
**MANAGEMENT REPORT OF CIECH SPÓŁKA AKCYJNA
JUSTIFYING THE DEMERGER OF JANIKOWSKIE ZAKŁADY
SODOWE JANIKOSODA 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:

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 (later referred to as **Janikosoda**).

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 003 008 011, in the share capital of Janikosoda
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
CCC	Commercial Companies Code Act of 15 September 2000 (J.L. of 2000, No. 94, item 1037, as amended)
Soda Division	Organisationally, financially and functionally separate part of Janikosoda's business operations, forming an organised part of the enterprise under the business name <i>Janikowskie Zakłady Sodowe JANIKOSODA Spółka Akcyjna Oddział w Janikowie</i> . The Soda Division was separated based on Resolution No.

01/VIII/2012 of 1 June 2012 of Janikosoda's Management Board on establishing a division.

Demerger Plan	Demerger plan for Janikosoda, agreed by the Management Boards of Janikosoda and Ciech on 27 August 2012
Demerger	Demerger of Janikosoda according to the terms of the Demerger Plan
Soda Mątwy	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

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 Janikosoda agreed on the Demerger Plan.
- 2.2 The following have been enclosed to the Demerger Plan:
- draft resolution of Ciech's General Shareholders' Meeting on the Demerger and on the Demerger of Soda Mątwy,
 - draft resolution of Janikosoda's General Shareholders' Meeting on the Demerger,
 - draft amendments to Ciech's Statute,
 - draft amendments to Janikosoda's Statute,
 - determination of the value of Janikosoda's assets as of 1 July 2012, and
 - statement by Janikosoda's Management Board including information on the balance of Janikosoda'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 Janikosoda (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, Janikosoda 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 Janikosoda's normal business.
- 3.3 Janikosoda's assets in the form of the Soda Division shall be separated based on Janikosoda'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 Janikosoda in the following order:
- a) decrease of Janikosoda's share capital to an amount corresponding to 1/3 of Janikosoda's share capital as of the Spin-Off Date,
 - b) decrease of Janikosoda'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) Janikosoda's share capital shall be decreased from PLN 44,676,080.00 (in words: forty-four million six hundred seventy-six thousand eighty zloty 00/100) to PLN 134,028.21 (in words: one hundred thirty-four thousand twenty-eight zloty 21/100), i.e. by PLN 44,542,051.79 (in words: forty-four million five hundred forty-two thousand fifty-one zloty 79/100), by cancelling (in connection with Article 455 § *in fine* CCC), 1 series A bearer share of Janikosoda, number 003 008 011, which is held by the Minority Shareholder, and by decreasing the nominal value of the remaining shares of Janikosoda. In connection with the Demerger, Janikosoda's share capital shall be divided into 4,467,607 shares with a nominal value of PLN 0.03 (3 grosz) each, which shall be awarded to Ciech;
 - c) Janikosoda'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 Janikosoda's share capital.

Approval of Ciech's and Janikosoda's General Meetings

- 3.5 According to Article 541 CCC, the Demerger shall require a resolution of Ciech's and Janikosoda'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 Janikosoda's rights and obligations related to the Soda Division.

4. JANIKOSODA'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 Janikosoda's share capital is currently divided into 4,467,608 (in words: four million four hundred sixty-seven thousand six hundred eight) shares with a nominal value of PLN 10.00 (in words: ten zloty 00/100), series A through C, of which:
- a) 4,467,607 shares in Janikosoda's share capital shall be awarded to Ciech,
 - b) 1 share in Janikosoda'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 Janikosoda's share number 003 008 011, the Minority Shareholder shall receive a Demerger Issue Share.
- 4.4 Considering that Ciech is Janikosoda'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 Janikosoda'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 Janikosoda'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 Janikosoda's share capital (0.000022%) 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 Janikosoda (i.e. a portion of Janikosoda's operations involving the sale of salt and brine), while keeping in Janikosoda training, psychological support and consulting services for employees from the Ciech Group companies.

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 Janikosoda'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 Janikosoda in the area of training, psychological support and consulting for the employees of the Ciech Group's companies, leading to:
- more efficient time management for employees involved in training and psychological support,
 - improved services within the Ciech Group in the area of training and psychological support due to greater specialisation,
 - better control over the costs of training, psychological support and consulting, compared to services provided in individual companies of the Ciech Group,
 - relieving the Ciech Group's managers from administrative duties related to training, allowing them to concentrate on the Ciech Group's core business,
 - contrary to outsourcing, leaving training and psychological support in a company from the Ciech Group will allow greater control over the functions and continuity of training projects.

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

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

6. 6. ADDITIONAL INFORMATION

- 6.1 Parallel to the Demerger Plan, a demerger plan for Soda Mątwy was being developed (the demerger plan for Soda Mątwy was agreed by the Management Boards of Ciech and Soda Mątwy on 27 August 2012). The said demerger will be based on Article 529 § 1 item 4 CCC by transferring a part of Soda Mątwy's assets to Ciech. As a result of the demerger of Soda Mątwy, 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 Soda Mątwy 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 Janikosoda included the increase of Ciech's share capital resulting from the Demerger and the demerger of Soda Mątwy;
- 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 Soda Mątwy.

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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 Kopec
Member of the Management Board