

GENERAL MEETING OF CIECH S.A.Description of the demerger of Soda Mątwy and Janikosoda, and transfer of the separated parts to Ciech S.A.

Following the in-kind contribution of the assets of Janikosoda (JS) and Soda Mątwy (SM) to Soda Polska and the companies' sale of the shares of the insurance firm PTU, the companies run rudimentary operations consisting in the service of a contract with IKS Solino and hold assets in the form of interests in Soda Polska Ciech. Therefore, it was reasonable to merge these companies with Ciech. A merger would simplify the Group's structure by transferring the interests in Soda Polska directly to Ciech and would bring benefits in the form of lucrative contracts with IKS Solino. However, in this case, the amount expended by Ciech on the purchase of interests in SM and JS would not be considered as tax deductible expenses. For that to be possible, works started on the method to merge the soda companies, Janikosoda (JS) and Soda Mątwy (SM), with Ciech S.A., using a demerger by spin-off, which involves transferring to Ciech S.A. a portion of the assets of JS and SM (Article 529 § 1 item 4 CCC). First of all, applying this method allows the business goal to be achieved, i.e. transferring to Ciech the soda operations of JS and SM (interests in SP S.A. and contract with Solino), at the same time allowing the soda companies (which have a long history) to continue to operate and bringing tax benefits in the amount of approx. **PLN 60 million**. It must be stressed that keeping JM and SM in the group will allow them to be used in the future for centralising other group functions, which would be faster and cheaper than creating new companies. In addition, keeping in JS and SM trademarks which may have a material value offers an opportunity to capitalise on the companies' historic value in the future.

Therefore, each soda company (SM and JS) was assigned new tasks and two organised parts of the enterprise with new functions were created. Real Property Management Centre and Soda Division were created in JS as well as Diagnostic and Training Centre and another Soda Division in SM. In order to handle any tax-related aspects of the project, JS, SM and Ciech obtained positive and binding tax interpretations. Considering the existence of the loan agreement, the banks were successfully requested for consent to the sale of a single share of JS and SM as well as a restructuring process until the shares in JS and SM are sold by Ciech (the sale is necessary for tax optimisation).

Introducing a minority shareholder to JS and SM (as a result of the purchase of 1 share in JS and 1 share in SM by the minority shareholder) was necessary due to the possibility that the share capital of Ciech S.A., as the acquiring company in the demerger of JS and SM, may have to be increased according to Article § 530 § 2 CCC. Another reason was that, according to Article 550 § 1 CCC, it would unlikely that Ciech S.A. would acquire shares in the increased share capital of Ciech S.A. as a result of the said demerger. As a result, Ciech S.A.'s shares issued in connection with the demerger of JS and SM will be awarded only to these companies' minority shareholder.

To avoid any doubts in interpretation, one share of Janikosoda and one share of Soda Mątwy were sold to an external entity (a natural person).

The demerger by spin-off of JS and SM was formally initiated on 27 August 2012. The management boards of Ciech S.A., JS and SM passed resolutions on approving the demerger plans for JS and SM, and on the Ciech Group's restructuring based on the original model (merger by acquisition). The demerger plans for JS and SM were filed with the register court, and published in the Court and Commercial Gazette. The shareholders of Ciech S.A., JS and SM were notified about the planned restructuring (first and second notification about the demerger plan). The said notices were published



in the Court and Commercial Gazette. In addition, Ciech S.A.'s Management Board notified Ciech S.A.'s shareholders about the planned demerger of JS and SM using the procedure for convening the General Meetings of Ciech S.A. The demerger plans for JS and SM were audited by an expert for correctness and accuracy.

Achieving tax optimisation also requires decisions by Ciech S.A.'s corporate bodies, i.e. a positive opinion from the Supervisory Board in the form of a resolution and a resolution by the General Meeting on approving the demerger of JS and SM according to the above terms, as well as a separate consent from the banks to the sale of JS' and SM's remaining shares. Once the said approvals are received, it will be possible to sell the remaining shares of JS and SM (depending on the obtained external approvals or approvals from a Capital Group company). Considering that, following the transfer to Ciech of SM's and JS' Soda Divisions, only rudimentary operations will remain in SM and JS, such as the Real Property Management Centre, and the Diagnostic and Training Centre as well as minor assets including computer equipment, the market value of these companies' shares will be low (share capital amounting to approx. PLN 150 thousand for each company). However, the tax value will be high and equal to the amount expended on the purchase of shares, i.e. approx. PLN 320 million. Therefore, the share sale transaction will generate a high tax loss. One advantage of this method is that it will be possible to sell only a given number of shares generating a specific tax loss which is required to offset the tax income generated by Ciech, on which tax would have to be paid. Consequently, there is no risk that the tax loss would be forfeit after 5 years.

Conclusion:

Considering the advantages of abandoning a simple merger of Janikosoda, Soda Mątwy and Ciech S.A. and applying a demerger by-spinoff, which will result in soda operations being integrated into Ciech and will generate material tax benefits, we propose a resolution on the demerger of IZCH Soda Mątwy S.A. and JZS Janikosoda S.A. as well as an approval to amendments to the statute of CIECH S.A., Janikosoda S.A. and Soda Mątwy S.A.

Management Board of CIECH S.A.:

PRESIDENT OF THE MANAGEMENT BOARD

Dariusz Krawczyk

Annexes:

1. Resolution of Ciech S.A.'s Supervisory Board on expressing an opinion on the resolution of the Extraordinary GSM
2. Resolution of Ciech S.A.'s Management Board No. 178/2012 on approving the demerger plans and explanatory reports, and on abandoning the merger of Ciech S.A. with IZCH Soda Mątwy S.A. and JZS Janikosoda S.A.
3. Ciech S.A.'s Management Report justifying the demerger of IZCH Soda Mątwy S.A.
4. Demerger plan for IZCH Soda Mątwy S.A., prepared in Warsaw on 27.08.2012
5. Expert's opinion on the demerger plan for IZCH Soda Mątwy S.A.
6. Ciech S.A.'s Management Report justifying the demerger of JZS Janikosoda S.A.
7. Demerger plan for JZS Janikosoda S.A., prepared in Warsaw on 27.08.2012
8. Expert's opinion on the demerger plan for JZS Janikosoda S.A.

Deputy Chief Accountant
Tomasz Maciejczyk

