

**CIECH CAPITAL GROUP
WARSAW, PUŁAWSKA 182**

**CONSOLIDATED FINANCIAL STATEMENT
FOR THE FINANCIAL YEAR 2008
INCLUDING
THE OPINION OF A CERTIFIED AUDITOR
AND
THE REPORT ON THE AUDIT**

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OPINION OF THE INDEPENDENT CERTIFIED AUDITOR

To the Shareholders and Supervisory Board of CIECH SA

We have audited the attached consolidated financial statement of the Ciech Capital Group for which CIECH SA, with its registered office in Warsaw, at ul. Puławska 182, is the Controlling Entity; the financial statement includes:

- a consolidated balance sheet as at December 31st, 2008, presenting a total balance of assets and liabilities in the amount of PLN 4,362,114,000,
- a consolidated profit and loss account for the period from January 1st, 2008 to December 31st, 2008, presenting a net profit in the amount of PLN 54,845,000,
- a statement of changes to the consolidated equity for the period from January 1st, 2008 to December 31st, 2008, presenting a decrease in equity in the amount of PLN 198,131,000,
- a consolidated cash flow statement for the period from January 1st, 2008 to December 31st, 2008, presenting a decrease in cash in the amount of PLN 55,662,000,
- notes and explanations.

Preparation of the said consolidated financial statement is the responsibility of the Management Board of the Controlling Entity. Our task was to audit and give an opinion on the accuracy, correctness and clarity of this consolidated financial statement.

The financial statement was fully consolidated in relation to the fourteen subsidiaries. The financial statements of one subsidiary were the subject of audit by another entity authorised to audit financial statements. We have received the financial statement of this subsidiary and the opinion on the audit of this financial statement

Our opinion on the audit of the consolidated financial statement in relation to the data on this entity is based on the opinion of a certified auditor authorised to audit financial statements. The data from the financial statement of the subsidiary, in relation to which we relied entirely on the opinion of another certified auditor, constitute respectively 0.3% and 0.5% of the consolidated assets and consolidated sales revenue before consolidation adjustments.

The audit of the consolidated financial statement was planned and conducted in accordance with:

- Article 7 of the Accounting Act of September 29th, 1994 (Journal of Laws 2002 No. 76, item 694 as amended),
- professional standards for certified auditors, published by the Polish National Council of Statutory Auditors

in such a way as to obtain rational and sufficient grounds for giving an opinion whether the financial statement is free of material misstatements. In particular, the audit included an examination of the consolidation documentation relevant to the amounts and disclosures in the consolidated financial statement, an assessment of the accounting principles (policy), applied in the course of preparing the consolidated financial statement and material estimates, connected with it, as well as an overall evaluation of the presentation of the consolidated financial statement. We believe that the conducted audit provided a sufficient basis for our expressing an opinion.

The Controlling Entity CIECH SA concluded derivative transactions, covering option structures, consisting of the put options acquired and call options issued. Due to the fact that the option structures concluded by the Company constitute an economic hedge of the Capital Group's future sales revenue, and in connection with the restructuring of these instruments, which was ongoing and completed before the date of preparing the financial statement, the Controlling Entity designated part of the derivative transactions concluded as the hedge of this revenue within the meaning of hedge accounting. Therefore, the Controlling Entity fragmented them into component instruments, and distinguished out of them part of the derivative transactions, constituting an option structure, which, as a synthetic forward contract, was subject to hedge accounting principles. The transactions which were not included in the option structure, constituting a hedging instrument, are treated as derivative instruments of a commercial character.

In our opinion, despite their hedging character in terms of economy, the synthetic forward contracts, resulting from the disintegration conducted by the Controlling Entity, could be assigned as a hedge of the Capital Group's future sales revenue if they had been concluded as identical in relation to parameters but as separate with respect to law provisions. This is connected with the fact that, despite the non-inferiority of the economic result, IAS 39 does not allow assigning only part of a derivative instrument as a hedging instrument in hedge accounting. Moreover, the Controlling Entity should have considered the application of hedge accounting principles for the concluded option structures after completing the process of their restructuring.

Detailed information concerning the concluded derivative instruments and the applied principles of hedge accounting is included in item 36 of the notes and explanations to the consolidated financial statement of the Ciech Capital Group.

With the exception of the event described in item 36 of the notes and explanations to the consolidated financial statement of the Ciech Capital Group, based on the findings of the audit concluded and the opinion of another certified auditor, we are of the opinion that the audited consolidated financial statement of the Ciech Capital Group for the financial year 2008 was prepared, in all material respects, in accordance with the International Financial Reporting Standards as approved by the European Union, and that it presents truly and fairly all the information necessary for the assessment of the Capital Group's financial and economic position and financial result as at the date and for the period of 12 months ending on December 31st, 2008.

Having no objections concerning the truth and fairness of the audited consolidated financial statement, we pay attention to:

- I. Item 17 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Entity informed about the completed process of settling the Soda Deutschland Ciech GmbH acquisition. The adjustments of initial settlement were recognised in accordance with International Accounting Standard No. 8, which means that the comparable data currently presented in the consolidated financial statement is different from the data presented in the approved consolidated financial statement as at December 31st, 2007.
- II. Item 25.1 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Company informed about the financial position of the Ciech Capital Group as at December 31st, 2008, explaining the reasons for the decrease in liquidity ratios and increase in the Group's debt rate. Moreover, the Management Board presented debt restructuring plans, aimed at providing long-term and stable sources of financing for the Controlling Company and the Ciech Capital Group. In the opinion of the Management Board, the activities described in the item mentioned above shall result in an improvement related to liquidity ratios, debt rate and the level of current capital of the Capital Group in the foreseeable future.

III. Item 38 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Company informed about the court judgement in the case against PTU S.A. instituted by FSO S.A. delivered on April 28th, 2009. Due to the fact that the judgement lacks the force of law, the Management Board of the Controlling Entity is not able to estimate the financial results and the influence of the court's decision on the further control over PTU S.A., and, what follows, the influence on the consolidated financial statement for 2008. In connection with the aforesaid, the consolidated financial statement does not include any related adjustments which would be necessary in the case of an unfavourable court judgement.

The report on the Capital Group's activities for the financial year 2008 is complete within the meaning of Article 49 section 2 of the Accounting Act and the Regulation of the Minister of Finance dated February 19th, 2009 on current and periodic information published by issuers of securities and the conditions of recognising as equivalent the information required by the law provisions of a country which is not a member state; the information included in the report is compliant with the audited consolidated financial statement from which it was directly taken.

.....
Maria Rzepnikowska
Certified auditor
Reg. No. 3499/1028

Auditors

.....
representing persons

.....
entity authorised to audit
financial statements, entered
into the register of the authorised entities
under the number 73
kept by the National Council of Statutory

Warsaw, April 28th, 2009

**SUPPLEMENTARY REPORT TO THE OPINION ON THE AUDIT OF THE
CONSOLIDATED FINANCIAL STATEMENT OF THE CIECH CAPITAL
GROUP FOR THE FINANCIAL YEAR 2008**

I. GENERAL INFORMATION

1. Identification data of the audited entity

The Controlling Company of the Capital Group operates under the business name CIECH SA. The Company's registered office is in Warsaw, at ul. Puławska 182.

The Company conducts its activity as a joint stock company, formed by a notarial deed on May 30th, 1995 in the presence of the notary Paweł Błaszczak in Warsaw (Register A No. 7513/95).

The Company was entered into the Commercial Register kept by the District Court for the capital city of Warsaw, XVI Commercial Registry Division in Warsaw, in section B under the RHB (Commercial Register) number 44655. Currently, the Company is entered into the Register of Businesses kept by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register under KRS (National Court Register) number 0000011687.

The Controlling Company is the holder of NIP (tax identification number): 118-00-19-377 assigned by the Tax Office Warsaw Żoliborz on June 15th, 1993.

On December 19th, 2001 the Statistical Office granted to the Controlling Entity its REGON (state statistical number): 011179878.

The Controlling Company operates on the basis of the Commercial Companies Code.

The basic scope of the Controlling Company's activity is the sale of chemicals on the domestic market, as well as the export and import of chemical industry products.

The scope of the subsidiaries' activity is related to the Controlling Company's activity and concerns the production of chemicals and their sale on the domestic market, as well as the export and import of chemical industry products.

The Ciech Capital Group's initial capital is the Controlling Company's (CIECH SA) share capital, which as at December 31st, 2008 amounted to PLN 140,001,000, and was divided into 28,000,000 ordinary shares with a nominal value of PLN 5.00 each.

The initial capital, recognised in the financial statement, as at December 31st, 2008 amounted to PLN 164,115,000 and differed from the registered one by the results of hyperinflation.

As at December 31st, 2008 the Shareholders of the Controlling Company were:

– State Treasury	–36.68% of shares,
– Otwarty Fundusz Emerytalny (Open Pension Fund) PZU 'Złota Jesień'	–6.12 % of shares,
– Pioneer Pekao Investment Management SA (PPIM)	–18.77 % of shares,
–	
– Minor shareholders, natural persons	–38.43% of shares.

Within the financial year, as well as after the balance sheet date, no changes to the Company's share capital took place.

The Ciech Capital Group's equity as at December 31st, 2008 amounted to PLN 914,288,000.

The financial year for the Company is the calendar year.

As at the date of giving the opinion, the Management Board of the Company comprised:

- Ryszard Kunicki - President of the Management Board,
- Marcin Dobrzański - Member of the Management Board,
- Artur Janusz Osuchowski - Member of the Management Board,
- Robert Bednarski - Member of the Management Board,

Within the audited period the following changes concerning the Company's Management Board took place:

On April 2nd, 2008 the Extraordinary General Meeting of Shareholders of Ciech SA recalled from the Management Board the following persons:

- Rafał Pasieka,
- Marek Trosiński,
- Wojciech Wardacki.

On April 2nd, 2008 the Extraordinary General Meeting of Shareholders of Ciech SA appointed to their posts:

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

On July 11th, 2008 the President Mirosław Kochalski resigned from his post. Until the moment of electing a new President, the Management Board was presided over by Ryszard Kunicki.

On August 19th, 2008 the Extraordinary General Meeting of Shareholders of Ciech SA appointed Ryszard Kunicki to the post of President of the Management Board. Moreover, Kazimierz Przełomski was recalled from the Management Board, and Robert Bednarski was appointed to his post.

The aforesaid changes were reported and entered into the relevant court register.

As at December 31st, 2008 the Capital Group Ciech comprised:

- Controlling Entity – CIECH SA, and
- subsidiaries:
 - SODA MĄTWY S.A.,
 - TRANSODA Sp. z o.o.,
 - Soda Polska CIECH Sp. z o.o.,
 - JANIKOSODA SA,
 - GZNF "FOSFOR" Sp. z o.o.,
 - "AGROCHEM" Spółka z ograniczoną odpowiedzialnością – in Człuchów,
 - "AGROCHEM" Spółka z ograniczoną odpowiedzialnością – in Dobre Miasto,
 - "Alwernia" S.A.,
 - Cheman S.A.,
 - "VITROSILICON" Spółka Akcyjna,
 - POLFA Sp. z o.o.,
 - POLSIN PRIVATE LIMITED,
 - DALTRADE PLC,
 - Przedsiębiorstwo Transportowo-Usługowe TRANSCLEAN Spółka z ograniczoną odpowiedzialnością,
 - Zakłady Chemiczne "Organika-Sarżyna" SA,
 - ZACHEM S.A.,
 - ZACHEM UCR Spółka z ograniczoną odpowiedzialnością,
 - ZACHEM Barwniki Spółka z ograniczoną odpowiedzialnością,

- 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,
 - CHEMIEPETROL Aussenhandelsgesellschaft mit beschränkter Haftung in liquidation,
 - CIECH SERVICE Sp. z o.o.,
 - “BORUTA-KOLOR” Sp. z o.o.,
 - “Chemia.com S.A.”,
 - POLFA Hungaria,
 - “ALWERNIA-FOSFORANY” Spółka z ograniczoną odpowiedzialnością – no activity undertaken,
 - SOC-AL. Spółka z ograniczoną odpowiedzialnością,
 - Zakład Doświadczalny “ORGANIKA” Spółka z ograniczoną odpowiedzialnością,
 - Calanda Polska Sp. z o.o. in liquidation,
 - CIECH AMERICA LATINA LTDA,
 - Sodachem GmbH,
 - KPG GmbH&Co. KG,
 - Polskie Konsorcjum Chemiczne Sp. z o.o.,
- affiliated companies:
 - Polskie Towarzystwo Ubezpieczeniowe Spółka Akcyjna,
 - Suomen Unipol Oy,
 - Zakłady Chemiczne “Silikony Polskie” Spółka z ograniczoną odpowiedzialnością,
 - “Komunalna Biologiczna Oczyszczalnia Ścieków - Spółka z ograniczoną odpowiedzialnością”,
 - “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” Spółka z ograniczoną odpowiedzialnością,
 - Przedsiębiorstwo Transportowo Spedycyjne “TRANSCHEM” Spółka z ograniczoną odpowiedzialnością,
 - Zakład Remontowo-Produkcyjny “Metalpur” Spółka z ograniczoną odpowiedzialnością,
 - Natural Chemical Products Spółka z ograniczoną odpowiedzialnością,
 - Polsin Overseas,
 - jointly-controlled company:
 - Kaverngesellschaft Stassfurt mbH.

The consolidated financial statement as at December 31st, 2008 covered the following companies:

- a) Controlling Entity – Ciech SA,

We have audited the financial statement of the Controlling Entity Ciech SA for the period from January 1st to December 31st, 2008. Based on the audit results, on April 28th, 2009 we expressed an opinion with an objection relating to the information included in Note 30.8 to the financial statement of CIECH SA which concerns the derivative instruments included and the applied principles of hedge accounting. Furthermore, in the opinion we paid attention to the information included in Note 21.1 of the notes and explanations to the financial statement, in which the Company's Management Board informed of the financial position of CIECH SA as at December 31st, 2008, explaining the reasons for the decrease in liquidity ratios and the increase in the Company's debt rate. Moreover, the Management Board presented debt restructuring plans, aimed at providing long-term and stable sources of financing for the Company. In the opinion of the Management Board, the activities described in the item mentioned above shall result in an improvement related to liquidity ratios, debt rate and the level of current capital of the Company in the foreseeable future.

b) fully consolidated companies:

Company name and registered office	Share in capital (in %)	Entity auditing financial statements and type of the opinion given	Opinion date
SODA-MĄTWY S.A., Inowrocław	99.85%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections, with attention paid to the fact that the financial statement of SODA-MĄTWY S.A. cannot be the only basis for the assessment of the financial and economic position of the Company which is the Controlling Entity in the SODA-MĄTWY S.A. Capital Group.	25.03.09
		<i>In relation to the consolidated financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	25.03.09
JANIKOSODA S.A., Janikowo	99.62%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	09.03.09
GZNF FOSFORNY Sp. z o.o., Gdańsk	89.46%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections, with attention paid to the fact that the financial statement of GZNF FOSFORNY Sp. z o.o. cannot be the only basis for the assessment of the financial and economic position of the Company which is the Controlling Entity in the GZNF FOSFORNY Sp. z o.o. Capital Group.	16.02.09
		<i>In relation to the consolidated financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	27.02.09
CIECH FINANCE Spółka z ograniczoną odpowiedzialnością, Warsaw	100%	<i>In relation to the separate financial statement of the company:</i> The company's separate financial statement was not subject to the audit by a certified auditor. The shareholders' meeting of CIECH FINANCE Spółka z ograniczoną odpowiedzialnością adopted a resolution on not preparing a consolidated financial statement by the company. CIECH FINANCE, as the lower-level Controlling Entity, and the subsidiary Cheman S.A. were consolidated by CIECH S.A., starting from the financial statement for the financial year 2006. <i>In relation to the separate financial statement of the subsidiary Cheman S.A.:</i> Deloitte Audyt Sp. z o.o. – opinion without objections,	16.03.09

		with attention paid to the poor financial condition of the entity and the obligation to adopt a resolution in accordance with the requirements of Article 397 of the Commercial Companies Code.	
“Alwernia” S.A., Alwernia	73.75%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	06.03.09
“VITROSILICON” Spółka Akcyjna, Iłowa	99.96%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	03.03.09
Polfa Sp. z o.o., Warsaw	100%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	01.03.09
ZACHEM S.A., Bydgoszcz	85.10%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections, with attention paid to the fact that the financial statement of ZACHEM S.A. cannot be the only basis for the assessment of the financial and economic position of the Company which is the Controlling Entity in the ZACHEM S.A. Capital Group. <i>In relation to the consolidated financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	27.02.09 30.03.09
Zakłady Chemiczne “Organika-Sarżyna” S.A., Sarżyna	86.13%	<i>In relation to the separate financial statement:</i> Deloitte Audyt Sp. z o.o. – opinion without objections.	23.02.09
Przedsiębiorstwo Transportowo-Uługowe Transclean Sp. z o.o., Bydgoszcz	92.55%	<i>In relation to the separate financial statement:</i> The company was not subject to the audit pursuant to Article 64 of the Accounting Act.	-
S.C. Uzinele Sodice Govora S.A., Rm. Valcea	92.91%	<i>In relation to the separate financial statement:</i> Deloitte Audit SRL – opinion without objections, with attention paid to the poor financial condition of the entity and the obligation to adopt a resolution in accordance with the requirements of the Commercial Companies Code.	31.03.09
POLSIN PRIVATE LIMITED, Singapore	98.00%	<i>In relation to the separate financial statement:</i> Deloitte & Touche Certified Public Accountants, Singapore – opinion without objections	20.02.09
Soda Deutschland Ciech Group, Stassfurt	92.00%	<i>In relation to the consolidated financial statement:</i> Deloitte & Touche GmbH, Berlin – opinion without objections	26.03.09
DALTRADE PLC, London	61.20%	<i>In relation to the separate financial statement:</i> COVENEY NICHOLLS Chartered Accountants & Registered Auditors – opinion without objections	25.02.09

Moreover, the entity indirectly affiliated to CIECH SA and valued by the equity method is Polskie Towarzystwo Ubezpieczeń Spółka Akcyjna with its registered office in Warsaw; the shares of this entity are held by the following CIECH SA subsidiaries: JANIKOSODA S.A. (22.71% of shares) and SODA MAŁY S.A. (22.72% of shares). The total indirect share of CIECH SA in PTU S.A.’s share capital amounts to 45.30%. On March 23rd, 2009 KPMG Audyt Sp. z o.o. expressed an opinion on the financial statement of PTU S.A. as at December 31st, 2008 without objections.

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

The Capital Group's activity in 2007 presented a net profit amounting to PLN 241,857,000. The consolidated financial statement of the Capital Group for the financial year 2007 was subject to audit by a certified auditor. The audit was conducted by the authorised entity Deloitte Audyt Sp. z o.o. On May 16th, 2008 the certified auditor gave an opinion on this statement without objections but with attention paid to:

- I. "Item 16.2 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Company informed about the completed process of settling the acquisition of the following companies: Zachem S.A., Zakłady Chemiczne "Organika-Sarzyna" S.A. and S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A. The adjustments of initial settlement were recognised in accordance with International Accounting Standard No. 8, which means that the comparable data currently presented in the consolidated financial statement are different from the data presented in the approved consolidated financial statement as at December 31st, 2006.
- II. Item 16.1 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Company informed that as at December 31st, 2007 it is not in possession of information on the fair value which should be assigned to assets, liabilities and contingent liabilities possible to be identified and related to the newly acquired company Soda Deutschland Ciech GmbH. In compliance with the aforesaid, the Controlling Company – pursuant to Articles 61-62 of International Financial Reporting Standard No. 3 (IFRS 3) – decided to provisionally perform an initial settlement of the Company merger based on the assumed estimated values in relation to acquired assets and liabilities the valuation of which shall be subject to adjustment within 12 months from the acquisition date and starting on the acquisition date. In accordance with Articles 63-65 of International Financial Reporting Standard No. 3, the possible adjustments after the initial recognition shall be recognised pursuant to International Accounting Standard No. 8. Changes in the fair values of assets, liabilities and contingent liabilities shall result in changes of goodwill or surplus of net assets acquired over merger cost.
- III. Court cases pending against the Controlling Entity described by the Management Board in item 28.1.1. of the notes and explanations to the consolidated financial statement. Currently, there are legal proceedings pending and the final settlement and effects of the disputes cannot be fully assessed. The Management Board estimated the provision for the coverage of liabilities due to the disputes in the total amount of PLN 17,171,000 and recognised it in the financial statement. No provisions were created for the remaining part of possible liabilities, described by the Management Board in the aforesaid note, which may arise in the case of court judgements unfavourable to the Company."

The Ordinary General Meeting of Shareholders, approving the consolidated financial statement for the financial year 2007, was held on June 26th, 2008.

Pursuant to the provisions of law, the consolidated financial statement for the financial year 2007 was filed with the National Court Register on July 8th, 2008 and published in the official gazette Monitor Polski "B" No. 1365 on October 3rd, 2008.

3. Identification data of the authorised entity and the certified auditor, conducting the audit on its behalf

The audit of the consolidated financial statement was conducted based on the agreement dated July 3rd, 2008 concluded between CIECH SA and the company Deloitte Audyt Sp. z o.o., with its registered office in Warsaw, ul. Piękna 18, entered into the register of entities authorised to audit financial statements, kept by the National Council of Statutory Auditors, under the number 73. On behalf of the authorised entity the audit of the consolidated financial statement was conducted under the supervision of the certified auditor Maria Rzepnikowska (reg. no. 3499/1028) from March 23rd to April 28th, 2009.

The entity authorised to audit the financial statement was chosen by the Supervisory Board by way of a resolution as of February 27th, 2008 based on the authorisation included in Article 21 of the Statutes of the Controlling Company.

Deloitte Audyt Sp. z o.o. and the certified auditor Maria Rzepnikowska confirm that they are authorised to audit financial statements and satisfy the requirements defined in Article 66 sections 2 and 3 of the Accounting Act related to expressing a fair and independent opinion on the consolidated financial statement of the Ciech Capital Group.

4. Data accessibility and the Management Board's statements

No restrictions or limitations related to the scope of our audit took place.

All the required documents and data were made available to the authorised entity and the certified auditor during the audit; moreover, they were provided with exhaustive information and explanations, which was confirmed by the Management Board of the Controlling Company in its written statement on April 28th, 2009.

5. Financial and economic position of the Capital Group

Below we present the basic item values from the consolidated profit and loss account, as well as financial ratios, describing the Capital Group's financial result, its financial and economic position in comparison with the analogous values for the previous years.

Conducting an assessment of ratio analysis, one should take into consideration that the comparable data were subject to adjustments; the adjusted data related, among others, to the following events:

- as at December 31st, 2006 the following companies: S.C. Uzinele Sodice Govora – Ciech Chemical Group S.A., Zakłady Chemiczne “Organika-Sarzyna” S.A. and the ZACHEM Capital Group joined the Ciech Capital Group;
- as at December 31st, 2007 Soda Deutschland Ciech joined the Ciech Capital Group;
- data for 2007 changed as a result of the final settlement after the provisional recognition of the company acquired in 2007.

In connection with the aforesaid we refrained from calculating the return on equity and net profit margin ratios, as well as efficiency ratios for the years 2006 and 2007 due to the lack of their cognitive value.

<u>Basic values from the profit and loss account (in PLN '000)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sales revenue	3,781,304	3,414,982	2,174,330
Cost of operating activities	3,542,558	3,105,475	1,994,815
Other operating income	129,589	68,919	157,634
Other operating expenses	111,917	335,443	145,191
Financial income	111,751	28,625	18,001
Financial expenses	269,092	58,607	14,455
Income tax	40,970	48,096	(28,151)
Net profit (loss)	54,845	(30,033)	196,073

<u>Return ratios</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
– return on sales (profit (loss) from sales/sales revenue)	6.78%	1.26%	8.83%
– net profit margin (net profit (loss)/sales revenue)	1.45%	-	-
– net return on equity (net profit (loss)/equity)	6.00%	-	-

Efficiency ratios

– asset turnover ratio (sales revenue/total assets)	86.69%	-	-
– receivables turnover in days (average net trade receivables *365 days/sales revenue)	59	-	-
– turnover of liabilities in days (average trade receivables *365 days/cost of operating activities)	39	-	-
– inventory turnover in days (average inventory *365 days/cost of operating activities)	36	-	-

Liquidity/ Net current capital

– debt rate (total liabilities/total assets)	79.04%	71.95%	58.47%
– equity to assets ratio (equity/total assets)	20.96%	28.05%	41.53%
– net current capital (in PLN ‘000) (total current assets-current liabilities)	-750,050	18,704	137,037
– liquidity ratio (total current assets/current liabilities)	0.68	1.01	1.14
– quick ratio (total current assets-inventory)/current liabilities)	0.49	0.83	0.89

The analysis of the afore-mentioned values and ratios indicates the following tendencies in 2008:

- increase of gross profit margin ratio,
- increase of debt rate,
- significant decrease of current capital, reaching a negative value,
- decrease of liquidity ratios.

In item 25.1 of the notes and explanations to the consolidated financial statement the Management Board of the Controlling Entity informed about the financial position of the Ciech Capital Group as at December 31st, 2008, explaining the reasons for the decrease of liquidity ratios presented above and the increase of the Capital Group’s debt rate. Moreover, the Management Board presented debt restructuring plans, aimed at providing long-term and stable sources of financing for the Group. The Management Board assured that the activities undertaken shall improve the financial position of the Group.

II. DETAILED INFORMATION

1. Information on the audited consolidated financial statement

The audited consolidated financial statement was prepared as at December 31st, 2008; it includes:

- a consolidated balance sheet as at December 31st, 2008, presenting a total balance of assets and liabilities in the amount of PLN 4,362,114,000,
- a consolidated profit and loss account for the period from January 1st, 2008 to December 31st, 2008, presenting a net profit in the amount of PLN 54,845,000,
- a statement of changes to the consolidated equity for the period from January 1st, 2008 to December 31st, 2008, presenting a decrease in equity in the amount of PLN 198,131,000,
- a consolidated cash flow statement for the period from January 1st, 2008 to December 31st, 2008, presenting a decrease in cash in the amount of PLN 55,662,000,
- notes and explanations.

The structure of assets and liabilities, as well as of the items influencing the financial result is presented in the consolidated financial statement.

The audit covered the period from January 1st, 2008 to December 31st, 2008, and it included:

- assessment of the accuracy and correctness of the consolidated financial statement prepared by the Management Board of the Controlling Entity,
- examination of the consolidation documentation,
- assessment of the correctness of the consolidation methods and procedures applied during the consolidation,
- review of the opinions and reports on the audit of the financial statement of the subsidiary and affiliated company subject to consolidation which were prepared by other certified auditors.

The audit of the consolidated financial statement was conducted in accordance with the provisions of law applicable in this respect, and with the professional standards for certified auditors published by the National Council of Statutory Auditors.

2. Consolidation documentation

The Controlling Entity presented the consolidation documentation, including:

- 1) financial statements of associates, including:
 - a) basic (original) financial statements of associates,
 - b) financial statements of subordinate entities, adjusted to the accounting principles (policy) applicable in the case of consolidation,
 - c) statement of IAS adjustments, changing the statements of subsidiaries and the Controlling Entity, prepared in accordance with the Polish Accounting Act, on the statement pursuant to IAS/IFRS.
- 2) any adjustments and exceptions, realised during the consolidation, necessary to prepare the consolidated financial statement,
- 3) goodwill calculations.

Grounds for preparing the consolidated financial statement

The consolidated financial statement of the Capital Group for the financial year 2008 was prepared in accordance with the International Financial Reporting Standards as approved by the European Union.

Determination of the Capital Group entities

While defining the scope and methods of consolidation, as well as the relationships in the Group, the criteria established in the International Financial Reporting Standards were applied.

Business period

The consolidated financial statement was prepared as at the same balance sheet date and for the same financial year as the financial statement of the Controlling Entity – CIECH SA. The subsidiaries and affiliated companies subject to consolidation prepared their financial statements as at the same balance sheet date as the Controlling Entity. The financial year of all the subsidiaries and affiliated companies subject to consolidation ended on December 31st, 2008.

Consolidation method

The consolidation of the Capital Group's financial statements in relation to the subsidiaries was the full consolidation which means summing up the full amounts of all the relevant items of financial statements of the Controlling Entity and the subsidiaries subject to consolidation.

After summing up the amounts, consolidation adjustments and exceptions were realised; they referred to:

- the acquisition value of the shares held by the Controlling Entity in subsidiaries, and part of the net assets of subsidiaries equivalent to the Controlling Entity's share in the ownership of these subsidiaries,
- the mutual receivables and liabilities of the entities subject to consolidation,
- the significant revenue and costs concerning operations between the entities subject to consolidation.

In relation to the affiliated company the equity method was applied. The value of the Controlling Entity's share in the affiliated entity was adjusted by the increases or decreases in the affiliated company's equity which were for the benefit of the Controlling Entity and which took place within the period subject to consolidation; it was also reduced by the dividends receivable from this entity.

3. Justification for the opinion given

Based on our audit, we have given an opinion with an objection referring to the information included in item 36 of the notes and explanations to the consolidated financial statement of the Ciech Capital Group, concerning the transactions concluded on derivative instruments and the applied principles of hedge accounting, which reads as follows:

“The Controlling Entity CIECH SA concluded derivative transactions, covering option structures, consisting of the put options acquired and call options issued. Due to the fact that the option structures concluded by the Company constitute an economic hedge of the Capital Group's future sales revenue, and in connection with the restructuring of these instruments, which was ongoing and completed before the date of preparing the financial statement, the Controlling Entity designated part of the derivative transactions concluded as the hedge of this revenue within the meaning of hedge accounting. Therefore, the Controlling Entity fragmented them into component instruments, and distinguished out of them part of the derivative transactions, constituting an option structure, which, as a synthetic forward contract, was subject to hedge accounting principles. The

transactions which were not included in the option structure, constituting a hedging instrument, are treated as derivative instruments of a commercial character.

In our opinion, despite their hedging character in terms of economy, the synthetic forward contracts, resulting from the disintegration conducted by the Controlling Entity, could be assigned as a hedge of the Capital Group's future sales revenue if they had been concluded as identical in relation to parameters but as separate with respect to law provisions. This is connected with the fact that, despite the non-inferiority of the economic result, IAS 39 does not allow assigning only part of a derivative instrument as a hedging instrument in hedge accounting. Moreover, the Capital Group should have considered the application of hedge accounting principles for the concluded option structures after completing the process of their restructuring.

Detailed information concerning the concluded derivative instruments and the applied principles of hedge accounting is included in item 36 of the notes and explanations to the consolidated financial statement of the CIECH Capital Group."

Furthermore, our opinion pays attention to the following issues:

- I. "Item 17 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Company informed about the completed process of settling the Soda Deutschland Ciech GmbH acquisition. The adjustments of initial settlement were recognised in accordance with International Accounting Standard No. 8, which means that comparable data presented currently in the consolidated financial statement is different from the data presented in the approved consolidated financial statement as at December 31st, 2007.
- II. Item 25.1 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Company informed about the financial position of the CIECH Capital Group as at December 31st, 2008, explaining the reasons for the decrease in liquidity ratios and the increase in the Group's debt rate. Moreover, the Management Board presented debt restructuring plans, aimed at providing long-term and stable sources of financing for the Controlling Company and the CIECH Capital Group. In the opinion of the Management Board, the activities described in the item mentioned above shall result in an improvement related to liquidity ratios, debt rate and the level of current capital of the Capital Group in the foreseeable future.
- III. Item 38 of the notes and explanations to the consolidated financial statement in which the Management Board of the Controlling Company informed about the court judgement in the case against PTU S.A. instituted by FSO S.A. delivered on April 28th, 2009. Due to the fact that the judgement lacks the force of law, the Management Board of the Controlling Entity is not able to estimate the financial results and the influence of the court's decision on the further control over PTU S.A., and, what follows, the influence on the consolidated financial statement for 2008. In connection with the aforesaid, the consolidated financial statement does not include any related adjustments which would be necessary in the case of an unfavourable court judgement."

4. Completeness and correctness of the preparation of the notes and explanations, and the report on the Capital Group's activities

The Controlling Company confirmed the validity of the going concern principle while preparing the consolidated financial statement. The principles of valuation of assets and liabilities, measurement of the financial result and the way of preparing the consolidated financial statement were correctly and completely described in the notes and explanations to the consolidated financial statement.

The Controlling Company has prepared notes and explanations in the form of table notes to individual items of the consolidated balance sheet and profit and loss account, as well as in the form of word descriptions in accordance with the principles included in IFRS.

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

For individual assets indicated in the consolidated balance sheet the possibility of using them was presented due to the hedging for the benefit of creditors.

The Controlling Company correctly presented the individual elements of assets and liabilities, and revenue and costs in the consolidated financial statement. The consolidated balance sheet, consolidated profit and loss account, statement of changes to the consolidated equity and the consolidated cash flow statement together with notes, information and explanations, constituting their integral part, include all the items the disclosure of which in the consolidated financial statement is required by IFRS.

The Management Board of the Controlling Entity prepared and attached to the consolidated financial statement a report on the Capital Group's activities in the financial year 2008. The Management Report includes the information required by Article 49 section 2 of the Accounting Act and the Regulation of the Minister of Finance dated February 19th, 2009 on current and periodic information published by issuers of securities and the conditions of recognising as equivalent the information required by the law provisions of a country which is not a member state. We have examined this report within the scope of this information, disclosed in it, for which the direct source is the audited consolidated financial statement.

5. Final information and provisions

Management Board's statements

Deloitte Audyt Sp. z o.o. and the certified auditor received from the Management Board of the Controlling Company a written statement in which the Management Board declares that the Capital Group has observed the provisions of law.

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Maria Rzepnikowska
Certified auditor
Reg. No. 3499/1028

Auditors

Warsaw, April 28th, 2009

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representing persons

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entity authorised to audit
financial statements, entered
into the register of the authorised entities
under the number 73
kept by the National Council of Statutory