
**MANAGEMENT REPORT OF CIECH SPÓŁKA AKCYJNA JUSTIFYING THE
DEMERGER OF INOWROCLAWSKIE ZAKŁADY CHEMICZNE SODA MATWY
SPÓŁKA AKCYJNA**

PREPARED IN WARSAW ON 27 AUGUST 2012

MANAGEMENT REPORT

Acting pursuant to Article 536 § 1 of the Commercial Companies Code Act of 15 September 2000, the Management Board of:

Ciech Spółka Akcyjna, with its registered office in Warsaw (02-670), ul. Puławska 182, entered into the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw in Warsaw, 13th Economic Division of the National Court Register, under no. KRS 0000011687, tax ID (NIP) 1180019377, statistical no. (REGON) 011179878, with fully paid share capital amounting to PLN 263,500,965.00 (later referred to as **Ciech**),

has prepared this report to justify the demerger of:

Inowrocławskie Zakłady Chemiczne Soda Mątwy Spółka Akcyjna, with its registered office in Warsaw (02-670), ul. Puławska 182, entered into the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw in Warsaw, 13th Economic Division of the National Court Register (formerly: register of entrepreneurs maintained by the District Court in Bydgoszcz, 13th Economic Division of the National Court Register), under no. KRS 0000022064, tax ID (NIP) 5560801465, statistical no. (REGON) 090022840, with fully paid share capital amounting to PLN 74,160,750 (later referred to as **Soda Mątwy**).

1. DEFINITIONS

Demerger Issue Share	1 series F registered share in the share capital of Ciech which, as a result of the Demerger, shall be awarded to the Minority Shareholder according to the terms of the Demerger Plan
Minority Shareholder	Grzegorz Margas, residing in Warsaw (02-495), ul. Rumiankowa 6 (ID card: ACC 231837, PESEL no.: 61033008870, tax ID (NIP): 772-140-19-97), holding 1 series A bearer share, number 005 299 913, in the share capital of Soda Mątwy
Spin-Off Date	Day when the increase in Ciech's share capital in connection with the issue of the Demerger Issue Shares is entered into the register
Janikosoda	Janikowskie Zakłady Sodowe Janikosoda Spółka Akcyjna, with its registered office in Warsaw (02-670), ul. Puławska 182, entered into the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw in Warsaw, 13th Economic Division of the National Court Register (formerly: register of entrepreneurs maintained by the District Court in Bydgoszcz, 13th Economic Division of the National Court Register), under no. KRS 0000023517, tax ID (NIP) 5570003067, statistical no. (REGON) 090568526, with

	fully paid share capital amounting to PLN 44,676,080
CCC	Commercial Companies Code Act of 15 September 2000 (J.L. of 2000, No. 94, item 1037, as amended)
Soda Division	<p>Organisationally, financially and functionally separate part of Soda Mątwy's business operations, forming an organised part of the enterprise under the business name <i>Inowrocławskie Zakłady Chemiczne SODA MĄTWY Spółka Akcyjna Oddział w Inowrocławiu</i>.</p> <p>The Soda Division was separated based on Resolution No. 01/VIII/2012 of 1 June 2012 of Soda Mątwy's Management Board on establishing a division.</p>
Demerger Plan	Demerger plan for Soda Mątwy, agreed by the Management Boards of Soda Mątwy and Ciech on 27 August 2012
Demerger	Demerger of Soda Mątwy according to the terms of the Demerger Plan

2. GENERAL INFORMATION

- 2.1. On 27 August 2012, pursuant to Article 533 § 1 CCC and Article 534 CCC, the Management Boards of Ciech and Soda Mątwy agreed on the Demerger Plan.
- 2.2. The following have been enclosed to the Demerger Plan:
 - a) draft resolution of Ciech's General Shareholders' Meeting on the Demerger and on the Demerger of Janikosoda,
 - b) draft resolution of Soda Mątwy's General Shareholders' Meeting on the Demerger,
 - c) draft amendments to Ciech's Statute,
 - d) draft amendments to Soda Mątwy's Statute,
 - e) determination of the value of Soda Mątwy's assets as of 1 July 2012, and
 - f) statement by Soda Mątwy's Management Board including information on the balance of Soda Mątwy's accounts, prepared for the purpose of the Demerger as of 1 July 2012.
- 2.3. According to Article 535 § 1 and 3 CCC, in connection with Article 5 § 3 CCC, the Demerger Plan shall be filed with the respective register court and published in the Court and Commercial Gazette.
- 2.4. In order to fulfil the obligation stipulated by Article 537 CCC, the Demerger Plan shall be audited by an auditor for correctness and accuracy.

3. DEMERGER METHOD AND LEGAL BASIS

Demerger method

- 3.1. The demerger shall be performed according to Article 529 § 1 item 4 CCC by transferring to Ciech (parent company) a part of the assets of Soda Mątwy (demerged company) in the form of an organised part of the enterprise – Soda Division (**demerger by spin-off**).
- 3.2. From the date of agreeing the Demerger Plan to the Spin-Off Date, Soda Mątwy shall operate in such a way so as not to generate any material changes in the economic value of the Soda Division, other than changes resulting from Soda Mątwy's normal business.
- 3.3. Soda Mątwy's assets in the form of the Soda Division shall be separated based on Soda Mątwy's share capital and, to the extent to which the value of the assets transferred to Ciech as part of the Demerger exceeds the amount of the decrease in the share capital, based on other equity of Soda Mątwy in the following order:
 - a) decrease of Soda Mątwy's share capital to an amount corresponding to 1/3 of Soda Mątwy's share capital as of the Spin-Off Date,
 - b) decrease of Soda Mątwy's reserve capital.
- 3.4. As a result of the Demerger:
 - a) Ciech's share capital shall be increased from PLN 263,500,965.00 (in words: two hundred sixty-three million five hundred thousand nine hundred sixty-five zloty 00/100) by PLN 5.00 (in words: five zloty 00/100) by way of the issue of 1 series F registered share in the share capital of Ciech;
 - b) Soda Mątwy's share capital shall be decreased from PLN 74,160,750.00 (in words: seventy-four million one hundred sixty thousand seven hundred fifty zlotys 00/100) to PLN 148,321.48 (in words: one hundred forty-eight thousand three hundred twenty-one zloty 48/100), i.e. by PLN 74,012,428.52 (in words: seventy-four million twelve thousand four hundred twenty-eight zlotys 52/100), by cancelling (in connection with Article 455 § *in fine* CCC), 1 series A bearer share of Soda Mątwy, number 005 299 913, which is held by the Minority Shareholder, and by decreasing the nominal value of the remaining shares of Soda Mątwy. In connection with the Demerger, Soda Mątwy's share capital shall be divided into 7,416,074 shares with a nominal value of PLN 0.02 (2 grosz) each, which shall be awarded to Ciech;
 - c) Soda Mątwy's equity, other than the share capital, shall be used to the extent to which the value of the Soda Division exceeds the amount of the decrease of Soda Mątwy's share capital.

Approval of Ciech's and Soda Mątwy's General Meetings

- 3.5. According to Article 541 CCC, the Demerger shall require a resolution of Ciech's and Soda Mątwy's General Meetings.

- 3.6. Ciech's Management Board shall notify Ciech's shareholders twice about the intended Demerger, pursuant to the requirements of Article 539 CCC, and shall provide Ciech's shareholders with the documents referred to in Article 540 CCC.

Universal succession

- 3.7. As a result of the Demerger, as of the Spin-Off Date, Ciech shall assume Soda Mątwy's rights and obligations related to the Soda Division.

4. SODA MĄTWY'S TO CIECH'S SHARES EXCHANGE RATIO

- 4.1. Ciech's share capital is currently divided into 52.699.909 (in words: fifty-two million six hundred ninety-nine thousand nine hundred nine) shares with a nominal value of PLN 5.00 (in words: five zloty 00/100), series A through E.
- 4.2. Soda Mątwy's share capital is currently divided into 7,416,075 (in words: seven million four hundred sixteen thousand seventy-five) shares with a nominal value of PLN 10.00 (in words: ten zloty 00/100), series A through C, of which:
- a) 7,416,074 shares in Soda Mątwy's share capital shall be awarded to Ciech,
 - b) 1 share in Soda Mątwy's share capital shall be awarded to the Minority Shareholder.
- 4.3. As a result of the Demerger, the Minority Shareholder shall become Ciech's shareholder. In exchange for Soda Mątwy's share number 005 299 913, the Minority Shareholder shall receive a Demerger Issue Share.
- 4.4. Considering that Ciech is Soda Mątwy's majority shareholder and the acquiring company in the Demerger, Ciech shall not be awarded any shares in its increased share capital in connection with the Demerger.
- 4.5. Soda Mątwy's share held by the Minority Shareholder shall be exchanged for Ciech's shares at a 1:1 ratio (i.e. in exchange for 1 share in Soda Mątwy's share capital, the Minority Shareholder shall receive 1 Demerger Issue Share. In the opinion of Ciech's Management Board the adopted exchange ratio is justified by the Minority Shareholder's minimum share in Soda Mątwy's share capital (0.000013%) and the related minimum issue value of the Demerger Issue Share to be awarded to the Minority Shareholder. Conducting measurements of Ciech and Soda Mątwy to determine a different share exchange ratio as part of the Demerger would involve costs that would be disproportionate to the value of the above transaction and undesirable from the perspective of Ciech's shareholders.
- 4.6. Considering the above terms of awarding shares in Ciech's share capital to the Minority Shareholder, the fees referred to in Article 529 § 3 and § 4 CCC are not expected.

5. ECONOMIC RATIONALE BEHIND THE DEMERGER

The demerger is economically justified. From the economic perspective, it will involve transferring to Ciech the soda operations of Soda Mątwy (i.e. a portion of Soda Mątwy's operations involving the sale of brine and process water), while keeping the management of the Ciech Group's non-operating real properties in Soda Mątwy.

The demerger will involve the following economic benefits for Ciech:

- 1) Consolidating Ciech's soda operations:
 - Simplifying the structure of the soda operations will help shorten the decision-making chain, leading to faster decisions.
 - Reorganising and simplifying the structure will reduce overheads.
 - Concentrating the purchase of components necessary for Ciech's soda operations will strengthen Ciech's negotiating position towards contract partners and allow lower prices.
 - Transferring Soda Mątwy's soda operations to Ciech by way of the Demerger will help us avoid the need to renegotiate contracts with partners and to amend good terms of existing contracts, which could be the case if the contracts were to be assigned.
 - Consolidating soda assets in Ciech will allow them to be used more efficiently.
- 2) Centralising group functions in Soda Mątwy in the area of managing the Ciech Group's non-operating real properties, leading to:
 - Faster and more efficient sales of the Ciech Group's non-operating real properties giving an edge over sales by a non-specialised entity.
 - Maintaining a greater degree of control over managing the Ciech Group's non-operating real properties, as compared to third party services in that regard.

Furthermore, the demerger will keep Soda Mątwy legally separated from Ciech, leading to:

- 1) potentially better use of Soda Mątwy in the future to centralise other group functions, which would be faster and cheaper than creating new companies, and
- 2) keeping in Soda Mątwy its associated trademark, which may have a material value.

6. ADDITIONAL INFORMATION

- 6.1. Parallel to the Demerger Plan, a demerger plan for Janikosoda was being developed (the demerger plan for Janikosoda was agreed by the Management Boards of Ciech and Janikosoda on 27 August 2012). The said demerger will be based on Article 529 § 1 item 4 CCC by transferring a part of Janikosoda's assets to Ciech. As a result of the demerger of Janikosoda, Ciech's share capital will be increased.
- 6.2. Ciech's Management Board plans to register the increase in Ciech's share capital related to the Demerger and the demerger of Janikosoda at the same time.

Considering the above:

- a) In the draft amendments to Ciech's Statute, which form Annex 3 to the Demerger Plan, the Management Boards of Ciech and Soda Mątwy included the increase of Ciech's share capital resulting from the Demerger and the demerger of Janikosoda;
- b) In the Demerger Plan, Ciech's Management Board recommended to Ciech's General Meeting to adopt one resolution on the Demerger and the demerger of Janikosoda.

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Management Board of Ciech Spółka Akcyjna

Dariusz Krawczyk
President of the Management Board

Artur Osuchowski
Member of the Management Board

Andrzej Kopeć
Member of the Management Board