



Warsaw, 20 June 2011

Mr Ryszard Kunicki
President of the Management Board
Ciech S.A.
ul. Puławska 182
02-670 Warsaw

Re.: Adjusted recommendation for the valuation of the companies' shares and determining the share exchange ratio as part of the increase of CIECH S.A.'s share capital by issuing new shares in exchange for in-kind contributions in the form of the shares of Zakłady Chemiczne Alwernia S.A., Zakłady Chemiczne ZACHEM S.A. and Zakłady Chemiczne Organika-Sarzyna S.A.

Dear Sir,

This adjusted recommendation (Recommendation) presents the final results of BRE Corporate Finance S.A.'s (BRECF) work for Ciech S.A.'s Management Board in connection with the provision of consulting services related to the acquisition of the shares of Zakłady Chemiczne Alwernia S.A. (Alwernia), Zakłady Chemiczne ZACHEM S.A. (Zachem) and Zakłady Chemiczne Organika-Sarzyna S.A. (Organika-Sarzyna), jointly referred to as Companies.

BRECF's analytical work involved preparing a valuation of Ciech S.A. using a market-based approach, preparing a valuation of the Companies and producing this Recommendation.

We understand that this Recommendation will be made available to Ciech S.A.'s shareholders.

Considering that:

- (1) Ciech S.A. plans to offer the new issue shares for acquisition to the State Treasury by way of a private subscription, as referred to in Article 431 § 2 item 1 CCC, excluding the pre-emptive right.
- (2) The issue price of the new shares of Ciech S.A., which is quoted at the Warsaw Stock Exchange, was determined by BRECF by applying average share prices from the recent months before the transaction. The fact that Ciech S.A.'s shares are listed implies a continuous market valuation of Ciech S.A. by stock exchange investors. Applying the average was intended to adopt a period identical with the one adopted for calculating the average market price of shares paid by investors when taking control over companies traded on the regulated market. The above procedure limits the effect of short-term trends and random share price fluctuations on estimating a fair market price.

On 25 May 2011, we presented to Ciech S.A.'s Management Board a recommendation based on the issue price of Ciech S.A.'s shares of PLN 23.50 per share based on 6-month average shares prices weighted by volume. However, given the reservations of key minority shareholders following the publication of the Management Report of 26 May 2011 we were asked to propose a new issue price for Ciech S.A.'s shares that would include an improvement of the financial terms from the minority shareholders' perspective, ensuring fair terms for the State Treasury.

We believe that all parties would accept that the financial terms for the minority shareholders should be improved by replacing the originally proposed issue price based on a 6-month average with an approx. 10% higher average price from a 3-month period, i.e. PLN 26.06 per share.

However, BRECF believes that, from the economic perspective of the State Treasury's and Ciech S.A.'s minority shareholders' interest, both the 6-month and the 3-month average should be allowed (as nobody's interests are harmed). If Ciech S.A.'s Management Board opted for a higher price, that would be a consensus encouraging the minority shareholders to vote in favour of the transaction. In our opinion, the State Treasury will be able to contribute the shares at a fair price, and although its share in the Company would be lower, this would be a positive signal to the market that the majority shareholder considers the interest of other shareholders.

- (3) The arithmetical average of daily average prices of Ciech's shares weighted by the volume was determined for the last three months, ending 30 April 2011, i.e. as of the calculation date of the value of shares being the in-kind contribution.

- (4) The in-kind contribution in the transaction involves the following shares:
- 571,826 ordinary shares of Alwernia,
 - 762,224 ordinary registered shares of Zachem,
 - 429,388 ordinary registered shares of Organika-Sarzyna.
- (5) Valuating the in-kind contributions in the form of companies not listed on the public market involved determining their fair market value. To this end, BRECF applied two equivalent approaches: income approach based on discounted cash flows (DCF) and comparative approach based on market (stock exchange) multipliers. The applied approaches are described in the annex to the Recommendation.
- (6) BRECF obtained the following results from the valuation of the in-kind contributions as of 30 April 2011:

- a. valuation of share stakes:

in PLN '000,000, rounded up/down as appropriate	<u>Alwernia</u>	<u>Zachem</u>	<u>Organika-Sarzyna</u>
Income approach (DCF)	18.3	5.9	19.0
Comparative (multiplier) approach	19.0	7.3	20.1
Average valuation based on two approaches (consensus)	18.6	6.6	19.5

- b. valuation of a single share:

in PLN, rounded up/down as appropriate	<u>Alwernia</u> (1 share)	<u>Zachem</u> (1 share)	<u>Organika-Sarzyna</u> (1 share)
Income approach (DCF)	32.0	7.8	44.1
Comparative (multiplier) approach	33.2	9.6	46.9
Average valuation based on two approaches (consensus)	32.6	8.7	45.5

- (7) Based on the information provided by Ciech S.A., BRECF considered the following material circumstances of the transaction:
- Under agreements concluded by Ciech S.A. on 29 March 2006 with Nafta Polska S.A., Ciech S.A. purchased from Nafta Polska S.A. (i) 11,840,000 shares in Zachem, accounting for a total of 80% of Zachem's share capital, and (ii) 6,792,000 shares in Organika-Sarzyna, accounting for a total of 80% of Organika-Sarzyna's share capital.
 - In the above-mentioned agreements, Ciech S.A. submitted to the State Treasury irrevocable offers for the acquisition of all remaining Zachem's shares and all Organika-Sarzyna's shares held by the State Treasury by the offer's expiry, i.e. 20 December 2016.
 - On 5 January 2010 and 28 December 2010, Ciech S.A. and the State Treasury concluded understandings which modified the revaluation ratios and revaluation dates of the price for which Ciech S.A. was to purchase Zachem's shares and Organika-Sarzyna's shares from the State Treasury.
 - For the State Treasury, acquiring Ciech S.A.'s shares in exchange for the in-kind contributions in the form of Zachem's and Organika-Sarzyna's shares is an alternative to the purchase of these shares by Ciech S.A. from the State Treasury under sale agreements which could be concluded irrespective of Ciech S.A.'s intention if the State Treasury accepted the submitted offers.
 - In connection with the State Treasury's intention to sell Alwernia's shares and in connection with Ciech S.A.'s divestment from Alwernia, as part of which Ciech S.A. allows for a temporarily greater commitment to Alwernia, the parties made arrangements according to which it was decided to issue Ciech S.A.'s shares in exchange for the in-kind contribution in the form of Alwernia's shares. The in-kind contribution of Alwernia's shares to Ciech S.A. will give Ciech S.A. nearly a 100% share in Alwernia's share capital, allowing it to make decisions on the company's operations or to manage its shares.
 - According to the understanding concluded on 26 May 2011 between the State Treasury and Ciech S.A., the prices agreed by the parties for the purpose of the combined transaction are as follows:
 - The total value of 571,826 of Alwernia's shares was set at PLN 18,332,741.56, i.e. PLN 32.06 per share.
 - The total value of 762,224 of Zachem's shares was set at PLN 6,494,148.48, i.e. PLN 8.52 per share.
 - The total value of 429,388 of Organika-Sarzyna's shares was set at PLN 19,472,745.80, i.e. PLN 45.35 per share.

- (iv) The total value of the shares forming the in-kind contribution is PLN 44,299,635.84.
- g. In the opinion of BRE Corporate Finance S.A., the prices of the State Treasury Shares resulting from the above-mentioned Understanding do not deviate from the fair value established during the valuation by BRE Corporate Finance S.A.

Considering the adjustment of the issue price of the Company's shares proposed in item (2) before, Corporate Finance S.A. recommends to Ciech S.A.'s Management Board to:

- (1) keep the value of the in-kind contribution in accordance with the provisions of the Understanding of 26 May 2011 between the State Treasury and Ciech S.A.:
 - a. PLN 32.06 per Alwernia's share, i.e. PLN 18,332,741.56 in total,
 - b. PLN 8.52 per Zachem's share, i.e. PLN 6,494,148.48 in total,
 - c. PLN 45.35 per Organika-Sarzyna's share, i.e. PLN 19,472,745.80 in total,
- (2) set the value of Ciech S.A.'s new issue shares at PLN 26.06 per share,
- (3) as a result of the above, adopt the following ratios for exchanging Ciech S.A.'s new issue shares for the shares forming the in-kind contribution (rounded up/down as appropriate):
 - a. 1,230 Alwernia's shares for 1 new Ciech S.A.'s share,
 - b. 0.327 Zachem's shares for 1 new Ciech S.A.'s share,
 - c. 1,740 Organika-Sarzyna's shares for 1 new Ciech S.A.'s share.

The above Recommendation modifies BRECF's recommendation presented on 25 May 2011.

Yours faithfully

Piotr Gałązka

President of the Management Board

BRE Corporate Finance SA

Warsaw, 20.06.2011

The sources materials are presented in the annex to this Recommendation.

Annex to BRECF's Recommendation

Source materials

Main sources of data and information used by BRECF:

- Companies' audited financial statements for 2009-2010,
- operating data for 2007-2010 in the form of MS Office documents,
- non-audited operating data for three and four months of 2011 in the form of MS Office documents,
- most recent financial plans of Alwernia, ZACHEM and Organika-Sarzyna for 2011-2015 approved by Ciech S.A.'s Management Board,
- Understanding of 5 January 2010 and Understanding II of 28 December 2010 for revaluating the share prices of ZACHEM and Organika-Sarzyna,
- draft Understanding between the State Treasury and Ciech S.A. of 23 May 2011 on the discussed transaction,
- Understanding between the State Treasury and Ciech S.A. of 26 May 2011 on the discussed transaction,
- additional oral and written explanations and information provided by Ciech S.A.,
- databases: Internet Securities, Bloomberg, WSE's official quotation list,
- analytical reports of brokerage firms on Ciech S.A. and chemical companies,
- studies and specialist press on the chemical industry,
- macroeconomic forecasts of banks, brokerage firms, government institutions, independent information agencies etc.,
- oral and written information from Ciech S.A.'s key minority shareholders.

Income approach – discounted cash flow method (DCF)

The income approach is based on valuating the forecast free cash flows for the holders of own and third party equity, transformed into present value using a Weighted Average Cost of Capital (WACC) after tax. This method concentrates on future cash flows generated by a company, reflecting the company's potential and the characteristics of the market where it operates. The method takes account of the valuated company's specific characteristics, i.e. factors which shareholders consider when deciding on the purchase of shares and the offered share price. The valuation uses long-term financial forecasts (2011-2019 + residual value with a 2% growth rate) and a capital cost that is adequate to a company's risk.

The cash flows for a given period were determined as follows:

- Cash flow to discount (FCFF) = EBITDA - CAPEX + Amortisation/Depreciation +/- Movement in working capital - Income tax on EBIT (taking account of the settlement of previous years' losses).

Parameters of the weighted average cost of capital:

- Risk-free rate based on 10-year Polish treasury bonds = 6.113%
- MRP – market risk premium = 5.0%
- Beta – systematic company risk with financial leverage calculated separately for each company based on beta without financial leverage = 0.842
- Borrowing cost = WIBOR 3M plus 4.5 p.p.
- Weighted average cost of capital of 10-11%, depending on the company and forecast period.

Comparative approach (market multiplier method)

Valuating a company with the comparative approach involves determining relations between market valuations (stock exchange prices) of comparable companies and their financial parameters, and applying these relations (multipliers) to the valuated company's financial parameters. This approach is based on the assumption that similar

assets should be valued in a similar way and traded at similar prices.

The comparative method reflects the situation on the capital market and the investors' expectations with regard to companies from a given industry, i.e. factors which shareholders consider when deciding on the purchase of shares and the offered share price. Subject to the analysis were historic multipliers, current multipliers and forecast multipliers for domestic and foreign entities.

Typical market multipliers were used for the comparative valuation:

- (1) EV/S,
- (2) EV/EBITDA,
- (3) EV/EBIT,
- (4) P/E and
- (5) P/BV.

where:

EV (Enterprise Value) – market value of the company's equity, adjusted by the company's net debt, P (Price) – market price of the company's shares, S – sales revenue from the company's operating activity, EBITDA – earnings before interest, taxes, depreciation and amortisation, EBIT – earnings before interest and taxes, E (Earnings) – net profit, BV (Book Value) – carrying value of the company's equity.

From among the analysed market relations, the valuation includes multipliers with the greatest statistical significance.

The forecast multipliers EV/EBITDA (x6.4 to x7.6), EV/EBIT (x7.9 to x10.8), P/E (x10.8 to x13.7) and P/BV (x1.1 to x1.3) were calculated for each company separately and applied to the companies' forecast financial data for 2011-2013.

The EV/S multipliers (x0.25 to x0.8, depending on the company) were calculated (linear regression analysis) based on average EBITDA for 2010-2013.

Historic average values were used where it was not possible to use financial data for 2011-2013. The historic average values were calculated based on data for 2007-2010 (EV/EBITDA x7.5, EV/EBIT x12.1, P/E x13.6).