POLAND
TAX AND LEGAL ISSUES ARISING ON LEVERAGED BUYOUTS.

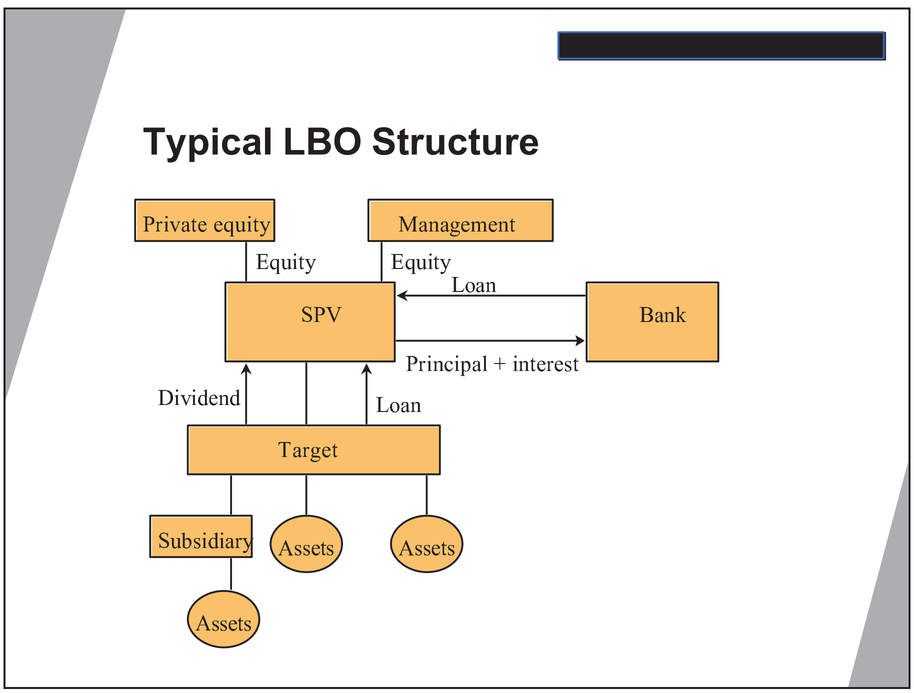
The following article considers some of the key tax and legal issues arising on leveraged buyouts in Poland.

TYPICAL LEVERAGED BUYOUT STRUCTURES

A leveraged buyout ("**LBO**") is an acquisition of an existing publicly listed or private company by a private equity firm in which the acquisition is financed by debt, typically provided by a bank, and equity or shareholder loans provided by a private equity investor and, sometimes, the management of the target. A newly incorporated special purpose vehicle ("**SPV**") is typically used as the acquisition vehicle. Payments by the SPV of principal and interest on the bank debt are serviced out of the cash flows of the target. Security for the bank debt is provided over the shares in the target held by the SPV and over the target's assets.

Set out in Figure 1 below is a typical LBO structure.

Figure 1



Payments of principal and interest on the loan provided to the SPV by the bank are serviced through cash flows generated by the target. This cash is passed to the SPV through payment of dividends and intra group loans, although management service fees can also be used.

TAXATION

The current Polish tax regime is not very favorable to the typical leveraged buyout structure, not least because of its unfavorable tax treatment of groups of companies. Interest payable by the SPV on the borrowings from the bank to fund the acquisition of the target is not a tax deductible expense. Further,