PETRUSADVISERS

Daniel Obajtek, CEO & Wiesław Protasewicz, CFO
CC: Management Board and Supervisory Board of Unipetrol, a. s.
PKN ORLEN SA
Chemikow 7, 09-411 Plock, Poland

London, 24th August 2018

Dear Mr. Obajtek and Mr. Protasewicz,

Petrus Advisers are an international investment firm and the second largest shareholder in Unipetrol. Our investment in Unipetrol is based on the high quality and outstanding location of Unipetrol's refining and petrochemicals assets combined with the growth opportunities in its retail operations.

Since 2005, PKN Orlen has dominated Unipetrol, a predicament resulting in substantial value destruction in favour of the interests of PKN Orlen and its shareholders:

(1) **Access to Cash-flow:** PKN Orlen has been using the cash generated at Unipetrol for its own purposes. You have added Unipetrol the PKN Orlen cash pool and essentially annexed Unipetrol's cash, using it as a source of cheap financing some 240bps below like-for-like market rates for PKN Orlen. This has left Unipetrol's shareholders far from adequately compensated for the risks of investing in PKN Orlen Group's projects.

(2) **Inefficient Capital structure:** Unipetrol's high cash balance and cash generation have been exploited to fund the PKN Orlen Group at the expense of an optimal capital structure for Unipetrol. We estimate that per 31 December 2017, CZK 12.5 billion could have been returned to Unipetrol shareholders but was instead directly or indirectly lent to PKN Orlen entities:
   (i) **Directly:** Unipetrol's massive cash balance of CZK 8.1 billion per 31 December 17 and of CZK 8.7 billion on average in 2017 represents some CZK 6 – 7 billion more than needed to run the business.
   (ii) **Indirectly:** In addition, Unipetrol could have re-financed a significant portion of its working capital by means of cheap asset-backed (i.e. crude oil-backed) financing. We believe another CZK 5.7 billion could have been freed up by choosing a capital structure in line with industry standards. This amount could have been paid out to Unipetrol shareholders.

   By adding financial debt of 1-2x EBITDA to Unipetrol's balance sheet you could have added further CZK 10 – 30 billion to shareholder distributions or for growth projects.

(3) **Artificially Low Capital Distributions:** In addition to points (1) and (2) above, a low dividend policy has meant PKN Orlen has withheld considerable amounts of capital from Unipetrol shareholders. While beneficial to PKN Orlen in order to fund its own operations, this has cost Unipetrol shareholders a great deal of value as reflected in the historically low share price.

(4) **No 2018 Dividend:** The decision not to pay a dividend for FY 2017 is another perfect example of PKN Orlen's aggression when dealing with Unipetrol minority shareholders. While PKN Orlen itself paid a dividend of PLN 3 per share, in line with the FY 2016 dividend, Unipetrol did not make any dividend payments. Instead, it made vague reference to a difficult outlook for the industry. That the parent company is in the same industry makes this statement even more absurd as PKN Orlen, who dominate Unipetrol and its strategy, seem to have a different outlook of the same industry as Unipetrol. The equivalent to PKN Orlen's 2018 dividend payment would be CZK 10 per Unipetrol share for 2018!

Given your total control over Unipetrol and an obvious lack of any form of independence of the Supervisory Board and the Audit Committee, this shift of value to PKN Orlen does not come as a surprise. Unfortunately, no mechanism is in place to manage and avoid the obvious conflict of interest. The lack of transparency around the conflict of interest is also staggering as reflected in a report on relations among related entities that is devoid of substance and far below international governance standards.

In summary, the level of aggression applied by PKN Orlen when exploiting Unipetrol is unprecedented. We were also surprised to learn the unfair treatment of Unipetrol minority shareholders plumbed fresh depths with PKN Orlen failing to justify the squeeze-out price of CZK 380. In a remarkable departure from established legal practices in countries like Germany and Austria – who care about the rights of minority shareholders – you have chosen not to provide a valuation report justifying the extraordinarily low price offered to investors you are now going to squeeze out of the business. We demand that at the Extraordinary General Meeting on 28 August 2018 you provide all such information that is required to form an educated view about the appropriateness of the squeeze-out price including:

(1) **Business Plan:** Detailed 5 year business plan for Unipetrol including all key Balance Sheet, P&L and Cash Flow positions and value drivers as well as a description of any form of change in strategy for the business;

(2) **Valuation Assumptions:** Details on all key valuation metrics applied to get to your squeeze-out price including each and every WACC component and all assumptions beyond the 5 year business plan. We also demand details on the peer multiple valuation you used and on all balance sheet items relevant to your valuation (i.e. net debt components);

(3) **Expert Opinions:** we trust you have fulfilled your professional duties by mandating experts to justify your squeeze-out price. We demand that all such valuation work be made publicly available.

We want justice for all Unipetrol minority shareholders. So far, you have chosen to ignore them and have escalated the situation to the maximum extent possible. Going forward, we urge you to rethink your approach in light of the likely legal confrontations that would ensue and act in a fair and transparent way in the squeeze-out process. Further details on our views are summarised in the attached presentation. In any case, we will persist in our efforts and will be fighting for transparency and fair conditions to the end!

Kind regards,

Klaus Umek, Managing Partner

Till Hufnagel, Partner