ciech GmbH. In relation to the abovementioned, the Parent Company – according to Para. 61-62 of the International Financial Reporting Standards no. 3 (IFRS 3) - decided to provisionally carry out the initial settlement of the merger of the Company, using estimated values to the acquired assets and liabilities, whose valuations will be subject to adjustment within 12 months from the date of take-over and from the date of take-over. Pursuant to Para. 63-65 of the International Financial Reporting Standards no. 3 possible adjustments upon the initial approach will be recorded in accordance with the International Accounting Standard no. 8. Changes in the fair value of assets, liabilities and contingent liabilities may result in the change of goodwill or of surplus of the taken over net assets over the cost of their merger.
- III. Court actions pending against the Group Parent described by the Management Board in Point 28.1.1. of the additional explanatory notes to the consolidated Financial Statement. Currently judiciary proceedings are pending and the final settlement and effects of disputes are not possible to estimate in full. The Management Board estimated the provision for covering possible liabilities thereof and recorded in the financial statement in the total amount of PLN 17,171 thousand. No provisions were created for the remaining part of possible liabilities described by the Management Board in the abovementioned note, which may arise in the case the court decisions were unfavourable to the Company.

Sprawozdanie z działalności Grupy Kapitałowej za rok obrotowy 2007 jest kompletne w rozumieniu art. 49 ust. 2 ustawy o rachunkowości oraz rozporządzenia Ministra Finansów z dnia 19 października 2005 roku w sprawie informacji bieżących i okresowych przekazywanych przez emitentów papierów wartościowych, a zawarte w nim informacje, zaczerpnięte bezpośrednio ze zbadanego skonsolidowanego sprawozdania finansowego, są z nim zgodne.

  
.....  
Maria Rzepnikowska  
Biegły rewident  
nr ewid. 3499/1028

Radosław Kuboszek

Członek Zarządu  
Biegły rewident  
nr ewid. 90029

  
Maria Rzepnikowska  
Prezes Zarządu  
Biegły rewident  
nr ewid. 3499

.....  
osoby reprezentujące podmiot

DELOITTE AUDYT Sp. z o.o.  
ul. Piłkna 18, 00-549 Warszawa  
tel. 511-08-11, fax 511-08-13  
NP 527-020-07-06; REGON 010076870

.....  
podmiot uprawniony do badania  
sprawozdań finansowych wpisany  
na listę podmiotów uprawnionych  
pod nr ewidencyjnym 73  
prowadzoną przez KRBR

Statement from the activity of the Capital Group for 2007 is complete in the meaning of Article 49(2) of the Accounting Act and of the decree of the Minister of Finance of 19 October 2005 concerning current and periodic information transferred by the issuers of securities, and information contained therein, collected directly from the consolidated financial statement, is compliant therewith.

Maria Rzepnikowska  
Chartered auditor  
ref.no. 3499/102

Persons authorized to represent the entity:

Radosław Kuboszek  
Member of the Management Board  
Chartered auditor  
ref.no. 90029

Maria Rzepnikowska  
President of the Management Board  
Chartered auditor  
ref.no. 3499

Entity authorized to audit financial statements, registered in the list of authorized entities under reference no. 73 maintained by KRBR (National Council of Statutory Auditors): Deloitte Audyt Sp. z o.o.  
Warsaw, 16 May 2008

**REPORT SUPPLEMENTING THE OPINION FROM THE AUDIT OF THE  
CONSOLIDATED FINANCIAL STATEMENT OF THE CIECH CAPITAL  
GROUP FOR THE FINANCIAL YEAR 2007**

**I. GENERAL INFORMATION**

**1. Data identifying the audited entity**

The Parent Company of the Capital Group operates under the business name of CIECH S.A. The Company's registered office is in Warsaw, ul. Puławska 182.

The Parent Company operates in the form of a joint stock company, formed by the notarial deed on 30 May 1995 before Mr Paweł Błaszczak, notary public in Warsaw (Repertory No. A 7513/95). The Company was registered in the Register of Entrepreneurs maintained by the District Court for the capital city of Warsaw, 16th Commercial Registration Department in Warsaw, in the B division under the number RHB 44655. Currently, the Company is recorded in the Register of Entrepreneurs maintained by the District Court for the capital city of Warsaw in Warsaw, 13th Commercial Department of the National Court Register under the KRS no. 0000011687.

The Parent Company's tax identification number NIP: 118-00-19-377 granted by the Tax Office of Warsaw - Żoliborz on 15 June 1993.

On 19 December 2001 the statistical office granted the Parent Company with the following REGON number: 011179878.

The Parent Company operates on the basis of the bylaws of the Commercial Companies Code.

The Parent Company's fundamental scope of activity is the sale of chemicals on the domestic market, export and import of chemical products.

The subsidiaries' scope of activity is related to the activity of the Parent Company and refers to the production of chemicals and their sale on the domestic market, export and import of chemical and pharmaceutical products.

The Ciech Capital Group's initial capital is the share capital of the Parent Company – CIECH S.A., which according to the status at 31 December 2007 amounted to PLN 140,001 and was divided into 28,000,000 common shares with the nominal value PLN 5 each. Initial capital shown in the consolidated financial statement differs from the registered capital of the Parent Company by hyperinflation effects.

According to the status at 31 December 2007 the Parent Company's shareholders were as follows:

- |  |                  |
|--|------------------|
| – State Treasury                                     | - 36.68% shares, |
| – PZU „Złota Jesień” Open Pension Fund               | - 6.12% shares,  |
| – Pioneer Pekao Investment Management S.A. (PPIM)    | - 12.52% shares, |
| – including Pioneer investment funds managed by PPIM | - 12.38% shares, |
| – minority shareholders, natural persons             | - 44.68% shares. |

No changes in the Company's share capital were recorded in the financial year as well as upon the balance sheet date.

According to the status at 31 December 2007, the Ciech Capital Groups equity amounts to PLN 1,384,174 thousand.

The Company assumed calendar year as financial year.

As at the date of delivery of opinion the Management Board consisted of:

- Mirosław Kochalski - President of the Management Board
- Marcin Dobrzański - Member of the Management Board
- Ryszard Kunicki - Member of the Management Board
- Artur Osuchowski - Member of the Management Board
- Kazimierz Przełomski - Member of the Management Board

The following changes in the composition of the Management Board of the Parent Company were recorded in the audited period:

On 31 January 2007 the Ordinary General Meeting of Shareholders appointed Mr Marek Trosiński to the Management Board.

The above change was submitted and registered in the competent court register.

On 2 April 2008 the Extraordinary General Meeting of Shareholders dismissed three existing Members of the Management Board:

- Mr Wojciech Wardacki
- Mr Rafał Pasięka
- Mr Marek Trosiński,

In their place the Extraordinary General Meeting of Shareholders appointed:

- Mr Marcin Dobrzański
- Mr Ryszard Kunicki,
- Mr Artur Osuchowski,
- Mr Kazimierz Przełomski.

The above changes were registered in the competent court register.

At 31 December 2007 the Ciech Capital Group comprises:

- parent company – CIECH S.A., and
- subsidiaries:
  - SODA MĄTWY S.A.,
  - TRANSODA Sp. z o.o.,
  - EC KUJAWY Sp. z o.o.,
  - Soda Polska CIECH sp. z o.o.,
  - JANI-KOSODA SA
  - GZNF FOSFORNY Sp. z o.o.,
  - AGOCHEM Sp. z o.o. in Człuchów,
  - AGOCHEM Sp. z o.o. in Dobrze Miasto,
  - Alwernia S.A.,
  - Cheman S.A.,
  - VITROSILICON S.A.,
  - CIECH POLFA Sp. z o.o.,

- POLSIN PRIVATE LIMITED,
  - DALTRADE PLC.,
  - Przedsiębiorstwo Transportowo – Usługowe TRASCLEAN Sp. z o.o.,
  - Z. Ch. Organika-Sarzyna SA.,
  - ZACHEM S.A.,
  - ZACHEM UCR Sp. z o.o.,
  - ZACHEM Barwniki Sp. z o.o.,
  - S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A.,
  - Ciech Finance Sp. z o.o.,
  - Soda Deutschland Ciech GmbH,
  - Sodawerk Holding Stassfurt GmbH,
  - Sodawerk Stassfurt Verwaltungs GmbH,
  - Sodawerk Stassfurt GmbH&Co.KG,
  - KWG GmbH,
  - Polcommerce Handels-und Vertretungsgesellschaft m.b.H.,
  - Nordiska Unipol Aktiebolag,
  - DANSKE UNIPOL A/S,
  - CHEMIEPETROL Aussenhandelsgesellschaft mit beschränkter Haftung in liquidation,
  - CIECH SERVICE Sp. z o.o.,
  - BORUTA-KOLOR Sp. z o.o.,
  - Chemia.com S.A.,
  - SODA-MED Sp. z o.o.,
  - ALWERNIA-FOSFORANY Sp. z o.o.,
  - SOC-AL. Sp. z o.o.,
  - Zakład Doświadczalny ORGANIKA Sp. z o.o.,
  - Calanda Polska Sp. z o.o. in liquidation,
  - Polcommerce Kft.,
  - CIECH AMERICA LATINA LTDA,
  - Sodachem GmbH
  - KPG GmbH&Co. KG
- affiliates:
    - Polskie Towarzystwo Ubezpieczeniowe S.A.,
    - Suomen Unipol Oy,
    - Z.Ch. Silikony Polskie Sp. z o.o.
    - Komunalna Biologiczna Oczyszczalnia Ścieków - Sp. z o.o.,
    - Bud-Org Sp. z o.o.,
    - Gumokor-Organika Sp. z o.o.,
    - ORGANIKA-PROJEKT Sp. z o.o.,
    - DREWREM-ORGANIKA Sp. z o.o.,
    - EL-CHEM Sp. z o.o.,
    - WOD-REM Sp. z o.o.,
    - NS Automatyka Sp. z o.o.,
    - BUDPUR Sp. z o.o.,
    - Przedsiębiorstwo Transportowo Spedycyjne TRASCHEM Sp. z o.o.,
    - Zakład Remontowo-Produkcyjny Metalpur Sp. z o.o.
    - Natural Chemical Products Sp. z o.o.
    - Polsin Overseas,
- joint subsidiary:

- Kaverngesellschaft Stassfurt mbH

The following companies were included in the consolidated financial statement at 31 December 2007:

- a) Parent company– Ciech S.A.

We have audited the financial statement of the parent company - Ciech S.A. for the period between 1 January and 31 December 2007. In consequence of the conducted audit, on 16 May 2008 we presented an unqualified opinion, with a particular reference to court actions pending against the Company, described by the Management Board in Point 25.1 of the additional explanatory notes to the financial statement. Currently judiciary proceedings are pending and the final settlement and effects of disputes are not possible to estimate in full. The Management Board estimated the provision for covering possible liabilities thereof and recorded in the financial statement in the total amount of PLN 17,171 thousand. No provisions were created for the remaining part of possible liabilities described by the Management Board in the abovementioned note, which may arise in the case the court decisions were unfavourable to the Company.

- b) Companies included in consolidation by full method:

<b>Name and registered office of Company</b>	<b>Participation interest (%)</b>	<b>Entity carrying out the audit of financial statement and type of issued opinion</b>	<b>Date of opinion</b>
SODA-MĄTWY S.A., Inowrocław	99.85%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. – unqualified opinion, with reference to the fact, that on 7 November 2007 the company was assigned in return for taking up shares in Soda Polska CIECH sp. z o.o. and the fact that the financial statement of SODA-MĄTWY S.A. may no be the sole basis for the evaluation of the financial standing and asset situation of the Company which is the parent company of in the SODA-MĄTWY Capital Group;	27.02.2008
		<i>With reference to the consolidated financial statement:</i>  Deloitte Audyt Sp. z o.o. – unqualified opinion, with reference to the fact, that on 7 November 2007 the company was assigned in return for taking up shares in Soda Polska CIECH sp. z o.o.	26.03.2008
JANIKOSODA S.A.; Janikowo	99.62%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. – unqualified opinion, with reference to the fact, that on 7 November 2007 the company was assigned in return for taking up shares in Soda Polska CIECH sp. z o.o.	19.02.2008
GZNF FOSFORNY Sp. z o.o., Gdańsk	89.03%	<i>With reference to the individual financial statement:</i> Deloitte Audyt Sp. z o.o. – unqualified opinion, with reference to the fact, that the financial statement of GZNF FOSFORNY Sp. z o.o. may no be the sole basis for the evaluation of the financial standing and asset situation of the Company which is the parent company of in the GZNF FOSFORNY Sp. z o.o.  <i>With reference to the consolidated financial statement:</i>	06.03.2008

		Deloitte Audyt Sp. z o.o. - unqualified opinion	14.03.2008
CIECH FINANCE Sp. z o.o., Warsaw	100%	<i>With reference to the individual financial statement:</i> Individual statement was not subject to the examination of the chartered auditor. At the Shareholders Meeting of CIECH FINANCE Sp. z o.o. the resolution concerning non-performance of the Company's consolidated financial statement was adopted. CIECH FINANCE as the parent company of a lower grade and all subsidiaries of CIECH FINANCE were included in consolidation by CIECH S.A. beginning from the statement for the financial year 2006.	
Chemana S.A., Warsaw	100%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. - unqualified opinion, with reference to the entity's difficult financial standing and the obligation to adopt the resolution according to the requirements of Article 397 of the Commercial Companies Code	14.03.2008
Alwernia S.A., Alwernia	73.75%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. - unqualified opinion	21.02.2008
VITROSILICON S.A., Howa	99.94%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. - unqualified opinion	20.02.2008
Ciech Polfa Sp. z o.o., Warsaw	100%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. - unqualified opinion	10.03.2008
ZACHEM S.A., Bydgoszcz	80.00%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. - unqualified opinion, with reference to the fact, that the financial statement of ZACHEM S.A. may not be the sole basis for the evaluation of the financial standing and asset situation of the Company which is the parent company of in the ZACHEM S.A. Capital Group  <i>With reference to the consolidated financial statement:</i>  Deloitte Audyt Sp. z o.o. - unqualified opinion	13.03.2008  5.05.2008
Z.Ch. Organika-Sarzynna S.A., Sarzynna	80.00%	<i>With reference to the individual financial statement:</i>  Deloitte Audyt Sp. z o.o. - unqualified opinion	29.02.2008
Przedsiębiorstwo Transportowo-Uslugowe Transclean Sp. z o.o., Bydgoszcz	90.00%	<i>With reference to the individual financial statement:</i>  The Company was not obliged to carry out the audit in accordance with Article 64 of the Accounting Act.	
S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., Rm. Valcea	92.91%	<i>With reference to the individual financial statement:</i>  Deloitte Audit SRL – unqualified opinion	31.03.2008
POLSIN PRIVATE LIMITED, Singapore	82.45%	<i>With reference to the individual financial statement:</i>  Deloitte & Touche Certified Public Accountants, Singapore - unqualified opinion.	05.02.2008
Soda Deutschland Ciech Group, Stassfurt	90.00%	<i>With reference to the consolidated financial statement:</i>	28.03.2008

		Deloitte & Touche GmbH, Berlin – unqualified opinion	
DALTRADE PLC, London	61.20%	<i>With reference to the individual financial statement:</i>	
		COVENEY NICHOLLS Chartered Accountants & Registered Auditors – unqualified opinion	

Furthermore, Polskie Towarzystwo Ubezpieczeń S.A. with the registered office in Warsaw valued by equity method, is indirectly affiliated to CIECH S.A., and its shares are held by the following CIECH S.A. subsidiaries: JANIKOSODA S.A. (22.71% shares) and SODA MAŁTOWY S.A. (22.71% shares). The total indirect share of CIECH S.A. in the PTU S.A. share capital is 45.19%. On 26 March 2008, BDO Numerica Sp. z o.o. issued an unqualified opinion concerning the financial statement of PTU S.A. drawn up at 31 December 2007.

## **2. Information on the consolidated financial statement for the previous financial year**

In 2006 the activity of the Ciech Capital Group recorded net profit in the amount of PLN 150,434 thousand. Consolidated Financial Statement of CIECH Capital Group for the financial year 2006 was subject to examination by the chartered auditor. The audit was carried out by Deloitte Audyt Sp. z o.o. – authorized entity. On 11 May 2007 the chartered auditor issued an unqualified opinion on this statement, with reference to the following:

- I. The realization of the provisional settlement of merger between ZACHEM S.A., Z.Ch. Organika-Sarzyna S.A. and S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., with the application of estimated values to the acquired assets, liabilities and contingent liabilities.
- II. Court actions pending against the Parent Company, whose final settlement and effects could not be evaluated.

The General Meeting of Shareholders approving the consolidated financial statement for the financial year 2006 took place on 21 June 2007.

According to the legal regulations, the consolidated financial statement for 2006 was submitted to the National Court Register on 5 July 2007. This statement was published in the "Monitor Polski B no. 1474" on 5 September 2007.

## **3. Data identifying the authorized entity and chartered auditor carrying audit on its behalf**

The audit of the consolidated financial statement was carried out on the basis of the agreement of 12 July 2007, concluded between CIECH S.A. and Deloitte Audyt Sp. z o.o. with the registered office in Warsaw, ul. Piękna 18, entered on the list of entities authorized to conduct the audits of financial statements under no. 73, maintained by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statement was carried out from 16 April to 16 May 2008, under the supervision of Ms Maria Rzepnikowska, chartered auditor (reference no. 3499/1028).

According to the authorization contained in Para. 21 of the Articles of Association of the Parent Company, under resolution of 11 May 2007 the Supervisory Board elected the authorized entity.

Deloitte Audyt Sp. z o.o. and Ms Maria Rzepnikowska, chartered auditor declare that they are authorized to carry out the audits of financial statements and fulfil the conditions set forth in Article 66 (2) and (3) of the Accounting Act, to issue an impartial and independent opinion on the consolidated financial statement of the Ciech Capital Group.

**4. Availability of data and declarations of the entity's management**

No restrictions occurred as regards the scope of our audit.

During the examination, the authorized entity and chartered auditor were given access to all required documents and data, as well as comprehensive information and explanations were submitted, which, *inter alia*, was confirmed by the written declaration of the Parent Company's Management Board of 6 May 2008.

**5. Asset situation and financial standing of the Capital Group**

Below are presented basic values from the consolidated profit and loss account and financial ratios which describe the financial result of the Ciech Capital Group, and its asset situation and financial standing as compared to the similar values from the previous years.

On the evaluation of the ratio analysis it should be noted that there was the adjustment of comparable data, which also referred to the following events:

- at 31 December 2006, Uzinele Sodice Govora – Ciech Chemical Group S.A., Z.Ch. Organika-Sarzyna S.A. and ZACHEM Capital Group were included in the Ciech Capital Group;
- data for 2006 changed as a result of the final settlement upon the provisional record of the companies acquired in 2006 and

the fact that at 31 December 2007 Soda Deutschland Ciech Capital Group was included in the Ciech Capital Group.

In relation to the above we have withdrawn from calculating ROE's (Return on Equity) and net profit margin as well as efficiency ratios due to the lack of their cognitive value.

<u>Basic values from profit and loss account (in thousand PLN)</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues from sales	3,414,979	2,174,330	2,209,545
Operating expenses	3,104,966	1,994,815	2,065,377
Other operating revenues	71,862	157,634	52,441
Other operating costs	68,233	145,191	53,054
Financial revenue	29,579	18,001	34,759
Financial costs	58,305	14,455	38,685
Income tax	(48,121)	(28,151)	(25,148)
Net profit / (loss)	241,857	196,073	117,853

Profitability rate

- Return on sales (%)	9.18%	8.83%	6.50%
- Net return on sales (%)	-	-	5.33%
- Return on equity (%)	-	-	11.56%

Effectiveness ratio

- Assets turnover	-	-	1.35
- Receivables turnover in days	-	-	84
- Liabilities turnover ratio in days	-	-	62
- Inventories turnover ratio in days	-	-	23

Liquidity/Net working capital

- Debt ratio (%)	67.31%	58.47%	37.67%
- Coverage ratio (%)	32.69%	41.53%	62.33%
- Net working capital (in thousand PLN)	29.253	137,037	311,308
- Liquidity ratio	1.02	1.14	1.62
- Increased liquidity ratio	0.84	0.89	1.35

The analysis of the above values and ratios indicates the occurrence of the following tendencies in 2007:

- increase in profit margin, with a decrease in net profitability,
- increase in debt ratio,
- decrease in net working capital,
- maintaining liquidity ratios at the similar level as compared to 2006.

## **II. DETAILED INFORMATION**

### **1. Information concerning the audited consolidated financial statement**

The audited consolidated financial statement was drawn up at 31 December 2007 and it comprises:

- consolidated balance sheet drawn up at 31 December 2007, whose assets and liabilities show the amount of PLN 4,234,262 thousand;
- consolidated profit and loss account for the period from January 1st, 2007 to December 31st, 2007 showing net profit in the amount of PLN 241,857 thousand;
- changes in equity for the period from January 1st, 2007 to December 31st, 2007 showing an increase in equity in the amount of PLN 196,821 thousand;
- consolidated cash flow account for the period from 1 January 2007 to 31 December 2007 showing a decrease of cash in the amount of PLN 35,915 thousand;
- additional information and explanations.

Assets and liabilities as well as items exerting an influence on the financial result were presented in the consolidated financial statement.

The audit covered the period from 1 January 2007 to 31 December 2007 and mainly consisted in:

- the examination of correctness and reliability of the consolidated financial statement prepared by the Management Board of the Parent Company,
- examination of consolidation documentation,
- evaluation of the correctness of consolidation methods and procedures applied in the process of consolidation,
- review of the opinions and reports prepared by other chartered auditors from the audit of financial statements of one subsidiary and one affiliate subject to consolidation.

The examination of the consolidated financial statement was carried out in compliance with the binding provisions and norms regarding working in the capacity of a chartered auditor, issued by the National Council of Statutory Auditors.

### **2. Documentation from consolidation**

The parent company presented the documentation from consolidation which include:

- 1) financial statements of related parties, including:
  - a) basic (original) financial statements of related parties,
  - b) financial statements of subsidiaries adapted to the accounting principles valid during the consolidation,
  - c) IAS adjustment list transforming the statements of subsidiaries and of the parent company, drawn up according to the Polish Accounting Act, into the statements compliant with IAS/IFRS.
- 2) all adjustments and exclusions carried out during the consolidation, necessary to prepare the consolidated financial statement,
- 3) calculation of goodwill.

#### Basis for the preparation of the Consolidated Financial Statement

The consolidated financial statement of the Ciech Capital Group for the financial year 2007 was drawn up in compliance with the International Financial Reporting Standards in the form approved by the European Union.

### Establishing the entities of the Capital Group

The criteria set forth in the International Financial Reporting Standards were applied on the establishment of the scope and methods of consolidation, as well as the type of affiliation.

### Financial period

The consolidated financial statement was drawn up at the same balance sheet date and for the same financial year, as the financial statement of the parent company – CIECH S.A. Subsidiaries and affiliates included in the consolidation prepared financial statements at the same balance sheet date, as the parent company. The financial year of all subsidiaries and affiliates included in the consolidation ended on 31 December 2007.

### Consolidation method

The consolidation of the Capital Group's statements, in relation to subsidiaries, was carried out by full method through adding up in full value of all appropriate items of the financial statements of the parent company and the subsidiaries included in the consolidation.

Upon adding up, the adjustments and calculations were carried out; these referred to the following:

- the purchase value of shares held by the parent company in the subsidiaries and a part of net assets of the subsidiaries correspondent to the parent company's share in the ownership of those entities,
- mutual receivables and liabilities of the entities included in the consolidation,
- major revenues and costs referring to the operations between the entities included in the consolidation.

Equity method was applied in respect of the related party. The value of the parent company's share in the related party was adjusted by the related party's equity increases or decreases in the interest of the parent company, which [increases and decreases] took place during the period included in the consolidation and decreased by dividends due from those entities.

### **3. Justification of the issued opinion**

As a result of the conducted audit, we have issued the unqualified opinion. We have drawn our attention to the following issues:

- I. Point 16.2 of the additional information and explanations to the annual consolidated statement, wherein the Management Board of the Parent Company informed on the completed process of settling the acquisition of ZACHEM S.A., Z.Ch. Organika-Sarzyna S.A. and S.C. Uzinele Sodcie Govora – Ciech Chemical Group S.A. The record of the initial settlement's adjustments was introduced in compliance with the International Accounting Standard no. 8, which means that the comparable data currently presented in the consolidated financial statement are different to the data presented in the approved consolidated financial statement at 31 December 2006, which was presented in the additional explanatory note no. 42.

- II. Point no. 16.1 of the additional information and explanations to the annual consolidated statement, in which the Management Board of the Parent Company informed that at 31 December 2007 does not have information on fair value, which should be attributable to identify assets, liabilities and contingent liabilities of the newly acquired Soda Deutschland Ciech GmbH. In relation to the abovementioned, the Parent Company – according to Para. 61-62 of the International Financial Reporting Standards no. 3 (IFRS 3) - decided to provisionally carry out the initial settlement of the merger of the Company, using estimated values to the acquired assets and liabilities, whose valuations will be subject to adjustment within 12 months from the date of take-over and from the date of take-over. Pursuant to Para. 63-65 of the International Financial Reporting Standards no. 3 possible adjustments upon the initial approach will be recorded in accordance with the International Accounting Standard no. 8. Changes in the fair value of assets, liabilities and contingent liabilities may result in the change of goodwill or of surplus of the taken over net assets over the cost of their merger.
- III. Court actions pending against the Group Parent described by the Management Board in Point 28.1.1. of the additional explanatory notes to the consolidated Financial Statement. Currently judiciary proceedings are pending and the final settlement and effects of disputes are not possible to estimate in full. The Management Board estimated the provision for covering possible liabilities thereof and recorded in the financial statement in the total amount of PLN 17,171 thousand. No provisions were created for the remaining part of possible liabilities described by the Management Board in the abovementioned note, which may arise in the case the court decisions were unfavourable to the Company.

#### **4. Completeness and correctness of the preparation of the additional information and explanations and the statement from the Capital Group's activity**

The Parent Company confirmed the legitimacy of the application of the going concern principle on the preparation of the consolidated financial statement. The principles of assets and liabilities valuation, measurement of the financial result and the manner of the preparation of the consolidated financial statement were correctly and completely described in the additional information and explanations to the consolidated financial statement.

The Parent Company prepared the additional information and explanations in the form of tabular notes to the respective items of the consolidated balance sheet and profit and loss account and verbal descriptions, in compliance with the principles contained in the IFRS.

Explanatory notes to the following items: tangible fixed assets, intangibles, investments, liabilities and provisions correctly present increases and decreases as well as titles of those changes within the financial year.

For the respective assets shown in the consolidated balance sheet a possibility to dispose thereof due to the securities carried out in the interest of creditors was presented.


The parent company carried out the correct presentation of the respective components of assets and liabilities as well as revenues and costs in the consolidated financial statement. Consolidated balance sheet, consolidated profit and loss account, changes in consolidated equity and consolidated cash flow statement with additional notes, information and explanations, accounting for their integral part, include all items, whose disclosure in the consolidated financial statement is required by the regulations of the IFRS.

The Management Board prepared and enclosed the statement from the Ciech Capital Group's activity in the financial year 2007 to the consolidated financial statement. The statement from the activity includes the information required by Article 49 section 2 of the Act on Accounting and the Decree of the Minister of Finance of 19 October 2005 concerning current and periodic information transmitted by the issuers of securities. We have carried out the audit of this statement as regards the information disclosed therein, for which the examined consolidated financial statement constitutes a direct source.

## 5. Final provisions

### Declarations of the Management Board

The Management Board of the Parent Company provided Deloitte Audyt Sp. z o.o. and the chartered auditor with a written declaration, wherein the Management Board declared that the Capital Group complied with the provisions of the Law.

  
.....  
Maria Rzepnikowska  
Biegły rewident  
nr ewid. 3499/1028

  
Radosław Kuboszek  
Członek Zarządu  
Biegły rewident  
nr ewid. 90029  
.....  
Maria Rzepnikowska  
Prezes Zarządu  
Biegły rewident  
nr ewid. 3499  
osoby reprezentujące podmiot

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.....  
podmiot uprawniony do badania  
sprawozdań finansowych wpisany  
na listę podmiotów uprawnionych  
pod nr ewidencyjnym 73  
prowadzoną przez KRBR

[Translation below]

Maria Rzepnikowska  
Chartered auditor  
ref.no. 3499/102  
Warsaw, 16 May 2008

Persons representing the entity  
Radosław Kuboszek  
Member of the Management Board  
Chartered auditor  
ref.no. 90029

Maria Rzepnikowska  
President of the Management Board  
Chartered auditor  
ref.no. 3499

Entity authorized to audit financial statements, registered in the list of authorized entities under reference no. 73 maintained by KRBR (National Council of Statutory Auditors): Deloitte Audyt Sp. z o.o.

Warsaw, 16 May 2008