

EXPLANATIONS TO SHAREHOLDER REQUESTS FOR EXPLANATION BY ENTRIS EQUITY LIMITED

On 22 May 2017, UNIPETROL, a.s., Company ID No.: 61672190, with its registered office at Prague 4, Na Pankráci 127, Postal Code: 140 00 (“**Unipetrol**”), received from ENTRIS EQUITY LIMITED, a company with registered office at Akropoleos, 59-61 SAVVIDES CENTRE, 1st floor, Flat/office 102, P.C. 1082, Nicosia, Cyprus, Company ID No.: HE 24628 (“**Entris Equity**”), the below stated request for explanation on matters regarding items no. 4, 7 and 8 of the agenda of the ordinary general meeting of Unipetrol convened to take place on 7 June 2017 (the “**General Meeting**”).

In accordance with Section 358(2) of Act on Business Corporations, Unipetrol provides following response on the shareholder request:

Entris Equity request for explanation on matters relating to item 4 of the General Meeting agenda:

1. The Qualified Shareholder asks the Company for clarification and assurance as to whether there was no distortion in EBITDA for the period 2017 and 2018 as a result of the erroneous macro data included in the Company’s Strategy for 2017 and 2018 approved by the Board of Directors on March 14, 2017.

Explanation:

The editorial mistakes in relation to page with macro data were corrected still the same day which presentation of the document was delivered to the public. We can assure that the editorial mistakes did not have any influence over the presented detailed financial targets for years 2017 and 2018.

2. The Qualified Shareholder asks the Company for the clarification for entirely omitting any information regarding the Company’s dealings with the insurance companies regarding the Steam Cracker extraordinary event.

Explanation:

Dealings with insurance companies including amounts related to insurance coverage were not finished at that time and, therefore, were not included in the document.

3. The Qualified Shareholder asks the Company for clarification of the detailed CAPEX plan, its exact schedule and reasons for benefits to the Company, including the rate of return of the individual projects.

Explanation:

Company cannot share detailed information on CAPEX plan as it is part of its commercial secrets, disclosure of which could cause damage to the Company. It is also not a market standard practice that such plans are shared.

4. The Qualified Shareholder asks the Company for clarification of the Company’s dividend policy and its parameters for the future period.

Explanation:

Board of the company reiterated during the presentation of Strategy in March 2017 that its aim is securing

safe financial situation of the company and systematically increase dividend payout per share. Implementation of this policy could be seen already in the Board's proposal with respect to dividend payout presented for the share of the profits for the year 2016. The proposal of the Board is CZK 8.30 per share in comparison to CZK 5.52 per share from the profit for the year 2015.

Entris Equity request for explanation on matters relating to item 4, 7 and 8 of the General Meeting agenda:

5. The Qualified Shareholder asks the Company to clarify as to which particular documents were the basis on which the Company's Board of Directors decided to conclude a share purchase agreement dated on June 10, 2016, that is, to clarify the content of expert opinions and other relevant documents on the basis of which the conviction was reached that the contract in question was appropriated and advantageous.

Explanation:

UNIPETROL RPA, s.r.o. executives had at disposal an extensive analysis of financial and strategic aspects of the transaction in question prepared by PwC. The scope and content of this documentation reflects good market practice for cases of making such investment decision and included, among others, valuation of SPOLANA a.s. in a form of expert opinion.

Legal due diligence was supported by a separate renowned legal advisor.

In general, UNIPETROL RPA, s.r.o. based its negotiation of share price with Anwil S.A. on the Fair Market Value concept that stems from International Valuation Standard 1, referring to independent buyers and sellers. Transactional value of SPOLANA a.s. was based on conservative assumptions achievable for any willing buyer, and it did not even take into account additional value streams applicable specifically to Unipetrol resulting from business relations with SPOLANA, a.s..

6. The Qualified Shareholder asks the Company to clarify as to whether there was any obligation under any agreement concluded between the Company (or RPA) and Anwil (or majority shareholder PKN Orlen or other person controlled by PKN) regarding the fact that Anwil (or other person) was supposed to maintain SPOLANA or any similar commitment.

Explanation:

There are lists of contracts with Anwil S.A. published by means of official disclosures, and are therefore available to all shareholders.

7. The Qualified Shareholder asks the Company to clarify and quantify investments that were carried out and are planned for SPOLANA in 2016, 2017 and 2018, that is, to clarify to the shareholders the detailed investment plan for 2016, 2017 and 2018.

Explanation:

Unipetrol Group adheres to market standards and informs about investments according to established practice. There are more details shared in cases of investments that are significant from the perspective of the whole Group after they obtain all the necessary corporate approvals.

On January 23rd 2017 there was a press release published that summarized development in the investments at SPOLANA a.s. and we hereby refer the shareholders to this press release. In the press release there were four investments that are agreed or being realized highlighted:

- preparation of granulated form of agricultural fertilizer, ammonium sulphate;
- launch of alternative technologies of polyvinyl chloride (PVC) production in response to the need of shutting down the electrolysis that produces chlorine;
- investments in the new facilities which shall reduce the emissions of trichloroethylene;
- optimization of energy consumption.

None of the investments is of significant size from the perspective of the whole Unipetrol Group.

8. The Qualified Shareholder asks the Company to clarify the way how it is decided, within the PKN Orlen Group, about future investments and whether PKN Orlen or persons controlled by PKN are involved in any way in decisions about future investments at the Company level; for instance whether an investment must be approved, before or after an approval in Company's bodies, by a body or a representative of the majority shareholder PKN Orlen.

Explanation:

Decision making at the level of Unipetrol Group is made solely by its statutory bodies. When preparing investment decision, Unipetrol Group companies leverage on the relevant experience of independent experts retained by them and not PKN Orlen.

9. The Qualified Shareholder asks the Company to present the Company's shareholders information on following queries:

- i) Clarification of the Company's detailed strategy after the acquisition of SPOLANA, especially what positive synergies (as declared by the Company's management) arise from the acquisition (product, financial)?

Explanation:

SPOLANA a.s. is meant in general to sustain its presence across its products portfolio, i.e. to remain a producer of PVC and caprolactam. It will be performing its operations having operational excellence as a primary focus through cost efficiency and stabilization of production output. The key measure of operational excellence shall encompass:

- optimization of energy costs via regular monitoring, technical inspections, insulations and preventive maintenance;
- securing of energy balances after the current energy center closure;
- building of flood protection barriers in collaboration with neighboring municipalities;
- ecologization measures strengthening;
- assets base optimization through rentals and disposals;
- human capital stabilization.

Synergies with Unipetrol from acquisition of SPOLANA, a.s. relate mainly to the following areas:

- SPOLANA a.s. stabilizes operations of Unipetrol, as available ethylene offtake, as Unipetrol is exposed to market risks related to polyolefin market – SPOLANA a.s. mitigates this risk;
- Unipetrol is exposed to long term ethylene contract sustainability with its clients – SPOLANA a.s. operations improve Unipetrol's negotiation position on ethylene market;
- ethylene offtake opportunity represented by SPOLANA a.s. improves the security of Unipetrol's operations from the perspective of energy efficiency and safe plant management (decreases chances of fatal shutdowns);
- SPOLANA a.s. is an important consumer of Unipetrol's sulphur and ammonia.

- ii) What is the impact of the acquisition of SPOLANA in connection with the ongoing construction of the Polyethylene 3 Technology (PE3); was SPOLANA purchased on grounds of ethylene balancing in the meantime of the PE3 construction?

Explanation:

Issue of balancing ethylene by Unipetrol before the construction completion of PE3 is more complex than after the completion. Support by operations of SPOLANA a.s. to balancing of ethylene was one of the synergies that Unipetrol considered while making its decision on acquisition. The benefits of possessing offtake of ethylene at SPOLANA a.s. were however not included in the price paid by UNIPETROL RPA, s.r.o. to Anwil S.A. for the SPOLANA a.s. shares.

- iii) Are there ethylene deliveries expected even after launching the PE3 technology; if so, proof of sufficient amount of ethylene for SPOLANA's needs (technological balance).

Explanation:

Ethylene balances are considered as part of Company's commercial secrets, disclosure of which could cause damage to the Company and as such cannot be disclosed in detail.

- iv) Does the SPOLANA's strategy expect the construction of the 11th furnace in the steam cracker due to insufficient amount of ethylene? The final PKN Orlen's approval of PE3 investment didn't assume any ethylene delivery to SPOLANA. (July 2013)

Explanation:

Business case for acquisition of SPOLANA, a.s. did not assume any investments into additional production capacity on the side of Unipetrol

- v) What product portfolio is intended for SPOLANA; what technological units are planned and with what overall financial impact in the Company as a whole?

Explanation:

SPOLANA a.s. is meant in general to sustain its presence across its products portfolio, i.e. to remain a producer of PVC and caprolactam, some upgrades may be considered in case of good business case.

On January 23rd 2017 there was a press release published that summarized development of investments at SPOLANA a.s. and were hereby refer the shareholders to this press release.. In the press release there were four investments that are agreed or being realized highlighted:

- preparation of granulated form of agricultural fertilizer, ammonium sulphate;
- launch alternative technologies of polyvinyl chloride (PVC) production in response to the need of shutting down the electrolysis that produces chlorine;
- investments in the new facilities which shall reduce the emissions of trichloroethylene;
- optimization of energy consumption.

We cannot share detailed information on potential investments considered for the future that are at the earlier development stage as such information is part of the Company's commercial secrets, disclosure of which could cause damage to the Company.

- vi) What amount of investments is needed for SPOLANA's sustainability on the market? In what time horizon?

Explanation:

We cannot provide detailed information on estimates of the CAPEX individually for SPOLANA a.s. as such information is part of the Company's commercial secrets, disclosure of which could cause damage to the Company. Unipetrol Group shares estimates of the CAPEX at the level of the whole Group. As indicated in Strategy Update in March 2017 the Maintenance & Regulatory CAPEX over the years 2017-2018 is forecasted at the level of CZK 7.6 bn.

- vii) What is the expected rate of return for the investments in SPOLANA compared to possible alternate investments in the Company?

Explanation:

Unipetrol Group cannot share detailed investment parameters of specific projects as such information is part of the Company's commercial secrets, disclosure of which could cause damage to the Company. It is for each investor to decide on which investment parameters to apply to his or her analysis. Investment into SPOLANA a.s. went through a regular path for approval. Furthermore each investment project of Spolana will be going through approval path and will need to prove its profitability. There was not the case that investment in SPOLANA a.s. caused Unipetrol to replace any more profitable projects.

Unipetrol explanations to requests of Entris Equity were pursuant to Section 358(2) of the Act on Business Corporations, latest on the day preceding the General Meeting, published on the company's website (www.unipetrol.cz) in section "Investor Relations", subsection "General Meeting" and will be made available to the shareholders at the General Meeting.

Board of Directors of UNIPETROL, a.s.



Andrzej Modrzejewski
Chairman of Board of Directors



Miroslaw Kastelik
Vice-Chairman of Board of Directors