

## **1 Explanatory report**

The Board of Directors of UNIPETROL, a.s. (the “Company”) hereby submits to the Ordinary General Meeting of the Company its Explanatory Report, prepared in accordance with the provisions of Section 118(4) letters (b),(c),(e) and (j) and (5) letters (a) through (k) of Act No. 256/2004 Coll., Act on Conducting Business on Capital Market, as amended.

The Board of Directors states that this Explanatory Report for 2010 was approved at the meeting of the Board of Directors held on 23 March 2011.

### **Content of report**

#### **Information on Breakdown of Company’s Equity**

The breakdown of the Company’s equity as at December 31, 2010 (in thousands of CZK) is as follows:

Registered capital	18,133,476
Reserves	1,654,065
Retained earnings	4,971,986
Total equity	24,759,527

The Company’s registered capital amounts to CZK 18,133,476,400 and is distributed among 181,334,764 ordinary bearer shares with the nominal value of CZK 100. The shares are issued in book-entry form and are listed.

#### **Information on Restrictions on Transferability of Securities**

The transferability of the Company’s securities is not restricted.

#### **Information on Significant Direct and Indirect Shareholdings in Company**

Significant direct or indirect shareholdings in the Company are as follows:

- PKN ORLEN S.A. – direct shareholding in the amount of 62.99%

The company was informed that as at 11 June 2010 (decisive day for the ordinary general meeting) the company J&T Banka owned 5.63% share of registered capital, and thereby of voting rights. Until the end of 2010 the company Unipetrol was not informed about the change beyond 5 to 10% range.

No other shareholder of the Company holds a shareholding which exceeds 5 per cent of the registered capital of the Company and/or 5 per cent of the attached voting rights.

#### **Information on Owners of Securities with Special Rights**

None of the Company’s securities have any special rights attached to them.

#### **Information on Restriction on Voting Rights**

The voting rights attached to Company’s individual shares and/or to a certain amount of the Company’s shares are not restricted in any manner.

**Information on Agreements between Shareholders which may Result in Restrictions on Transferability of Shares and/or Voting Rights**

The Company is not aware of the existence of any agreements between the Company's shareholders which may result in restrictions on the transferability of the Company's shares and/or voting rights attached to the shares.

**Information on Special Rules on Election and Recall of Members of Board of Directors and Amendment of Articles of Association**

Members of the Board of Directors are elected and recalled by the Supervisory Board. A decision on amendment to the Company's articles of association requires the consent of a special majority consisting of two thirds of the votes of the shareholders present at the General Meeting. No special rules governing the election and recall of the members of the Board of Directors and/or amendment to the articles of association apply.

**Information on Special Powers of Board of Directors**

Members of the Board of Directors do not have any special powers; in particular, they have been not granted by the General Meeting authority to adopt a decision on an increase of the Company's registered capital, on acquisition by the Company of its own shares or another decision of such type.

**Information on Significant Agreements Connected with Change of Control over Company as Result of Takeover Bid**

The Company is not a party to any significant agreement which will enter into effect, change and/or cease to exist in the event of change of control over the Company as result of a takeover bid.

**Information on Agreements Binding Company in Connection with Takeover Bid**

No agreements have been concluded between the Company and the members of its Board of Directors which would bind the Company to render performance in the event that the position of a member of the Company's Board of Directors is terminated in connection with a takeover bid.

No agreements have been concluded between the Company and its employees that would bind the Company to render performance in the event that the employment of an employee is terminated in connection with a takeover bid.

**Information on Option Schemes for Shares**

The Company does not have implemented any schemes on the basis of which the Company's employees or members of its Board of Directors would be entitled to acquire shares or other participation securities in the Company, or options on such securities or other rights thereto, under advantageous terms.

**Information about payments for mineral extraction rights to the State**

The issuer does not carry on business in extractive industries. The issuer makes no payments to the State for mineral extraction rights.

## **Information about decision-making procedures and the composition of the company's governing body and supervisory body**

The Board of Directors is the issuer's governing body. Its position, remit, composition, decision-making and other basic rights and obligations, and also procedural rules, are contained in art. 16–19 of the company's Articles of Association and in the Board of Director's rules of procedure.

The company's Articles of Association are available on the company's website at [www.unipetrol.cz](http://www.unipetrol.cz).

The Supervisory Board is the issuer's supervisory body. Its position, remit, composition, decision-making and other basic rights and obligations, and also procedural rules, are contained in art. 22–22 of the company's Articles of Association and in the Supervisory Board's rules of procedure.

The Supervisory Board shall set up the following committees:

- a) The Staff and Corporate Governance Committee
- b) The Strategy and Finance Committee

(hereinafter referred to collectively as “Supervisory Board Committees”).

The composition of the Supervisory Board Committees was following (as of 31 December 2010):

- ad a) Krystian Pater (chairman), Bogdan Dzudzewicz, Zdeněk Černý, Rafał Sekuła
- ad b) Sławomir Robert Jędrzejczyk (chairman), Ivan Kočárník, Piotr Kearney, Andrzej Jerzy Kozłowski

The position, remit, composition, decision-making and also the procedural rules of the Supervisory Board's Committees are contained in art. 23–24 of the company's Articles of Association and in the Committees' rules of procedure.

In 2009, the company set up an Audit Committee. The position, remit, composition and decision-making are described in chapter Audit Committee.

## **Information about the General Meeting's decision-making and basic remit**

The General Meeting's position and remit and also the procedural issues concerning the General Meeting are provided for in art. 12–15 of the company's Articles of Association.

## **Information about corporate governance codes**

The governance and management of the Unipetrol Group follows the recommendations of the Corporate Governance Code, which is based on OECD Principles, the provisions of which the company satisfies in all material respects.

The Code is available, for example, on the Czech National Bank's website.

**Information about the principles and procedures of internal controls and about the rules related to the financial reporting process**

The basic accounting policies set out in the International Financial Reporting Standards and in the Group's internal standards are described in the Notes to the Consolidated and Non-consolidated Financial Statements. The Company established its internal regulations in accordance with the Act on Accounting and set up the organizational norms in such a way as to maximize control and limit the possibility of mistakes. In the area of reporting the company implemented the automated system for data transfer from the accounting software to the reporting applications. The reporting applications (SW HYPERION) contain a control system ensuring the correctness of the data sent whether for creation of the internal monthly management reports or creation of quarterly consolidated and non-consolidated financial statements. Accounting policies and principles are subject to both internal and external audit. In 2009 the company set up an Audit Committee.

The Company has an Internal Audit function which provides independent assurance audit services to the Unipetrol Group. In 2010 the Internal Audit Department performed audits in the following areas in accordance with the plan approved by the Supervisory Board of UNIPETROL, a.s.:

- SAP User Access and Authorisation Rights
- Brand Management and Corporate Marketing
- Controlling Processes and Strategic Planning
- Cost Allocation and Service Delivery
- HR Processes
- Financial and Banking Services
- Effectiveness of the Group Organisation Structure and Organisational Units
- Recommendations Implementation Monitoring and Verification Audit  
(Recommendations from previous internal audits)

Additional audits were performed upon request of the Board of Directors of UNIPETROL, a.s.