

EXPLANATIONS TO SHAREHOLDER REQUEST FOR EXPLANATION PAULININO 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 PAULININO LIMITED, a company with registered office at Kyriakou Matsi, 16 EAGLE HOUSE, 8th floor, Agioi Omologites, P.C. 1082, Nicosia, Cyprus, Company ID No.: HE326908 (“**Paulinino**”), 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:

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

1. The Qualified Shareholder requests that the Company explains, which concrete steps the Company plans to undertake in 2017 and 2018, in particular, that the Company complies with the schedule to put PE3 into full operation as of June 2018 as it informed its investors and shareholders in the past.

Explanation:

Company indicated most recently (e.g. in the update of Unipetrol strategy in March 2017) that the expected date of construction completion is planned in 2018. In Unipetrol Annual Report 2016 we indicate second half of 2018 as date of construction completion. Company put all the efforts to stick to the declared schedule despite the related operational complications including bankruptcy of a crucial contractor for the OSBL part of the PE3 project in 2016.

Company cooperates flexibly but at the same time with costs awareness with its contractors in order to optimize time needed for construction of the unit. Strong involvement of the relevant management and leveraging the experience of the specialized project management specialists is employed. Close supervision of the contractors is applied on an ongoing basis.

2. The Qualified Shareholder requests that the Company explains, in which phase the construction of PE3 is as of the date of the General Meeting.

Explanation:

Key information on the PE3 project is given in the quarterly results presentations. As it was stated in the quarterly results presentation for Q4 2016 Unipetrol in 2016 successfully coped with the issue following the termination of contract with general contractor on the OSBL part, striving to limit its impact on the overall project schedule. In Q2 2016 construction of the PE3 unit itself started, foundations of natural line were built, mixing silos were installed.

As of today the construction process continues. After bankruptcy of the general contractor of OSBL part the management of the project is more complex but there were made all the efforts to mitigate the delays, including hiring of a company specialized in complex project management, ORLEN Projekt S.A. Sharing deep details of the project status with public could negatively influence ongoing discussions UNIPETROL RPA, s.r.o. runs with contractors

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

3. The Qualified Shareholder requests that the Company how the Company made sure that the purchase price of oil purchased through the parent company PKN Orlen is the best possible price, which can be achieved in the market, in particular, with regard to the position of the Company as a long-term customer of a significant amount of oil, in particular, that it explains whether the Company has ordered the supplies of oil by other means and with other suppliers than through the majority shareholder, or possibly its concern (bearing in mind the volume and long-term nature of oil orders).

Explanation:

Unipetrol purchases the majority of the crude oil via its parent company PKN ORLEN S.A. due to the clear benefits deriving from the strong position, economy of scale and expertise of the PKN ORLEN S.A. on the oil market. The best market price and attractive commercial conditions are the biggest advantage resulting from the cooperation. Those are comparable to the ones applicable for PKN ORLEN S.A., even though its exact comparison is due to logistical specification impossible. Moreover, there is an additional extrinsic value generated for Unipetrol based on services provided by PKN ORLEN S.A. such as market intelligence, advisory on timing of purchase, proactive search for alternative crude oil grades, logistical optimization, etc. The contractual conditions negotiated between PKN ORLEN S.A. and its crude oil suppliers are applied vis a vis Unipetrol, providing full transparency and legitimacy.

The market of crude oil supplies via Druzhba pipeline is traditionally defined as a “Seller’s market” due to the very limited number of potential sellers on the pipeline as well as due to the unique crude transportation capacity allocation system limiting the number of market participants. Thus the long-term pipeline contract in such not only generates an additional discount but also strengthens security of supplies. The total volume of the purchased crude oil is of course the essential element influencing the negotiated contractual conditions. Only the company with strong position on the crude market is able to secure long term crude oil supply based on direct contract with Russian crude oil producers. It should be noted, that without PKN ORLEN S.A., Unipetrol would be exposed to irregular and short term deliveries arranged via various intermediaries or much more expensive alternative.

The seaborne crude oil market, in contrary to the pipeline crude oil market, provides a high liquidity and variety of potential suppliers. For such supplies, Unipetrol takes advantage of good reputation, financial strength and long-term crude oil trading experience of PKN ORLEN S.A.. With no doubts, the leverage provides to Unipetrol significantly better market conditions than if the crude oil was purchased on individual basis. Moreover, the long term contract for seaborne deliveries arranged between PKN ORLEN S.A. and Saudi Aramco provides for Unipetrol an additional diversification of crude oil sourcing. Due to the contractual flexibility, the risk of crude oil undersupply as well as the loss of profit for Czech refineries is substantially mitigated, which was practically proved in January 2017. Therefore, the centralized purchase process of PKN ORLEN S.A. and Unipetrol is the key to secure the supply of crude oil at the best market conditions possible. Because of the positive portfolio leverage, the concept of centralized procurement, is generally considered to be the best market practice in the crude oil industry applied e.g. by BP, ENI, Shell, Total, MOL, Vitol, Exxon Mobil or Statoil. A guarantee of the fair price for the whole ORLEN Group is corporate planning, corporate governance, internal procedures and agreements.

In order to maintain a competitive position towards the industry players and negotiation position towards crude oil suppliers, the detailed crude oil commercial circumstances are strictly confidential and are part of Unipetrol business secret.

4. The Qualified Shareholder requests that the Company explains why the Company does not participate in high volume discount for purchase price of oil, which PKN ORLEN S.A. achieves in particular as a result of an aggregation of the ordered amount of the Company’s oil with the ordered amount of oil within the entire concern.

Explanation:

PKN ORLEN S.A. achieves the best possible contractual conditions for UNIPETROL RPA, s.r.o. taking advantage of PKN ORLEN S.A. market position and reputation. The contractual conditions between PKN ORLEN S.A. and UNIPETROL RPA, s.r.o. for each crude supply contract are transparently applied in the

way they were negotiated with PKN ORLEN S.A. suppliers which are in line with market standards and best practice. There is none high rebate or volume discount for purchase of crude oil to be applied (as mentioned by the qualified shareholder), because of substantial differences between particular destinations of the crude oil supplies concerning i.e. logistics reflected in the prices. Implicitly, UNIPETROL RPA, s.r.o. is not deprived from any advantage which would result from the total volume purchased and which would be for benefit of PKN ORLEN S.A.. Nevertheless, deliveries conducted by PKN ORLEN S.A. are the guarantee of the best possible prices achieved, based on corporate planning, corporate governance, internal procedures and agreements.

5. The Qualified Shareholder requests that the Company explains why there are two types of contracts for long-term oil supplies, in particular with the company Rosněřt', i.e., the so-called "master agreement" between PKN ORLEN S.A. and Rosněřt' for 10 million tons and subsequently individual contracts for the purposes of individual processors including the Company's refineries. The qualified shareholder considers the "master agreement" to comprise also Company's capacities exactly for the purposes of achieving high volume discount, but this discount is not further reflected in the price of oil, which the Company pays to the majority shareholder PKN Orlen and the qualified shareholder hereby requests explanation why the Company allows this situation to happen.

Explanation:

Because of obvious differences in geography of logistics it is not possible to sign one master contract under which crude oil could have been supplied to Poland and Czech Republic. Polish refinery is supplied via Northern leg of Druzhba system (through Belarus), while refinery in Litvínov is supplied via Southern leg of Druzhba system (through Ukraine and Slovakia). There are also different pipeline operators engaged in the process of deliveries as well as different technical specification of pumping capacity, storage etc.

Paulinino request for explanation on matters relating to item 7 and 8 of the General Meeting agenda

6. The Qualified Shareholder requests that the Company explains why the annual statement of the Company as of 31 December 2016 does not include the amount of provisions for the value of petrochemical assets in the amount of CZK 2,933 million given the knowledge of macro-environment in 2011 and the current situation in the market when petrochemical margins reach significantly higher volumes than in the past years and, as the Company itself confirmed in presenting the strategies of the Company from March 2017, petrochemical segment is and in the future should constitute an engine of growth for the Company.

Explanation:

UNIPETROL, a.s. prepared both, the separate and the consolidated financial statements, in accordance with International Financial Reporting Standards (IFRSs) and their interpretations approved by the International Accounting Standards Board (IASB) which were adopted by the European Union (EU) and were in force as at 31 December 2016. Both financial statements were audited by independent auditor and were recommended for approval by the Supervisory board of the Company.

In relation to petrochemical CGU (Cash Generating Unit) the value in use calculated in tests carried out as at 31. December 2016, while compiling consolidated financial statements, was higher than in previous impairment test calculations however the carrying amount of the assets in petrochemical CGU significantly increased as well due to strong investments mainly following reconstruction of steam cracker unit and construction of PE3 and the results of the tests did not allow derecognizing any impairment in petrochemical CGU.

7. The Qualified Shareholder requests that the Company explains, by which methodology assets are tested in the Company as the Qualified Shareholder draws attention to the fact that the situation between 2011 and 2014 had changed significantly not only thanks to macro-environment but also by purchase of 49 % shareholding interest in the company Česká rafinérská, a.s. Between 2011 and 2014, the aggregate value of assets in the refinery part in the amount of CZK 11,089 mil. had been depreciated and, in 2016, partially returned only in the amount of CZK 1,900 mil., which is, in the qualified shareholder's opinion, completely insufficient regulation. It is necessary to add that since 2015 the refinery part of Unipetrol has been under full control of the Company with all the positive effects it entails.

Explanation:

The methodology of the impairment testing is described in IAS 36 and in the notes to the Consolidated financial statements as at 31 December 2016 in the note 33.3.14.

For purposes of the Consolidated financial statements as at 31 December 2016 and in accordance with International Accounting Standard 36 "Impairment of assets" the Company has identified the impairment indicators in relation to Cash Generating Units (CGUs) established at the level of operating activities: refining, petrochemical and retail and performed the impairment analysis. Following the change in macro-economic conditions on petrochemical and refinery markets comparing to previously approved mid-term plan, based on the most recent available financial projections for the years 2017-2021, carrying amount of fixed assets, values of net working capital and macroeconomic indicators available the impairment test was carried out for all CGUs as at 31 December 2016 .

Based on the results of the analysis performed as at 31 December 2016 impairment allowance of CZK 1,919 million was reversed in the period ended 31 December 2016 in relation to non-current assets of the refining CGU.

All results of the impairment tests were included in the Consolidated financial statements of the Company and have been audited by KPMG Česká republika Audit, s.r.o. Based on the auditor opinion to the Shareholders of UNIPETROL, a.s. the Consolidated financial statements give a true and fair view of the financial position of the Company as at 31. December 2016.

Furthermore, the impairments mentioned by the shareholder have never been recognized in the Separate financial statements of the Company in the past periods. UNIPETROL, a.s. does not own any production assets but financial investments in subsidiaries which were in separate financial statements as at 31 December 2016 valuated at costs less impairment losses as it is described in the Company's accounting policies presented in the note 25.3.12 of the Separate financial statements for the year 2016. The assessment of the impairment for all financial assets was performed as at 31 December 2016 and no impairment to shares in related parties was neither recognized nor derecognized. The amount of costs of investments and impairment recognized to shares of each subsidiary are presented in the note 10 of the Separate financial statements for the year 2016.

Unipetrol explanations to requests of Paulinino 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 place of 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