Spolana

# Annual report for the year

# 2018

# SPOLANA s.r.o.

# REPORT ON THE BUSINESS ACTIVITIES OF THE COMPANY AND ITS FINANCIAL POSITION FOR 2018

## 1. OWNERSHIP STRUCTURE

On 10 June 2016 the company UNIPETROL RPA, s.r.o. with registered office Záluží 1, Litvínov, 436 70, Corporate ID 27597075 bought 100% shares of the company SPOLANA a.s. from sister company ANWIL S.A.. On 1 December 2018 legal form of the Company was changed to limited liability company, since then business name of the Company is SPOLANA s.r.o.

SPOLANA s.r.o. has no organizational unit abroad.

SPOLANA s.r.o. did not acquire any own shares.

## 2. MAIN EVENTS OF 2018

After shutdown of own chlorine production on amalgam electrolysis at the end of 2017, production of PVC continued in 2018 from purchased raw materials.

Production of caprolactam and ammonium sulphate was operated on higher volumes than in 2017 and 2016. In October and November production of caprolactam was limited by lack of ammonia and cyclohexanone. In February 2018 the new granulation unit for ammonium sulphate was put into operation and since then it is in trial operation.

On 1 June 2018 based on decision of the sole shareholder the registered capital of at that time still joint-stock company SPOLANA a.s. was decreased by CZK 3 425 442 900 to the final value of CZK 29 786 460. Decrease of the registered capital was made to settle accumulated losses of the Company.

On 1 December 2018 legal form of the Company was changed to limited liability company based on the project of legal form change completed on 30 June 2018. Since 1 December 2018 the business name of the Company is SPOLANA s.r.o., statutory body of the Company are 4 executives who do not constitute a collective body.

## 3. MARKET DEVELOPMENT

### S-PVC (NERALIT)

Due to high pressure of non-European producers situation on European PVC market was unpredictable throughout the whole year. This situation was enhanced also by constant growth of ethylene prices on world markets, which caused pressure on final price of PVC for customers. During the year 2018 was managed to achieve higher end prices and thereby increase margins on PVC. That together with 20% growth of sales volumes led to better results of PVC sales in 2018.

Domestic sales of PVC constituted 11% of total sold volume, which is a slight decrease compared to 2017, remaining 89% of PVC were exported especially to EU countries. At the end of the year the traditional decrease of sales was recorded due to downturn of construction activity.

**SODIUM HYDROXIDE**

Production of sodium hydroxide was shut down in 2017, in 2018 the Company sold sodium hydroxide purchased from other producers. As well as in 2017 the parent company UNIPETROL RPA, s.r.o. was the main customer for sodium hydroxide. Based on management decision sales of purchased sodium hydroxide was stopped at the end of 2018 until SPOLANA s.r.o. will be able to produce this substance again.

**CAPROLACTAM**

Despite of production restrictions in October and November 2018 due to technical reasons and due to lack of cyclohexanone, margins of caprolactam reached highest levels in the last 20 years. Excess of demand over supply was caused by the development on European and Asian markets. As the demand for polyamide 6 in automotive industry, textile industry and also in other branches was in 2018 extremely high, growth of prices and mainly margin was reached, which positively influenced total profit from caprolactam sales. This led to situation that in 2018 positive margins were reached by almost all customers.

Caprolactam prices were dependent on benzene quotations which in December reached their minimum values for the past 9 years. Nevertheless this inconvenience did not significantly affect positive development on caprolactam market in 2018.

During next year we expect stable situation on all markets even if there are first signals about demand decrease in Asia, which could cause price decrease. But we do not expect any more significant fluctuations yet.

**SPOLSAN**

Production of SPOLSAN is technologically connected with caprolactam production so also here slight growth in sales was recorded. Average price increased by 2% and revenues by 3% in comparison to 2017.

At the beginning of 2018 we started to produce new product – granulated SPOLSAN G. However, quality of the product does not meet market demands yet, so sales do not reach planned level.

**SULPHURIC ACID AND OLEUM**

Sales of sulphuric acid and oleum were higher in 2018 by 8,4% compared to 2017. Average price grew slightly and revenues by 9% compared to the year 2017.

Strategy for next years is stable - the Company will concentrate on increase of supplies to traditional customers and acquiring of new customers especially from car battery branch.

## 4. PROFIT / LOSS

In terms of production and sales the year 2018 was relatively successful for the Company especially thanks to favourable development on caprolactam market. Sales of the Company in 2018 reached the amount of CZK 4 888 981 thousand, which is about 2% above the 2017 level. Profit without impairment of fixed assets would reach over CZK 233 million CZK. However, based on updated mid-term plan a new impairment test was performed, which due to unfavourable prospects on PVC market led to creation of adjustments to fixed assets in the total amount of CZK 773 million. The year 2018 thus ended with loss CZK 540 million.

## 5. RESEARCH AND DEVELOPMENT

In the research and development the Company concentrates on rationalization measures aiming to reduce costs of raw materials and energies and also to reduce the impact of production activities on the environment. Development activities in 2018 were focused especially on following topics:

Greening and optimizing of heat production by replacing coal boilers with the gas boilers and by optimizing heat distribution system – contract was signed, realization documentation was prepared and the construction started.

A modern production equipment for dried compressed air was installed. The new production equipment will reduce electricity consumption for compressed air production by more than 40%.

Modernization of sulphuric acid production with an increase of specific heat production - a feasibility study was carried out focusing on the renewal of the plant with a higher utilization of reaction heat for steam production.

Increase of storage capacity and quality of liquid caprolactam with the new loading station for road tank cars – design office has been selected for preparation of documentation necessary for contractor selection.

Continue activities to reduce trichlorethylene emissions into the working area and environment by caprolactam production.

Supporting documentation is being prepared for change of caprolactam production to technology without trichlorethylene.

A study was prepared for transition of production of HAS (hydroxylamine sulphate) and ammonium sulphate from flow cooling to circulating cooling.

## 6. PROTECTION OF THE ENVIRONMENT

During 2018, the Regional Authority of the Central Bohemian Region launched a review of integrated permits concerning the operation of the wastewater treatment plant and the production of vinyl chloride (VCM). The review was launched on the basis of the best available techniques; the conclusions of which have to be applied within four years. Preliminarily, serious deficiencies have not been identified in the wastewater treatment plant. In VCM production, we slightly exceed the emission limit for nitrogen oxides on the cracking furnace. In this case, negotiations were held with state administration bodies. SPOLANA s.r.o. will apply for an exception for nitrogen oxides limit for a transitional period until the problem is solved.

In August 2018, SPOLANA s.r.o. filed the review report for the use of trichloroethylene (TCE). in caprolactam production under EC Regulation 1907/2006 (REACH). The permit to use TCE is available for SPOLANA s.r.o. up to April 2020, in a re-examination request; SPOLANA s.r.o. has requested an extension of the permit for another 12 years.

In the area of old ecological burdens during 2018, the monitoring of underground and surface water and the maintenance of the concrete area in the site of the former BCD technology continued. At the end of the year 2018, the Ministry of Finance had issued a public contract for remediation in the area between the in-house communications and the Labe River, which is contaminated with mercury. Supplier selection has not been finalized yet. A public contract for the remediation of groundwater contaminated with chlorinated hydrocarbons in the area "Petrochemie" was cancelled in 2018. In 2018, a purpose risk analysis was developed to assess the development of groundwater contamination, with an impact on the necessary updating of the Czech Environmental Inspectorate's decision. As part of the underground survey, contamination with persistent organic substances was detected in the PVC production site and, to a lesser extent, in Electrolysis site. Contamination concerns to old environmental burdens. SPOLANA s.r.o. notified the matter to the Ministry of Finance with a request for a statement. Negotiations will take place in 1st quarter of 2019.

## 7. EMPLOYMENT POLICY AND EMPLOYMENT RELATIONS

**Goals of employment policy are as follows:**

- to ensure qualified employees (especially replacement of employees going to retirement and leaving within the normal fluctuation plus casting of new working positions),
- stabilization of existing staff,
- continuing education of employees,
- revision and optimization of existing processes.

**Remuneration system and personnel policy**

Remuneration system continues according to settings from 2015. Main component is basic salary contractually agreed between employee and employer. Basic salary is based on wage policy set by payroll system HAY, where for majority of working positions is being used scale with 16 degrees (reference levels).

Besides the base salary are provided to employees:

- Surcharges based on collective agreement.

- Monthly bonuses in the framework of motivation system for employees on worker and technical positions.
- Monthly bonuses based on evaluation of individual goals and economic indicators for employees on positions of specialists and sales people.
- Jubilee bonuses after 25 and 35 years of uninterrupted employment.
- Retirement benefits according to collective agreement.
- Extraordinary bonuses.
- In 2018 the monthly bonus of superior was added to the scheme to increase the motivation.
- The change of surcharges from 10% to 20% for the fire brigade.
- In 2018, the wage conditions were revised and updated according to the current needs of individual plants.

## 8. EXPECTED DEVELOPMENT OF THE COMPANY

Development of Company's activities for 2019 to 2023 was defined by Strategic plan approved in 2018.

PVC production: in accordance with integrated permit the production of chlorine and caustic soda by amalgam technology was terminated in November 2017. At present PVC and VCM production is being carried out from externally purchased raw materials (EDC, ethylene). On inactive amalgam electrolysis plant remediation works are being carried out, and the unit is being prepared for dismantling of the technological equipment.

Caprolactam production: a revitalization program was started, which among others includes reduction of environmental impact, especially is prepared the transition of caprolactam production to technology without trichlorethylene. Reconstruction of sulphuric acid production plant is also being prepared.

Power plant: in 2018 project of construction of the new energy centre was started, which will meet emission limits valid from the year 2020. Construction is carried out according to the time schedule, operation start is assumed during 3rd quarter 2019.

## 9. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

As per the date of preparation of this Annual Report the Company´s management is not aware of any important subsequent events that would have material impact on the financial statements as per 31 December 2018.

In Neratovice, 4 March 2019

| | |
|---|---|
| ............................................ | ............................................ |
| Krzysztof Stanisław Bączyk | Konrad Marek Szykuła |
| Executive | Executive |

SPOLANA s.r.o.

# REPORT ON RELATIONS BETWEEN THE CONTROLLING PERSON AND THE CONTROLLED PERSON

# AND

# BETWEEN THE CONTROLLED PERSON AND OTHER PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON

# in 2018

**in accordance with article 82 of the Act No. 90/2012 Coll., on Business Companies and Cooperatives (on Business Corporations), as amended (hereinafter the "Act on Business Corporations")**

Financial period from 1 January 2018 to 31 December 2018 is the vesting period for this Report on relations between the controlling person and the controlled person and between the controlled person and other persons controlled by the same controlling person (hereinafter the "Report on Relations").

The structure of relations between the entities

**Controlled person**

SPOLANA s.r.o. with registered Office in ul Práce 657, Neratovice, PSČ 277 11, Company ID No.: 451 47 787 entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1462 (hereinafter "SPOLANA s.r.o.").

**Controlling persons**

UNIPETROL RPA, s.r.o. with registered Office in Litvínov – Záluží 1, 436 70 Litvínov, Company ID No.: 640 49 701 entered in the Commercial Register maintained by the Regional Court in Ústí nad Labem, Section C, File 24430 (hereinafter "UNIPETROL RPA, s.r.o.").

UNIPETROL, a.s., with registered office at Milevská 2095/5, 140 00 Praha 4, Company ID No.: 616 72 190, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Enclosure 3020 (hereinafter "UNIPETROL, a.s.").

Polski Koncern Naftowy ORLEN Spółka Akcyjna with registered office at Chemików 7, Płock, Poland (hereinafter "Polski Koncern Naftowy ORLEN Spółka Akcyjna"), which is the sole shareholder of UNIPETROL, a.s.

**Other controlled persons**

The entities controlled by the Controlling Person – Polski Koncern Naftowy ORLEN Spółka Akcyjna are members of business group "PKN ORLEN S.A.", whose scheme is shown in Appendix No. 2.

The entities controlled by UNIPETROL, a.s. are members of PKN ORLEN S.A. business group and are also members of "UNIPETROL" business group, whose scheme is shown in Appendix No. 1.

The role of the controlled person

SPOLANA s.r.o.'s role within the business group is production and sale of chemical products and plastics, production, distribution and supplies of energy.

The method and means of controlling

UNIPETROL RPA, s.r.o. is the sole owner of SPOLANA s.r.o. and it has also a direct influence on SPOLANA s.r.o.

UNIPETROL, a.s. is the sole shareholder of UNIPETROL RPA, s.r.o. and it has a decisive indirect influence in SPOLANA s.r.o.

Polski Koncern Naftowy ORLEN Spółka Akcyjna is the sole shareholder of UNIPETROL, a.s. and in SPOLANA s.r.o. it applies its indirect, though decisive, influence through the UNIPETROL, a.s. and UNIPETROL RPA, s.r.o.

A summary of the actions taken during the last financial year, which were undertaken at the instigation of, or in the interest of the controlling person or entities controlled by such person, if this conduct was related to assets in an amount that exceeded 10% of the controlled person's equity capital as reported in its last financial statements.

In the vesting period there were no actions carried out in accordance with article 82 (2d) of the Act on Business Corporations.

The list of mutual agreements between the controlled person and the controlling person or between the controlled persons

The mutual agreements between SPOLANA s.r.o., and UNIPETROL RPA, s.r.o., UNIPETROL, a.s. and Polski Koncern Naftowy ORLEN Spółka Akcyjna and other controlled persons were concluded on the standard terms, while agreed and provided performances or counter-performances were based on the standard terms of business relations.

The list of mutual agreements with the details is enclosed in Appendix No. 3.

The conclusion

The statutory body of SPOLANA s.r.o. based on available information declares that SPOLANA s.r.o. incurred no detriment, nor any special advantage or any disadvantage in accordance with the article 82 (4) of the Act on Business Corporations as a result of any contracts, acts or measures taken between entities in business group. No risks arise from the relations between entities in business group to SPOLANA s.r.o. except those arising from standard participation in international business group.

The Company's statutory body prepared the Report on Relations based on information available on the date of the Report on Relations.

The Report on Relations is to be read in conjunction with the Appendix No. 1, 2 and 3.

In Neratovice, 4 March 2019

On behalf of the statutory body of SPOLANA s.r.o.

Krzysztof Stanisław Bączyk

Executive

Konrad Marek Szykuła

Executive

Appendix No. 1

CAPITAL GROUP OF UNIPETROL, a.s. - CONTROLLED COMPANIES

1. 1. 2018 – 31. 12. 2018

| Companies controlled by UNIPETROL, a.s. | Residence | Shares in directly and indirectly controlled companies<br>Share in % of the capital | | Note |
|---|---|---|---|---|
| **Companies with direct share of UNIPETROL, a.s.**<br>Companies with indirect share of UNIPETROL, a.s. | | **1.1.** | **31.12.** | |
| **1. UNIPETROL RPA, s.r.o., IČ 275 97 075** | Litvínov, Záluží 1, Czech republic | **100,00** | **100,00** | |
| 1.1 HC VERVA Litvínov, a.s., IČ 640 48 098 | Litvínov , S.K. Neumanna 1598, Czech republic | 70,95 | 70,95 | Other shareholders - Litvínov city owns 22,14% and HC Litvínov, o.s. 6,91% |
| 1.2 UNIPETROL DOPRAVA, s.r.o., IČ 640 49 701 | Litvínov, Růžodol 4, Czech republic | 99,88 | 99,88 | 0,12% owned by UNIPETROL, a.s. |
| 1.3 UNIPETROL DEUTSCHLAND GmbH, IČ HRB 34346 | Langen, Paul-Ehrlich-Strasse 1B, Germany | 99,90 | 99,90 | 0,10% owned by UNIPETROL, a.s. |
| 1.4 UNIPETROL SLOVENSKO, s.r.o., IČ 357 77 087 | Bratislava - mestská časť Ružinov, Jašíkova 2, Slovakia | 86,96 | 86,96 | 13,04% owned by UNIPETROL, a.s. |
| 1.5 UNIPETROL RPA Hungary Kft., IČ 13-09-181774 | 2040 Budaörs, Puskás Tivadar utca 12, Hungary | 100,00 | 100,00 | |
| 1.6 SPOLANA s.r.o., IČ 451 47 787 | Neratovice, ul. Práce 657, Czech republic | 100,00 | 100,00 | Change of legal form from 1.12.2018 |
| 1.7 Nadace Unipetrol, IČ 056 61 544 | Litvínov, Záluží 1, Czech republic | 100,00 | 100,00 | |
| 1.8 PETROTRANS, s.r.o., IČ 251 23 041 | Praha 8, Libeň, Střelničná 2221/50, Czech republic | 99,37 | 99,37 | 0,63% owned by UNIPETROL, a.s. |
| **2. Unipetrol výzkumně vzdělávací centrum, a.s., IČ 622 43 136** | Ústí nad Labem, Revoluční 1521/ 84, Czech republic | **100,00** | **100,00** | |
| **3. PARAMO, a.s., IČ 481 73 355** | Pardubice, Svítkov, Přerovská 560, Czech republic | **100,00** | **100,00** | |
| 3.1 Paramo Oil s.r.o., v likvidaci IČ 246 87 341 | Pardubice, Přerovská 560, Czech republic | 100,00 | - | Company was deleted from the Commercial register on 29.5.2018 |
| **4. Butadien Kralupy a.s., IČ 278 93 995** | Kralupy nad Vltavou, O. Wichterleho 810, Czech republic | 51,00 | 51,00 | 49,00% shares owned by SYNTHOS Kralupy a.s. |
| Other companies with share of UNIPETROL, a.s. | | | | |
| **1. UNIVERSAL BANKA, a.s, in bankruptcy, IČ 482 64 865** | Praha 1, Senovážné náměstí 1588/4, Czech republic | 16,45 | 16,45 | 12,24% shares owned by UNIPETROL RPA, s.r.o. |
| **2. ORLEN HOLDING MALTA LIMITED, IČ C 39945** | Level 3, Triq ir-Rampa ta' San Giljan, Balluta Bay, St Julians, STJ1062, Malta | 0,50 | 0,50 | 99,50% shares owned by PKN ORLEN S.A. |

**Appendix No. 2**
**Capital Group of PKN ORLEN S.A. - Controlled Companies**
**1 January 2018 - 31 December 2018**

| Company controlled by PKN ORLEN S.A. | Residence | Shares in directly and undirectly controlled company | | Note |
|---|---|---|---|---|
| | | as at 1.1.2018 | as at 31.12.2018 | |
| **1. UNIPETROL, a.s.** | **Prague** | **62,99%** | **100,00%** | A voluntary tender offer to acquire UNIPETROL, a.s. shares was announced by PKN ORLEN S.A. on 12 December 2017. The transaction was settled on 23 February 2018, PKN ORLEN S.A. purchased 56 280 592 UNIPETROL, a.s. shares which represent ca. 31.04% of the Unipetrol share capital.<br><br>On 28.8.2018 Unipetrol General Meeting approved the acquisition by PKN ORLEN S.A. of Unipetrol shares representing approximately 5.97% of the company's share capital on a basis of squeeze out regulations.<br><br>As of 1.10.2018 PKN ORLEN S.A. takes full ownership of all Unipetrol shares. |
| **2. AB ORLEN Lietuva** | **Juodeikiai** | **100,00%** | **100,00%** | |
| 2.1 UAB Mazeikiu naftos prekybos namai | Vilnius | 100,00% | 100,00% | |
| 2.1.1 SIA ORLEN Latvija | Riga, Latvia | 100,00% | 100,00% | |
| 2.1.2 ORLEN Eesti OU | Tallin, Estonia | 100,00% | 100,00% | |
| 2.2 UAB EMAS | Juodeikiai | 100,00% | 100,00% | |
| **3. AB Ventus Nafta** | **Vilnius** | **100,00%** | **100,00%** | |
| **4. ANWIL S.A.** | **Wloclawek** | **100,00%** | **100,00%** | |
| **5. Inowroclawskie Kopalnie Soli "SOLINO" S.A.** | **Inowroclaw** | **100,00%** | **100,00%** | |
| **6. Kopalnia Soli Lubień sp. z o.o.** | **Warszawa** | **100,00%** | **100,00%** | |
| **7. ORLEN Administracja Sp. z o.o.** | **Plock** | **100,00%** | **100,00%** | |
| **8. ORLEN Asfalt sp. z o.o.** | **Plock** | **100,00%** | **100,00%** | |
| 8.1 ORLEN Asfalt Ceska Republika s.r.o. | Pardubice | 100,00% | 100,00% | |
| **9. ORLEN Serwis S.A.** | **Plock** | **100,00%** | **100,00%** | |
| **10. ORLEN Budonaft Sp. z o.o.** | **Limanowa** | **100,00%** | **100,00%** | |
| **11. ORLEN Centrum Serwisowe Sp. z o.o.** | **Opole** | **99,33%** | **99,33%** | |
| **12. ORLEN Deutschland GmbH** | **Elmshorn** | **100,00%** | **100,00%** | |
| **13. ORLEN EKO Sp. z o.o.** | **Plock** | **100,00%** | **100,00%** | |
| **14. Orlen Holding Malta Limited** | **St. Julians, Malta** | **99,50%** | **99,50%** | |
| 14.1 Orlen Insurance Ltd. | St. Julians, Malta | 99,99% | 99,99% | |
| **15. ORLEN KolTrans Sp. z o.o.** | **Plock** | **99,88%** | **99,91%** | On 02.02.2018 PKN purchased 17 shares from minority shareholders. |
| **16. ORLEN Centrum Usług Korporacyjnych sp. z o.o.** | **Plock** | **100,00%** | **100,00%** | |
| **17. Orlen Laboratorium S.A.** | **Plock** | **100,00%** | **100,00%** | |
| **18. ORLEN Ochrona Sp. z o.o.** | **Plock** | **100,00%** | **100,00%** | |
| 18.1 ORLEN Apsauga UAB | Juodeikiai | 100,00% | 100,00% | |
| **19. ORLEN OIL Sp. z o.o.** | **Kraków** | **100,00%** | **100,00%** | |
| 19.1 Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o. | Baranowo | 67,49% | 90,00% | On 21.12.2017 Platinum Oil WCD EGM approved share capital increase. Based on acquisition of new shares, stake of ORLEN Oil Sp. z o.o. increased to 90%. |
| **20. ORLEN Paliwa Sp. z o.o.** | **Widelka** | **100,00%** | **100,00%** | |
| **21. ORLEN Projekt S.A.** | **Plock** | **99,77%** | **100,00%** | As at 9.8.2018 PKN ORLEN S.A. became the sole shareholder of ORLEN Projekt S.A. The purchase was conducted through the squeeze out of minority shareholders. |
| **22. ORLEN Upstream Sp. z o.o.** | **Warszawa** | **100,00%** | **100,00%** | |
| 22.1. Orlen Upstream Canada Ltd | Calgary | 100,00% | 100,00% | |
| 22.1.1 1426628 Alberta Ltd. | Calgary | 100,00% | 100,00% | |
| 22.1.2 OneEx Operations Partnership | Calgary | 100,00% | 100,00% | |
| 22.1.3 Pierdiae Production GP Ltd. | Calgary | 50,00% | 50,00% | |
| 22.1.3.1 671519 N.B. Ltd. | Saint John | 100,00% | 100,00% | |
| 22.1.4 KCK Atlantic Holdings Ltd. | Calgary | 100,00% | 100,00% | |
| 22.1.4.1 Pierdiae Production LP | Calgary | 80,00% | 80,00% | |
| 22.2 FX Energy Inc. | Salt Lake City | 100,00% | 100,00% | |
| 22.2.1 Frontier Exploration, Inc. | Salt Lake City | 100,00% | 100,00% | |
| 22.2.2 FX Energy Netherlands Partnership C.V. | Utrecht | 100,00% | 100,00% | |
| 22.2.2.1 FX Energy Netherlands B.V. | Utrecht | 100,00% | 100,00% | |
| 22.2.2.1.1 FX Energy Polska Sp. z o.o. | Warszawa | 100,00% | 100,00% | |
| **23. ORLEN Aviation Sp. z o.o.** | **Warszawa** | **100,00%** | **100,00%** | |
| **24. ORLEN Poludnie S.A.** | **Trzebinia** | **100,00%** | **100,00%** | |
| 24.1 Energomedia Sp. z o.o. | Trzebinia | 100,00% | 100,00% | |
| 24.2 Euronaft Trzebinia Sp. z o.o. | Trzebinia | 100,00% | 100,00% | |
| 24.3 KONSORCJUM OLEJÓW PRZEPRACOWANYCH - ORGANIZACJA OD | Jedlicze | 89,00% | 89,00% | |
| 24.4 RAN-WATT Sp. z o.o. w likwidacji | Toruń | 51,00% | 0,00% | On 10.04.2018 RAN-WATT Sp. z o.o. w likwidacji (in liquidation) was deleted from the commercial register. |
| **25. Ship - Service S.A.** | **Warszawa** | **60,86%** | **60,86%** | |
| **26. ORLEN Finance AB** | **Stockholm** | **100,00%** | **0,00%** | On 17.04.2018 company changed its business name from ORLEN Finance AB to Polish Sky Finance AB;<br>On 18.06.2018 PKN ORLEN S.A. sold 100% shares in Polish Sky Finance AB (formerly ORLEN Finance AB) to S-bolag Börsen AB. |
| **27. ORLEN Capital AB** | **Stockholm** | **100,00%** | **100,00%** | |
| **28. Baltic Power Sp. z o.o.** | **Warszawa** | **100,00%** | **100,00%** | |
| **29. Basell Orlen Polyolefins Sp. z o.o.** | **Plock** | **50,00%** | **50,00%** | |
| 29.1 Basell ORLEN Polyolefins Sprzedaż Sp. z o.o. | Plock | 100,00% | 100,00% | |
| **30. Plocki Park Przemyslowo-Technologiczny S.A.** | **Plock** | **50,00%** | **50,00%** | |
| 30.1 Centrum Edukacji Sp. z o.o. | Plock | 69,43% | 69,43% | |

**Appendix No. 3**

**THE LIST OF MUTUAL AGREEMENTS BETWEEN CONTROLLED PERSON AND OTHER PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON**

| Contract / amendment number | Company | Partner role | Subject matter of the document | Valid from | Valid to | Date of entering into the contract |
|---|---|---|---|---|---|---|
| 9-2016 | UNIPETROL, a.s. | Supplier | Contract on establishment of a lien on immovable property | 20.1.2016 | 28.11.2018 | 24.2.2016 |
| 10-2016 | UNIPETROL, a.s. | Supplier | Credit agreement | 20.1.2016 | 17.10.2018 | 20.1.2016 |
| 139-2016 | UNIPETROL, a.s. | Supplier | Comprehensive Services Agreement (CLA) - Internal Audit | 23.2.2016 | indefinite | 23.2.2016 |
| 16-2017 | UNIPETROL, a.s. | Supplier | Credit agreement A | 11.7.2016 | indefinite | 11.7.2016 |
| 17-2017 | UNIPETROL, a.s. | Supplier | Credit agreement B | 11.7.2016 | indefinite | 11.7.2016 |
| 60-2017 | UNIPETROL, a.s. | Supplier | Contract No. 0072-2017 on insurance and its management - Liability insurance - 1st category | 1.5.2017 | 30.4.2018 | 26.7.2017 |
| 29-2018 | UNIPETROL, a.s. | Supplier | Contract No. 0009-2018 on insurance and its management - Liability insurance of members of statutory authorities | 1.11.2017 | 31.10.2018 | 27.4.2018 |
| 103-2018 | UNIPETROL, a.s. | Supplier | Contract No. 0047-2018 on insurance and its management - Liability insurance - 1st category | 1.5.2018 | 30.4.2019 | 10.9.2018 |
| 124-2018 | UNIPETROL, a.s. | Supplier | Agreement on termination of credit agreement | | 17.10.2018 | 17.10.2018 |
| 145-2018 | UNIPETROL, a.s. | Supplier | Framework agreement on provision of certain information and access to information systems, as amended (1 Annex) | 1.11.2018 | indefinite | 19.11.2018 |
| 207-2012 | BU I (UNIPETROL RPA, s.r.o.) | Supplier | Framework agreement for the supply of sulfur | 2.8.2012 | indefinite | 2.8.2012 |
| 54-2014 | BU I (UNIPETROL RPA, s.r.o.) | Supplier | RKS 946/2014 for the supply of fuels in a wholesale manner | 21.3.2014 | 31.1.2018 | 21.3.2014 |
| 156-2016 | BU I (UNIPETROL RPA, s.r.o.) | Supplier | Agreement on provision and re-invoicing of gas supplies | 1.1.2017 | indefinite | 29.12.2016 |
| 15-2018 | BU I (UNIPETROL RPA, s.r.o.) | Supplier | Long-term declaration of quantity and price No. 8/2018 (supply of fuel in a wholesale manner) | 1.2.2018 | 31.1.2023 | 31.1.2018 |
| 266-2013 | UNIPETROL RPA, s.r.o. | Cooperation | Agreement on cooperation in the supply and purchase of electricity, natural gas and coal, as amended (1 Annex) (SML / UN1026 / 13) | 26.4.2014 (SPOLANA from 1.1.2015) | 25.4.2018 | 26.4.2014 |
| 53-2014 | UNIPETROL RPA, s.r.o. | Supplier | Agreement on Confidentiality, Protection of Information and Prohibition of Abuse in respect of Ethylene Oxide Pipeline | 12.3.2014 | indefinite | 12.3.2014 |
| 91-2016 | UNIPETROL RPA, s.r.o. | Supplier | CLA Contract, as amended (3 Annexes) | 1.11.2016 | indefinite | 1.11.2016 |
| 146-2016 | UNIPETROL RPA, s.r.o. | Cooperation | Agreement No. 0007/2017 on initiation of activities of Active Energy Trading Group Model - GAHE | 1.1.2017 | 31.12.2020 | 22.11.2016 |
| 150-2016 | UNIPETROL RPA, s.r.o. | Supplier | Electricity supply contract, as amended (2 Annexes) | 1.1.2017 | 31.12.2020 | 9.12.2016 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 85-2017 | UNIPETROL RPA, s.r.o. | Supplier | Contract No. 0925-2017 on insurance and its management - Liability insurance - 2nd category | 1.5.2017 | 30.4.2018 | 3.10.2017 |
| 91-2017-0-0 | UNIPETROL RPA, s.r.o. | Supplier | Contract on the lease of railway wagons, as amended (2 Annexes) without notice of withdrawal automatic extension by 1 year | 1.1.2017 | 31.12.2019 | 13.9.2017 |
| 98-2017 | UNIPETROL RPA, s.r.o. | Supplier | Contract on the use of BENZINA Tank Cards, as amended (1 Annex) | 28.7.2017 | indefinite | 28.7.2017 |
| 13-2018 | UNIPETROL RPA, s.r.o. | Supplier | Framework purchase agreement on deliveries of anhydrous ammonia (1167-2017) | 1.1.2018 | 31.12.2018 | 16.2.2018 |
| 18-2018 | UNIPETROL RPA, s.r.o. | Customer | SAP contract for sale of $H_2SO_4$ | 1.1.2018 | 30.6.2018 | 8.2.2018 |
| 19-2018 | UNIPETROL RPA, s.r.o. | Customer | SAP contract for sale of HCl | 1.1.2018 | 31.3.2018 | 13.2.2018 |
| 53-2018 | UNIPETROL RPA, s.r.o. | Customer | Ethylene purchase agreement (209-2018) | 1.1.2018 | 31.12.2018 | 10.5.2018 |
| 104-2018 | UNIPETROL RPA, s.r.o. | Supplier | Contract No. 0651-2018 on insurance and its management - Liability insurance - 1st category | 1.5.2018 | 30.4.2019 | 26.9.2018 |
| 108-2018 | UNIPETROL RPA, s.r.o. | Customer | Framework agreement for deliveries of HCl (0391-2018) | 1.4.2018 | 31.12.2018 | 27.4.2018 |
| 109-20018 | UNIPETROL RPA, s.r.o. | Customer | Framework agreement for deliveries of NaOH (0390-2018) | 1.4.2018 | 31.12.2018 | 4.5.2018 |
| 115-2018 | UNIPETROL RPA, s.r.o. | Customer | SAP contract for sale of $H_2SO_4$ | 1.7.2018 | 31.12.2018 | 17.8.2018 |
| 203-2013 | UNIPETROL RPA, s.r.o. (previously UNIPETROL SERVICES, s.r.o.) | Supplier | IT Confidentiality Agreement (1071-2016) | 10.6.2013 | indefinite | 10.6.2013 |
| 177-2013 | UNIPETROL DEUTSCHLAND GmbH | Customer | Exclusive sale contract for S-PVC to Germany, as amended (3 Annexes) (without notice of withdrawal automatic 1-year extension) | 1.6.2013 | 31.3.2019 | 1.6.2013 |
| 8-2018 | UNIPETROL DOPRAVA, s.r.o. (previously CHEMOPETROL-DOPRAVA a.s.) | Customer | Mandate contract on operation of railway on the Spolana siding (2010-102) | 1.7.2002 | indefinite | 1.1.2002 |
| 121-2003 | UNIPETROL DOPRAVA, s.r.o. | Customer | Contract on the provision of services and lease of IT equipment, as amended (1 Annex) | 1.7.2002 | indefinite | 30.6.2002 |
| 194-2005 | UNIPETROL DOPRAVA, s.r.o. | Customer | Contract for the provision of services in the field of telecommunications and postal services, as amended (2 Annexes) | 25.3.2005 | indefinite | 25.3.2005 |
| 362-2005 | UNIPETROL DOPRAVA, s.r.o. | Supplier | Contract on the provision of transport services, as amended (40 Annexes) | 1.7.2002 | indefinite | 28.6.2002 |
| 52-2015 | UNIPETROL DOPRAVA, s.r.o. | Supplier | Contract for Work - Maintenance of Siding in Neratovice, as amended (3 Annexes) | 1.1.2015 | indefinite | 19.2.2015 |
| 34-2017 | UNIPETROL DOPRAVA, s.r.o. | Customer | Lease agreement and rental-related services | 1.4.2017 | indefinite | 10.1.2018 |
| 39-2017 | UNIPETROL DOPRAVA, s.r.o. | Customer | Energy Agreement, as amended (1 Annex) | 1.4.2017 | indefinite | 7.11.2017 |
| 155-2016 | PARAMO, a.s. | Supplier | Framework Agreement for the Supply of Oils and Lubricants, as amended (1 Annex) | 1.1.2017 | indefinite | 31.3.2017 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2 x SAP order | PARAMO, a.s. | Supplier | Deliveries of light fuel oils | | | |
| 90-2016 | PKN ORLEN + ANWIL S.A. + UNIPETROL RPA, s.r.o. | Cooperation | Cooperation agreement on key customer issues (PSH / 01/2016) | 24.3.2016 | indefinite | 24.3.2016 |
| 64-2017 | PKN ORLEN S.A., UNIPETROL RPA, s.r.o. a Synthos S.A. | Supplier | Agreement on Confidentiality, Information Protection and Prohibition of Abuse - styrene | 19.7.2017 | 18.7.2025 | 19.7.2017 |
| 430-2007 | Polski Koncern Naftowy ORLEN S.A. | Supplier | Accession agreement to SAP Poland | 31.10.2007 | indefinite | 9.11.2007 |
| 190-2009 | Polski Koncern Naftowy ORLEN S.A. | Supplier | Maintenance Fee for SAP, as amended (2 Annexes) | 1.1.2008 | indefinite | 27.7.2009 |
| 107-2017 | Polski Koncern Naftowy ORLEN S.A. | Supplier | VCM production assessment according to the conclusions of BAT LVOC (5600010520) | 13.11.2017 | 30.7.2018 | 2.1.2018 |
| 31-2018 | Polski Koncern Naftowy ORLEN S.A. | Supplier | Liquid sulfur supply contract, as amended (2 Annexes) | 1.1.2018 | 31.12.2018 | 10.5.2018 |
| 39-2018 | Polski Koncern Naftowy ORLEN S.A. | Supplier | Single Permit Purchase Agreement | | | 20.4.2018 |
| 128-2018 | PKN ORLEN S.A. + TAURON Polska Energia S.A. | Cooperation | Agreement on a possible construction of a cogeneration power plant | 10.10.2018 | 9.10.2020 | 10.10.2018 |
| 368-2012 | ORLEN Ochrona Sp. z o.o., division in v ČR | Supplier | Contract for the provision of basic physical security services, as amended (4 Annexes) | 1.12.2012 | 31.12.2017 | 1.12.2012 |
| 369-2012 | ORLEN Ochrona Sp. z o.o., division in v ČR | Supplier | Contract for the provision of ancillary physical security services, as amended (4 Annexes) | 1.12.2012 | 31.12.2017 | 1.12.2012 |
| 377-2012 | ORLEN Ochrona Sp. z o.o., division in v ČR | Customer | Contract for the provision of services in the field of telecommunications and postal services | 1.12.2012 | indefinite | 1.12.2012 |
| 383-2012 | ORLEN Ochrona Sp. z o.o., division in v ČR | Customer | Rental agreement | 1.12.2012 | indefinite | 26.11.2012 |
| 17-2018 | ORLEN Ochrona Sp. z o.o., division in v ČR | Supplier | Agreement on Terms for the Provision of Security Services and Ancillary Services within the Complex (1 Annex) | 1.1.2018 | indefinite | 23.4.2018 |
| 79-2018 | ORLEN Ochrona Sp. z o.o., division in v ČR | Customer | Rental agreement | 1.1.2018 | indefinite | 16.7.2018 |
| 100-2018 | ORLEN Ochrona Sp. z o.o., division in v ČR | Customer | Energy supply contract | 1.1.2018 | indefinite | 28.8.2018 |
| 153-2014 | ORLEN SERWIS S.A., spin-off enterprise (previously RemWil Sp. Z o.o.) | Customer | Contract on the provision of services in the area of OSH and PO | 1.7.2014 | indefinite | 17.7.2014 |
| 68-2015 | ORLEN SERWIS S.A., spin-off enterprise (previously RemWil Sp. Z o.o.) | Customer | Rental agreement | 1.1.2015 | indefinite | 25.3.2015 |
| 76-2015 | ORLEN SERWIS S.A., spin-off enterprise (previously RemWil Sp. Z o.o.) | Cooperation | Smlouva on Provision of Synergy | 26.3.2015 | indefinite | 26.3.2015 |
| 84-2015 | ORLEN SERWIS S.A., spin-off enterprise | Supplier | Agreement on provision of coal supply, as amended (1 Annex) | 1.5.2015 | indefinite | 1.5.2015 |
| 198-2015 | ORLEN SERWIS S.A., spin-off enterprise | Customer | Energy Agreement, as amended (3 Annexes) | 1.1.2015 | indefinite | 10.12.2015 |
| 55-2016 | ORLEN SERWIS S.A., spin-off enterprise | Supplier | Contract on Work - maintenance and management of heat exchanger stations, as amended (2 Annexes) | 1.4.2016 | 31.3.2019 | 17.3.2016 |

| | | | | | |
|---|---|---|---|---|---|
| 56-2016 | ORLEN SERWIS S.A., spin-off enterprise | Supplier | Contract on Work - Repair and Maintenance of Electrical Equipment for SAR, as amended (2 Annexes) | 1.4.2016 31.3.2019 | 17.3.2016 |
| 66-2016 | ORLEN SERWIS S.A., spin-off enterprise | Supplier | Framework Contract for Work - Maintenance of Operational Property, as amended (2 Annexes) | 1.1.2016 indefinite | 29.3.2016 |
| 42-20108 | ORLEN SERWIS S.A., spin-off enterprise | Cooperation | Agreement on terms of mutual cooperation | 1.2.2018 indefinite | 4.4.2018 |
| 211-2007 | ANWIL S.A. | Supplier | Cooperation Agreement (DW / 1/2007), as amended (5 Annexes) | 1.1.2007 indefinite | 27.3.2007 |
| 358-2012 | ANWIL S.A. | Supplier | Framework Purchase Cooperation Agreement, as amended (2 Annexes) | 9.11.2012 indefinite | 9.11.2012 |
| 214-2013 | ANWIL S.A. | Customer | Sale of S-PVC Neralit 581 and 601, as amended (3 Annex) | 1.6.2013 indefinite | 17.6.2013 |
| 180-2014 | ANWIL S.A. | Supplier | IT Cooperation Agreement (GRU 9100000136) - Hosting of SAP Servers | 1.1.2014 indefinite | 5.11.2014 |
| 118-2015 | ANWIL S.A. | Supplier | Long-term contract for the supply of ammonia, as amended (3 Annexes) (Without notice of withdrawal automatic 1-year extension) | 1.5.2015 31.12.2019 | 1.5.2015 |
| 225-2015 | ANWIL S.A. | Supplier | Confidentiality agreement in case of a need to provide a loan | 1.12.2015 30.11.2025 | 1.12.2015 |

Unipetrol

ORLEN GROUP

# SPOLANA s.r.o.

## SEPARATE
## FINANCIAL STATEMENTS
## Translation from the Czech original

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR 2018

Index

SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

### Statement of profit or loss and other comprehensive income

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Statement of profit or loss** | | | |
| Revenues | 3. | 4 888 981 | 4 810 089 |
| Cost of sales | 4.1. | (4 369 981) | (4 066 047) |
| **Gross profit on sales** | | **519 000** | **744 042** |
| Distribution expenses | 4.2. | (100 918) | (142 201) |
| Administrative expenses | 4.2. | (222 839) | (189 056) |
| Other operating income | 5.1. | 39 390 | 61 259 |
| Other operating expenses | 5.2. | (786 910) | (50 280) |
| Reversal of loss due to impairment of financial instruments | 6. | 2 401 | - |
| **Profit/(loss) from operations** | | **(549 876)** | **423 764** |
| Finance income | 7.1. | 2 253 | 429 |
| Finance costs | 7.2. | (10 931) | (19 064) |
| **Net finance costs** | | **(8 678)** | **(18 635)** |
| **Profit/(loss) before tax** | | **(558 554)** | **405 129** |
| Tax expense | 8. | 18 923 | 28 336 |
| **Net profit/(loss)** | | **(539 631)** | **433 465** |
| **Other comprehensive income** | | | |
| **items which will not be reclassified into profit or loss** | | | |
| *Actuarial gains and losses* | | *31* | *96* |
| | | **31** | **96** |
| **Total net comprehensive income** | | **(539 600)** | **433 561** |

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-40.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## Statement of financial position

| | Note | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9. | 111 864 | 548 094 |
| Investment property | 10. | 22 567 | 16 264 |
| Intangible assets | 11. | - | 399 |
| Other non-current financial assets | 12. | 879 | 879 |
| Deferred tax assets | 8.2. | 47 259 | 28 336 |
| Other non-current assets | 13. | 6 900 | 6 900 |
| | | **189 469** | **600 872** |
| **Current assets** | | | |
| Inventories | 15. | 603 501 | 588 518 |
| Trade and other receivables | 16. | 436 048 | 402 578 |
| Other financial assets | 17. | 3 343 | 7 981 |
| Cash and cash equivalents | 18. | 19 582 | 20 847 |
| | | **1 062 474** | **1 019 924** |
| **Total assets** | | **1 251 943** | **1 620 796** |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 19.1. | 29 786 | 3 455 229 |
| Retained earnings | 19.2. | (554 520) | (3 436 106) |
| **Total equity** | | **(524 734)** | **19 123** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Loans, borrowings | 20. | 174 | - |
| Provisions | 21. | 134 321 | 132 390 |
| Other non-current liabilities | 22. | 3 184 | 3 115 |
| | | **137 679** | **135 505** |
| **Current liabilities** | | | |
| Trade and other liabilities | 23. | 906 174 | 702 711 |
| Liabilities from contracts with customers | 24. | 1 397 | - |
| Loans, borrowings | 20. | 444 | - |
| Provisions | 21. | 223 163 | 199 731 |
| Other financial liabilities | 22. | 507 820 | 563 726 |
| | | **1 638 998** | **1 466 168** |
| **Total liabilities** | | **1 776 677** | **1 601 673** |
| **Total equity and liabilities** | | **1 251 943** | **1 620 796** |

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-40.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## Statement of changes in equity

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| Note | 19.1. | 19.2. | |
| 01/01/2018 (previously reported) | 3 455 229 | (3 436 106) | 19 123 |
| Impact of IFRS 9 adoption | - | (4 257) | (4 257) |
| 01/01/2018 (converted data) | 3 455 229 | (3 440 363) | 14 866 |
| Net loss | - | (539 631) | (539 631) |
| Items of other comprehensive income | - | 31 | 31 |
| **Total net comprehensive income** | - | **(539 600)** | **(539 600)** |
| Decrease of share capital* | (3 425 443) | 3 425 443 | - |
| **31/12/2018** | **29 786** | **(554 520)** | **(524 734)** |
| 01/01/2017 | 3 455 229 | (3 869 667) | (414 438) |
| Net profit | - | 433 465 | 433 465 |
| Items of other comprehensive income | - | 96 | 96 |
| **Total net comprehensive income** | - | **433 561** | **433 561** |
| **31/12/2017** | **3 455 229** | **(3 436 106)** | **19 123** |

*Further described in note 19.1.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## Statement of cash flows

| | Note | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit/(loss) before tax** | | **(558 554)** | **405 129** |
| Adjustments for: | | | |
| Depreciation and amortisation | 4.2. | 36 635 | 13 052 |
| Interest and dividends, net | | 8 086 | 2 953 |
| (Gain)/loss on investing activities | | (6 864) | 6 181 |
| Impairment allowances to property, plant, equipment and intangible assets | 14. | 772 852 | 2 230 |
| Change in provisions | | 72 451 | 31 938 |
| Other adjustments | | (31 307) | (20 109) |
| Change in working capital | | 216 658 | (197 910) |
| *inventories* | | *(14 983)* | *(47 121)* |
| *receivables* | | *2 981* | *30 247* |
| *liabilities* | | *228 660* | *(181 036)* |
| **Net cash from operating activities** | | **509 957** | **243 464** |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment and intangible assets | | (450 860) | (333 433) |
| Disposal of property, plant and equipment and intangible assets | | 102 | - |
| Proceeds/(outflows) from cash pool assets | | 4 638 | (4 396) |
| Other | | 38 | 25 |
| **Net cash used in investing activities** | | **(446 082)** | **(337 804)** |
| **Cash flows from financing activities** | | | |
| Proceeds from loans and borrowings | | 618 | - |
| Proceeds/(outflows) from cash pool liabilities | | (56 320) | 109 084 |
| Interest paid | | (8 630) | (3 557) |
| Other | | (810) | (138) |
| **Net cash from/(used in) financing activities** | | **(65 142)** | **105 389** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1 267)** | **11 049** |
| Effect of exchange rate changes on cash and cash equivalents | | 2 | - |
| Cash and cash equivalents, beginning of the year* | | 20 847 | 9 798 |
| **Cash and cash equivalents, end of the year*** | 18. | **19 582** | **20 847** |

*including restricted cash

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-40.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## DESCRIPTION OF THE COMPANY AND PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE COMPANY

*Establishment of the Company*
SPOLANA s.r.o. (the "Company") was established as a joint stock company by the National Property Fund of the Czech Republic by a foundation agreement dated 1 May 1992. The Company was registered in the Register of Companies at the Municipal Court in Prague on 1 May 1992.

*Identification number of the Company*
451 47 787

*Registered office of the Company*
SPOLANA s.r.o.
ul. Práce 657
277 11 Neratovice
Czech Republic

*Change of the legal form of the Company*
On 1 December 2018, the legal form of the Company was changed to a limited liability company. Other requirements listed in the Register of Companies remain unchanged.

*Principal activities*
The principal business activity of the Company is the production of chemical products and plastics in an industrial manner, it includes operation of two production units. The PVC plant produces polyvinylchloride (PVC). The caprolactam plant produces caprolactam and ammonium sulphate, sulphuric acid and oleum. Furthermore, the Company operates a power and heating plant, water management and leases unused buildings.

*Ownership structure*
UNIPETROL RPA, s.r.o. is the sole shareholder of SPOLANA s.r.o.

*Statutory and supervisory bodies*
Statutory representatives of the Company as at 31 December 2018 were as follows:

| Position | Name |
|---|---|
| Statutory representative | Krzysztof Stanisław Bączyk |
| Statutory representative | Miroslav Falta |
| Statutory representative | Adam Paweł Sadłowski |
| Statutory representative | Martin Komůrka |

Members of the statutory and supervisory bodies of the Company as at 30 November 2018 were as follows:

| | Position | Name |
|---|---|---|
| **Board of Directors** | Chairman | Krzysztof Stanisław Bączyk |
| | Vice-chairman | Miroslav Falta |
| | Member | Adam Paweł Sadłowski |
| | Member | Martin Komůrka |
| **Supervisory Board** | Chairman | Tomáš Herink |
| | Vice-chairman | Artur Tomasz Frankiewicz |
| | Member | Tomasz Wiatrak |

Changes in the Board of Directors in 2018 were as follows:

| Position | Name | Change | Date of change |
|---|---|---|---|
| Chairman | Jacek Andrzej Aliński | Recalled from the office | 22 May 2018 |
| Chairman | Krzysztof Stanisław Bączyk | Elected to the office | 1 June 2018 |
| Member | Filip Mikołajczyk | Recalled from the office | 25 September 2018 |
| Member | Adam Paweł Sadłowski | Elected to the office | 1 October 2018 |

Changes in the Supervisory Board in 2018 were as follows:

| Position | Name | Change | Date of change |
|---|---|---|---|
| Member | Pavel Sláma | Recalled from the office | 7 August 2018 |
| Member | Tomasz Wiatrak | Elected to the office | 8 August 2018 |

*Group identification and consolidation*
The Company is part of the consolidation group of UNIPETROL, a.s. ("the Group"). Pursuant to section 62(2) of Decree No. 500/2002 Coll., the financial statements of the Company and of all entities consolidated by UNIPETROL, a.s. have been included in the consolidated financial statements of UNIPETROL, a.s. with its registered office at Praha 4, Milevská 2095/5, 140 00, ID No. 616 72 190.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## 2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

The separate financial statements have been prepared 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 2018. The financial statements have been prepared based on historical cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investment properties stated at fair value.

The separate financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2018, results of its operations and cash flows for the year ended 31 December 2018.

These separate financial statements have been prepared on a going concern basis. As at the date of approval of the financial statements there is no uncertainty that the Company will not be able to continue as a going concern in the foreseeable future.

The financial statements, except for the statement of cash flows, are prepared on the accrual basis of accounting.

Applied accounting policies are listed in note 31.

## EXPLANATORY NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## 3. REVENUES

| | 2018 | 2017 |
|---|---|---|
| Sales of finished goods | 4 821 981 | 4 770 405 |
| Sales of services | 26 348 | 27 388 |
| **Revenues from sales of finished goods and services, net** | **4 848 329** | **4 797 793** |
| Sales of merchandise | 76 | 5 861 |
| Sales of raw materials | 40 576 | 6 435 |
| **Revenues from sales of merchandise and raw materials, net** | **40 652** | **12 296** |
| | **4 888 981** | **4 810 089** |

### 3.1. Revenues by assortments

| | 2018 | 2017 |
|---|---|---|
| PVC plant | 2 204 874 | 2 230 811 |
| Caprolactam plant | 2 590 921 | 2 510 690 |
| Other | 93 186 | 68 588 |
| | **4 888 891** | **4 810 089** |

Revenues from 1 individual customer in the amount of CZK 490 776 thousand represented more than 10% of the Company's total revenues in 2018 (2017: CZK 482 986 thousand).

### 3.2. Revenues by geographical division

| | 2018 | 2017 |
|---|---|---|
| Czech Republic | 830 287 | 967 560 |
| European Union | 3 828 312 | 3 543 306 |
| Other countries | 230 382 | 299 223 |
| | **4 888 981** | **4 810 089** |

Revenues are based on the country in which the customer is located.

## 4. OPERATING EXPENSES

### 4.1. Cost of sales

| | 2018 | 2017 |
|---|---|---|
| Cost of finished goods and services sold | (4 366 878) | (4 058 823) |
| Cost of merchandise and raw materials sold | (3 103) | (7 224) |
| | **(4 369 981)** | **(4 066 047)** |

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

### 4.2. Cost by nature

| | | 2018 | 2017 |
|---|---|---|---|
| Materials and energy | | (3 770 669) | (3 493 729) |
| Cost of merchandise and raw materials sold | | (3 103) | (7 224) |
| External services | | (437 436) | (457 973) |
| Employee benefits | | (396 764) | (355 169) |
| Depreciation and amortization | | (36 635) | (13 052) |
| Taxes and charges | | (86 470) | (37 147) |
| Impairment allowances of property, plant and equipment and intangible assets | 14. | (772 852) | (2 230) |
| Other | | (71 668) | (105 998) |
| | | **(5 575 597)** | **(4 472 522)** |
| Change in inventories | | 94 883 | 24 938 |
| Cost of products and services for own use | | 66 | - |
| **Operating expenses** | | **(5 480 648)** | **(4 447 584)** |
| Distribution expenses | | 100 918 | 142 201 |
| Administrative expenses | | 222 839 | 189 056 |
| Other operating expenses | | 786 910 | 50 280 |
| **Cost of sales** | | **(4 369 981)** | **(4 066 047)** |

### 4.3. Employee benefits costs

| | 2018 | 2017 |
|---|---|---|
| Payroll expenses | (283 753) | (256 163) |
| Future benefits expenses | (1 439) | 407 |
| Social security expenses | (95 473) | (86 362) |
| Other employee benefits expenses | (16 099) | (13 051) |
| | **(396 764)** | **(355 169)** |

| 2018 | Employees | Key Management | Total |
|---|---|---|---|
| Wages and salaries | (268 419) | (15 334) | (283 753) |
| Social and health insurance | (90 640) | (4 833) | (95 473) |
| Social expense | (14 747) | (1 352) | (16 099) |
| Change of employee benefits provision | (1 434) | (5) | (1 439) |
| | **(375 240)** | **(21 524)** | **(396 764)** |
| Number of employees average per year | 686.91 | 1.92 | 688.83 |
| Number of employees as at balance sheet day | 714 | 2 | 716 |
| Number of statutory representatives as at balance sheet day | | 4 | 4 |
| Number of Board of Directors and Supervisory Board members as at 30 November 2018 | | 7 | 7 |

| 2017 | Employees | Key Management | Total |
|---|---|---|---|
| Wages and salaries | (239 031) | (17 132) | (256 163) |
| Social and health insurance | (82 217) | (4 145) | (86 362) |
| Social expense | (12 145) | (906) | (13 051) |
| Change of employee benefits provision | 405 | 2 | 407 |
| | **(332 988)** | **(22 181)** | **(355 169)** |
| Number of employees average per year | 669.09 | 2.59 | 671.68 |
| Number of employees as at balance sheet day | 680 | 3 | 683 |
| Number of Board of Directors and Supervisory Board members as at balance sheet day | | 7 | 7 |

## 5. OTHER OPERATING INCOME AND EXPENSES

### 5.1. Other operating income

| | 2018 | 2017 |
|---|---|---|
| Profit on sale of non-current non-financial assets | 102 | 689 |
| Reversal of provisions | 50 | 225 |
| Reversal of receivables impairment allowances | - | 35 874 |
| Reversal of impairment allowances of property, plant and equipment and intangible assets | - | 2 306 |
| Penalties and compensations | 786 | 14 056 |
| Revaluation of investment properties | 8 145 | - |
| Stocktaking discrepancies | 13 597 | 3 428 |
| Derecognition of other liabilities | 16 098 | - |
| Other | 612 | 4 681 |
| | **39 390** | **61 259** |

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

### 5.2. Other operating expenses

| | | 2018 | 2017 |
|---|---|---|---|
| Loss on sale of non-current non-financial assets | | (1 385) | - |
| Recognition of provisions | | (50) | (4 000) |
| Recognition of receivables impairment allowances | | - | (31 178) |
| Recognition of impairment allowances of property, plant and equipment and intangible assets | 14. | (772 852) | (2 230) |
| Revaluation of provision to $CO_2$ consumption | | (6 345) | - |
| Donations | | (86) | (50) |
| Revaluation of investment properties | | - | (9 177) |
| Other | | (6 192) | (3 645) |
| | | **(786 910)** | **(50 280)** |

## 6. REVERSAL OF LOSS DUE TO IMPAIRMENT OF FINANCIAL INSTRUMENTS

Reversal of loss at the amount of CZK 2 401 thousand related to impairment of trade receivables.

## 7. FINANCE INCOME AND COSTS

### 7.1. Finance income

| | 2018 | 2017 |
|---|---|---|
| Interest | 37 | 388 |
| Net foreign exchange gain | 2 216 | - |
| Other | - | 41 |
| | **2 253** | **429** |

### 7.2. Finance costs

| | 2018 | 2017 |
|---|---|---|
| Interest | (7 292) | (2 861) |
| Net foreign exchange loss | - | (14 576) |
| Other | (3 639) | (1 627) |
| | **(10 931)** | **(19 064)** |

## 8. TAX CREDIT/(EXPENSE)

| | 2018 | 2017 |
|---|---|---|
| **Tax credit/(expense) in the statement of profit or loss** | | |
| Current tax | - | - |
| Deferred tax | 18 923 | 28 336 |
| | **18 923** | **28 336** |

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2018 (2017: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2019 and forward i.e. 19%.

### 8.1. The differences between tax expense recognized in profit or loss and the amount calculated based on the rate from profit/(loss) before tax

| | 2018 | 2017 |
|---|---|---|
| Profit/(loss) for the year | (539 631) | 433 465 |
| Total tax credit | 18 923 | 28 336 |
| Profit/(loss) before tax | (558 554) | 405 129 |
| | | |
| Income tax using domestic income tax rate | 106 125 | (76 975) |
| Non-deductible expenses | (71 377) | (66 432) |
| Tax exempt income | 20 377 | 73 158 |
| Recognition of previously unrecognized deferred tax asset | 18 923 | 28 336 |
| Utilization of unused tax losses | 57 360 | 67 699 |
| Impairment allowances of property, plant and equipment and intangible assets | (146 842) | - |
| Other differences | 34 357 | 2 550 |
| **Total tax credit** | **18 923** | **28 336** |
| **Effective tax rate** | **(3.39%)** | **6.99%** |

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

### 8.2. Deferred tax

Deferred taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19% in 2019 and onward).
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

| | 31/12/2017 | Deferred tax recognized in statement of profit or loss | 31/12/2018 |
|---|---|---|---|
| **Deferred tax receivables** | | | |
| Unused tax losses carried forward | 28 336 | 18 923 | 47 259 |
| | **28 336** | **18 923** | **47 259** |

| | 31/12/2016 | Deferred tax recognized in statement of profit or loss | 31/12/2017 |
|---|---|---|---|
| **Deferred tax receivables** | | | |
| Unused tax losses carried forward | - | 28 336 | 28 336 |
| | - | **28 336** | **28 336** |

Deferred tax assets are recognized for tax losses and deductible temporary differences carried forward to the extent that realization of the related tax benefit through the future taxable profit is probable based on financial projections for years 2019 - 2022.
In the calculation of deferred tax assets as at 31 December 2018 the Company has not recognized unused tax losses in the amount of CZK 169 051 thousand due to the unpredictability of future taxable income (31 December 2017: CZK 558 534 thousand). These unrecognized tax losses will expire by the end of 2021.

## EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 9. PROPERTY, PLANT AND EQUIPMENT

### 9.1. Changes in property, plant and equipment

| | Land | Buildings and constructions | Machinery and equipment | Vehicles and other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **01/01/2018** | | | | | | |
| **Net book value** | | | | | | |
| Gross book value | 111 864 | 130 540 | 226 263 | 4 291 | 270 946 | **743 904** |
| Accumulated depreciation | - | (106 886) | (94 193) | (43) | 5 312 | **(195 810)** |
| | **111 864** | **23 654** | **132 070** | **4 248** | **276 258** | **548 094** |
| **increase/(decrease) net** | | | | | | |
| Investment expenditures | - | - | - | - | 367 184 | 367 184 |
| Depreciation | - | (5 584) | (29 913) | (1 092) | - | (36 589) |
| Impairment allowances | - | (140 549) | (308 991) | (16 459) | (299 596) | (765 595) |
| Reclassifications | - | 124 166 | 208 219 | 13 303 | (343 846) | 1 842 |
| Liquidation | - | - | (1 385) | - | - | (1 385) |
| Other increases/(decreases) | - | (1 687) | - | - | - | (1 687) |
| **31/12/2018** | | | | | | |
| **Net book value** | **111 864** | **-** | **-** | **-** | **-** | **111 864** |
| Gross book value | 111 864 | 253 019 | 433 097 | 17 594 | 299 597 | **1 109 860** |
| Accumulated depreciation and impairment allowances | - | (253 019) | (433 097) | (17 594) | (299 597) | **(997 995)** |
| | **111 864** | **-** | **-** | **-** | **-** | **111 864** |
| **01/01/2017** | | | | | | |
| **Net book value** | | | | | | |
| Gross book value | 111 864 | 113 729 | 144 193 | - | 31 119 | **400 905** |
| Accumulated depreciation | - | (106 149) | (81 922) | - | 5 312 | **(182 759)** |
| | **111 864** | **7 580** | **62 271** | **-** | **36 431** | **218 146** |
| **increase/(decrease) net** | | | | | | |
| Investment expenditures | - | - | - | - | 340 394 | 340 394 |
| Depreciation | - | (737) | (12 270) | (43) | - | (13 050) |
| Reclassifications | - | 16 706 | 84 283 | 4 291 | (100 428) | 4 852 |
| Liquidation | - | - | (2 214) | - | - | (2 214) |
| Other decreases | - | 105 | - | - | (139) | (34) |
| **31/12/2017** | | | | | | |
| **Net book value** | **111 864** | **23 654** | **132 070** | **4 248** | **276 258** | **548 094** |

Main investment expenditures in 2018 were spent for the equipment for air production unit (CZK 52 450 thousand), the equipment for new energy supply (CZK 158 152 thousand) and the replacement of oxychlorine reactors (CZK 13 936 thousand).
Detailed information regarding impairment recognized in 2018 is presented in note 14.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## 9.2. Other information on property, plant and equipment

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| The gross book value of all fully depreciated property, plant and equipment still in use | 5 250 | 6 380 |

The Company reviews useful lives of property, plant and equipment and introduces adjustments to depreciation charges prospectively according to its accounting policy. Should the depreciation policy from the previous year be applied, the depreciation expense for 2018 would not be influenced.

## 10. INVESTMENT PROPERTY

| | 2018 | 2017 |
|---|---|---|
| At the beginning of the year | 16 264 | 30 049 |
| Reclassification to property, plant and equipment | (1 842) | (4 852) |
| Transfer from property, plant and equipment | - | 244 |
| Fair value measurement | 8 145 | (9 177) |
| increase | 8 145 | - |
| decrease | - | (9 177) |
| | **22 567** | **16 264** |

Rental income amounted to CZK 3 572 thousand in 2018 (2017: CZK 2 751 thousand). Operating costs related to investment property amounted to CZK 204 thousand in 2018 (2017: CZK 168 thousand).

### 10.1. Fair value of investment property measurement

Investment property as at 31 December 2018 included the buildings owned by the Company and leased to third parties, which fair value was estimated depending on the characteristics based revenue approach.

In the revenue approach the calculation was based on the discounted cash flow method. 10 year period forecasts were applied in the analysis. The discount rate used reflects the relation, as expected by the buyer, between annual revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the property consider arrangements included in all rent agreements as well as external data, e.g. current market rent charges for similar property, in the same location, technical conditions, standard and designed for similar purposes (investment property valued under the revenue approach belong to Level 3 as defined by IFRS 7). The discount rate of 8.41% was used for the calculation of the investment property fair value.

In the year ended 31 December 2018 and the comparative period there were no changes in the measurement approach.

| | | | Fair value hierarchy | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Level 2 | Level 3 |
| 31/12/2018 | 22 567 | 22 567 | - | 22 567 |
| 31/12/2017 | 16 264 | 16 264 | - | 16 264 |

### 10.2. Sensitivity analysis of changes in fair value of investment property classified under Level 3 fair value

Analysis of the influence of potential changes in the fair value of investment property on profit before tax in relation to a hypothetical change in discount rate:

| | | Level 3 | | |
|---|---|---|---|---|
| | Increase by | Total impact | Decrease by | Total impact |
| Change in discount rate | +1 pp | (881) | -1 pp | 881 |

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

# 11. INTANGIBLE ASSETS

## 11.1. Changes in intangible assets

| | Software | Assets under development | $CO_2$ emission allowance | Total |
|---|---|---|---|---|
| **01/01/2018** | | | | |
| **Net book value** | | | | |
| Gross book value | 46 | 423 | - | 469 |
| Accumulated amortization | (2) | (68) | - | (70) |
| | **44** | **355** | - | **399** |
| **increase/(decrease) net** | | | | |
| Investment expenditures | - | 6 904 | 12 664 | 19 568 |
| Amortization | (46) | - | - | (46) |
| Impairment allowances | (352) | (6 905) | - | (7 257) |
| Reclassifications | 354 | (354) | - | - |
| Other decreases | - | - | (12 664) | (12 664) |
| **31/12/2018** | | | | |
| **Net book value** | - | - | - | - |
| Gross book value | 400 | 6 973 | - | 7 373 |
| Accumulated depreciation and impairment allowances | (400) | (6 973) | - | (7 373) |
| | - | - | - | - |
| **01/01/2017** | | | | |
| **Net book value** | | | | |
| Gross book value | - | 68 | - | (58) |
| Accumulated amortization | - | (68) | - | 58 |
| | - | - | - | - |
| **increase/(decrease) net** | | | | |
| Investment expenditures | - | 401 | 15 327 | 15 728 |
| Amortization | (2) | - | - | (2) |
| Reclassifications | 46 | (46) | - | - |
| Other decreases | - | - | (15 327) | (15 327) |
| **31/12/2017** | | | | |
| **Net book value** | **44** | **355** | - | **399** |

Detailed information regarding impairment recognized in 2018 is presented in note 14.

## 11.2. Other information on intangible assets

The Company reviews useful lives of intangible assets and introduces an adjustment to amortization charges prospectively according to its accounting policy. Should the amortization rates from the previous year be applied, amortization expense for 2018 would not be influenced.

## 11.3. $CO_2$ emission allowances

Based on the Czech National Allocation Scheme for the years 2013-2020 the Company was to obtain $CO_2$ emission allowances free of charge. During the year ended 31 December 2018 the Company obtained $CO_2$ emission allowances in the amount of 127 637 tons.

| | Value | Quantity (in tonnes) |
|---|---|---|
| 01/01/2018 | | |
| Granted free of charge for 2018 | 32 705 | 127 637 |
| Settlement for 2017 | (45 369) | (208 336) |
| Purchase/(Sale), net | 12 664 | 80 699 |
| Estimated annual consumption 2018 | 92 177 | 203 552 |

As at 31 December 2018 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 24.64 (31 December 2017: EUR 8.14). $CO_2$ emission allowances purchased by the Company are included in the statement of cash flows, under investing activities in Acquisition of property, plant and equipment and intangible assets.

# 12. OTHER NON-CURRENT FINANCIAL ASSETS

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| TIÚ-PLAST a.s. | 879 | 879 |
| | **879** | **879** |

The Company had equity investments of CZK 879 thousand as at 31 December 2018 (31 December 2017: CZK 879 thousand) which represent ownership interests in TIÚ-PLAST a.s. that do not have a quoted market price and whose fair value cannot be reliably measured and therefore are carried at acquisition cost less any impairment losses.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## 13. OTHER NON-CURRENT ASSETS

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Prepayments | 6 900 | 6 900 |
| **Non-financial assets** | **6 900** | **6 900** |
| | **6 900** | **6 900** |

## 14. IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

As at 31 December 2018 in accordance with International Accounting Standard 36 "Impairment of assets" the Company has verified the existence of impairment indicators in relation to Cash Generating Units ("CGUs") i.e. the smallest identifiable group of assets that generate cash inflows largely independent from other assets.
As of 31 December 2018 new financial projections for the years 2019-2022 existed in the Company, prepared based on new macroeconomic assumptions provided in the second half of 2018.

Impairment analysis on Company assets' as at 31 December 2018 was based on the following financial data:

- non-audited financial statements as at 31 December 2018,
- financial projections for the years 2019-2022 included in Mid Term Plan for the years 2019-2022,
- necessary adjustments mainly relating to capital expenditures and effectiveness activities for the years 2019-2022, corresponding with IAS 36 requirement of basing the analysis on projections excluding impact of development and restructuring (IAS 36.33 b) and maintenance of shareholding structure in the Group as at 31 December 2018.

During development of assumptions to impairment tests the possibility of estimation of the fair value and value in use of individual assets was considered. Lack of market transactions for similar assets to those held by the Company which would allow to reliably estimate their fair value makes fair value method of valuation not possible to implement. As a result, it was concluded that the best estimate of the actual values of individual assets of the Company will be its value in use ("VIU").
The recoverable amounts of CGUs were estimated based on their value in use.
The assets used in analyses: i.e. fixed assets (excluding lands and $CO_2$ allowances) and net working capital were derived from non-audited financial statements as at 31 December 2018.
For determining the value in use as at given balance sheet date forecasted cash flows were discounted using the discount rates after taxation reflecting the risk levels specific for particular sectors to which the Company belongs.
The discount rate is calculated as the weighted average cost of capital. The sources of macroeconomic indicators necessary to determine the discount rate were the publications of prof. Aswath Damodoran (source: http://pages.stern.nyu.edu) and publicly available as at 31 December 2018 listings of government bonds.

**The structure of the discount rates and long term inflation rate applied in the testing for impairment of assets of individual operating CGU as at 31 December 2018**

| | SPOLANA s.r.o. |
|---|---|
| Cost of capital | 9.24% |
| Cost of debt after tax | 2.27% |
| Capital structure | 81.50% |
| **Nominal discount rate** | **7.95%** |
| Long term inflation rate | 2.10% |

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta).
Cost of debt includes the average level of credit margins and expected market value of money for the Czech Republic.
The period of analysis was established on the basis of remaining useful life of the essential assets for the particular CGU.

**The results of impairment analysis as at 31 December 2018 and impact on financial statements (in CZK million)**

| CGU | Fixed assets | Net working capital | VIU | Impairment |
|---|---|---|---|---|
| SPOLANA s.r.o. | 773 | 150 | (872) | (773) |

The impairment allowance of CZK 772 852 thousand was booked in petchem CGU to fixed assets of SPOLANA s.r.o.
The amount of CZK 765 595 thousand was allocated to property, plant and equipment, the amount of CZK 7 257 thousand was allocated to intangible assets and these were recorded in other operating part of statement of profit and loss in Company's financial statements as at 31 December 2018.
Taking negative value in use indicated in the impairment test as at 31 December 2018 into the consideration, starting from 1 January 2019 all new investments realized by the Company will be recognized in other operating costs. This approach is required by IAS 36 regulation.

The Company's future financial performance is based on a number of factors and assumptions including macroeconomics development, such as foreign exchange rates, commodity prices, interest rates outside the Company's control. The change of these factors and assumptions might influence the Company's financial position, including the results of the impairment test of non-current assets, and consequently might lead to changes in the financial position and performance of the Company.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## 14. IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (continued)

**Sensitivity analysis of the value in use as at 31 December 2018**

The crucial elements influencing the value in use of assets within individual units responsible for generating cash flows are operating profit plus depreciation and amortization (known as EBITDA) and the discount rate.

The effects of impairment sensitivity in relation to changes in these factors are presented below.

| | in CZK million | EBITDA | | |
|---|---|---|---|---|
| DISCOUNT RATE | change | -5% | 0% | 5% |
| | -0,5 p.p. | (773) | (773) | (773) |
| | 0,0 p.p. | (773) | (773) | (773) |
| | +0,5 p.p. | (773) | (773) | (773) |

## 15. INVENTORIES

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Raw materials | 218 058 | 305 619 |
| Work in progress | 140 620 | 100 559 |
| Finished goods | 157 444 | 96 893 |
| Spare parts | 87 379 | 85 447 |
| **Inventories, net** | **603 501** | **588 518** |
| Impairment allowances of inventories to net realizable value | 57 593 | 35 331 |
| **Inventories, gross** | **661 094** | **623 849** |

### 15.1. Changes in impairment allowances of inventories to net realizable value

| | 2018 | 2017 |
|---|---|---|
| At the beginning of the year | 35 331 | 89 086 |
| Recognition | 33 561 | 12 116 |
| Usage | (9 391) | (9 469) |
| Reversal | (1 908) | (56 402) |
| | **57 593** | **35 331** |

## 16. TRADE AND OTHER RECEIVABLES

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Trade receivables | 379 395 | 369 472 |
| Other | 285 | 273 |
| **Financial assets** | **379 680** | **369 745** |
| Other taxation, duty, social security receivables | 2 517 | 9 192 |
| Advances for construction in progress | 43 475 | 2 766 |
| Prepaid inventories | 2 732 | 8 700 |
| Prepayments and deferred costs | 7 644 | 12 175 |
| **Non-financial assets** | **56 368** | **32 833** |
| **Receivables, net** | **436 048** | **402 578** |
| Receivables impairment allowance | 41 291 | 46 818 |
| **Receivables, gross** | **477 339** | **449 396** |

Trade receivables result primarily from sales of finished goods. The management considers that the carrying amount of trade receivables approximates their fair value. The average credit period on sales of goods is 33.5 days. Trade receivables overdue bear an interest based on terms agreed in the selling contracts. The Company's exposure to credit and currency risk related to trade and other receivables is disclosed in note 25.4. and detailed information about receivables from related parties is presented in note 29.

## 17. OTHER FINANCIAL ASSETS

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cash pool | 3 343 | 7 981 |
| | **3 343** | **7 981** |

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## 18. CASH AND CASH EQUIVALENTS

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cash on hand and in bank | 19 582 | 20 847 |
| | **19 582** | **20 847** |
| Incl. restricted cash | 8 992 | 8 989 |

Restricted cash is used in respect of the restoration of fly-ash dump and toxic waste dumps. Funds on mandatory deposit accounts may only be used with the consent of the Central Bohemian Regional Authority.

## 19. SHAREHOLDERS' EQUITY

### 19.1. Share capital

The issued capital of the Company as at 31 December 2018 amounted to CZK 29 786 thousand (31 December 2017: CZK 3 455 229 thousand). On 30 May 2018 the sole shareholder of the Company decided on the decrease of registered capital of the Company from the amount of CZK 3 455 229 thousand to a new amount of CZK 29 786 460 thousand, provided that the decrease was made for the purpose of covering the Company's loss.
UNIPETROL RPA, s.r.o. is the sole shareholder of SPOLANA s.r.o.

### 19.2. Retained earnings

The shareholder decided to allocate the profit for 2017 at the amount of CZK 433 465 thousand to retained earnings.

### 19.3. Equity management policy

Equity management is performed on the Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholder.
The Company monitors the equity debt ratio (net financial leverage). As at 31 December 2018 and as at 31 December 2017 Company´s financial leverage amounted to (93.16%) and 2 838.88%, respectively.

Net financial leverage = net debt/equity (calculated as at the end of the period) x 100%
Net debt =non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents

#### 19.3.1. Net debt

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cash on hand and in bank | 19 582 | 20 847 |
| Loans, borrowings | (618) | - |
| *Loans, borrowings non-current* | *(174)* | - |
| *Loans, borrowings current* | *(444)* | - |
| Cash pool liabilities | (507 820) | (563 726) |
| | **(488 856)** | **(542 879)** |

#### 19.3.2. Net working capital

| | Inventories | Receivables | Liabilities | Working capital |
|---|---|---|---|---|
| 31/12/2017 | 588 518 | 402 578 | 702 711 | 288 385 |
| 31/12/2018 | 603 501 | 436 048 | 906 174 | 133 375 |
| **Change from statement of financial position** | **(14 983)** | **(33 470)** | **203 463** | **155 010** |
| Adjustments | | | | |
| Movements in prepayments for construction in progress | - | 40 708 | - | 40 708 |
| Movements in non-current receivables/liabilities | - | - | 68 | 68 |
| Movements in investing liabilities | - | - | 25 129 | 25 129 |
| Impact of IFRS 9 adoption | - | (4 257) | - | (4 257) |
| **Change from statement of cash flows** | **(14 983)** | **2 981** | **228 600** | **216 658** |

## 20. LOANS, BORROWINGS

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Bank loans | - | - | 39 | - | 39 | - |
| Borrowings | 174 | - | 405 | - | 579 | - |
| | **174** | **-** | **444** | **-** | **618** | **-** |

### 20.1. Loans

by currency/by interest rate

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| CZK/PRIBOR | 39 | - |
| | **39** | **-** |

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### 20.2. Borrowings

by currency/by interest rate

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| CZK/PRIBOR | 579 | - |
| | **579** | - |

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 25 and are presented together with other financial instruments.

## 21. PROVISIONS

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Environmental provision | 130 181 | 129 282 | 130 094 | 160 381 | 260 275 | 289 663 |
| Jubilee bonuses and retirement benefits provision | 4 040 | 2 958 | 892 | 566 | 4 932 | 3 524 |
| Provision for $CO_2$ emission allowances | - | - | 92 177 | 38 784 | 92 177 | 38 784 |
| Other provision | 100 | 150 | - | - | 100 | 150 |
| | **134 321** | **132 390** | **223 163** | **199 731** | **357 484** | **332 121** |

### Change in provisions in 2018

| | Environmental provision | Jubilee bonuses and retirement benefits provision | Provision for $CO_2$ emission allowances | Other provision | Total |
|---|---|---|---|---|---|
| **01/01/2018** | 289 663 | 3 524 | 38 784 | 150 | 332 121 |
| Recognition | - | 1 892 | 98 762 | 50 | 100 704 |
| Reclassification | (1 686) | - | - | - | (1 686) |
| Discounting | 2 586 | - | - | - | 2 586 |
| Usage | (30 288) | (484) | (45 369) | (50) | (76 191) |
| Reversal | - | - | - | (50) | (50) |
| | **260 275** | **4 932** | **92 177** | **100** | **357 484** |

### Change in provisions in 2017

| | Environmental provision | Jubilee bonuses and retirement benefits provision | Provision for $CO_2$ emission allowances | Other provision | Total |
|---|---|---|---|---|---|
| **01/01/2017** | 291 395 | 4 027 | 38 107 | 375 | 333 904 |
| Recognition | - | - | 38 784 | 4 000 | 42 784 |
| Reclassification | 105 | - | - | - | 105 |
| Discounting | 871 | - | - | - | 871 |
| Usage | (2 708) | (380) | (33 729) | (4 000) | (40 817) |
| Reversal | - | (123) | (4 378) | (225) | (4 726) |
| | **289 663** | **3 524** | **38 784** | **150** | **332 121** |

### 21.1. Environmental provision

Under the environmental provision the Company has the provision for land restoration created as a result of the legal obligation to restore the fly-ash deposits and toxic waste dump after it is discontinued, which is expected after 2020 in case of fly-ash deposits and in 2024 in case of toxic waste dump. The provision amounted to CZK 130 million as at 31 December 2018 (31 December 2017: CZK 129 million).
Additionally, the Company has the provision for liquidation and restoration of the amalgam electrolysis which was shut down in November 2017. CZK 30 million were used to cover remediation works as at 31 December 2018 (31 December 2017: CZK 3 million). The provision amounted CZK 130 million as at 31 December 2018 (31 December 2017: CZK 160 million).

### 21.2. Provision for jubilee bonuses and retirement benefits

The Company realizes the program of paying out retirement benefits and jubilee bonuses in line with remuneration policies in force. The jubilee bonuses are paid to employees after the elapse of a defined number of years in service. Retirement benefits are paid as a one-time payment at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service. The base for the calculation of the provision for an employee is the expected benefit which the Company is obliged to pay in accordance with internal regulations.
The present value of these obligations is estimated at the end of each reporting year and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation.
Employment benefit provisions for retirement and anniversary benefits received by employees were created using discount rates in the range 2% in 2018 (2017: 1.5%), assumptions used were based on the Collective Agreement.

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### 21.2.1. Change in employee benefits obligations

| | Provision for jubilee bonuses | | Retirement benefits | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| At the beginning of the year | 2 411 | 2 821 | 1 113 | 1 206 | 3 524 | 4 027 |
| Current service costs | 193 | 121 | 90 | 86 | 283 | 207 |
| Interest expenses | 36 | 16 | 16 | 7 | 52 | 23 |
| Actuarial gains and losses arising from changes | 63 | (257) | (31) | (96) | 32 | (353) |
| *demographic assumptions* | *207* | *44* | *12* | *38* | *219* | *82* |
| *financial assumptions* | *(121)* | *(151)* | *(33)* | *(70)* | *(154)* | *(221)* |
| *other* | *(23)* | *(150)* | *(10)* | *(64)* | *(33)* | *(214)* |
| Past employment costs | 1 525 | - | - | - | 1 525 | - |
| Payments under program | (430) | (290) | (54) | (90) | (484) | (380) |
| | **3 798** | **2 411** | **1 134** | **1 113** | **4 932** | **3 524** |

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2018 and as at 31 December 2017.

### 21.2.2. Division of employee benefits liabilities by employees

| | Active employees | | Pensioners | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Czech Republic | 4 932 | 3 524 | - | - | 4 932 | 3 524 |
| | | | | | **4 932** | **3 524** |

### 21.2.3. Geographical division of employee benefits liabilities

| | Provision for jubilee bonuses | | Retirement benefits | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Czech Republic | 3 798 | 2 411 | 1 134 | 1 113 | 4 932 | 3 524 |
| | | | | | **4 932** | **3 524** |

### 21.2.4. Sensitivity analysis to changes in actuarial assumptions

| Actuarial assumptions | Assumed variations as at 31/12/2018 | Czech Republic: Influence on provision for jubilee bonuses 2018 | Czech Republic: Influence on retirement benefits 2018 |
|---|---|---|---|
| Demographic assumptions (+) | 0.5pp | (122) | (36) |
| *staff turnover rates, disability and early retirement* | *0.5pp* | *(122)* | *(36)* |
| Financial assumptions (+) | 0.5pp | 10 | 3 |
| *discount rate* | *0.5pp* | *(125)* | *(37)* |
| *level of future remuneration* | *0.5pp* | *135* | *40* |
| | | **(112)** | **(33)** |
| Demographic assumptions (-) | -0.5pp | 125 | 24 |
| *staff turnover rates, disability and early retirement* | *-0.5pp* | *125* | *24* |
| Financial assumptions (-) | -0.5pp | 5 | 2 |
| *discount rate* | *-0.5pp* | *133* | *39* |
| *level of future remuneration* | *-0.5pp* | *(128)* | *(37)* |
| | | **130** | **26** |

| Actuarial assumptions | Assumed variations as at 31/12/2017 | Czech Republic: Influence on provision for jubilee bonuses 2017 | Czech Republic: Influence on retirement benefits 2017 |
|---|---|---|---|
| Demographic assumptions (+) | 0.5pp | (2 328) | (1 074) |
| *staff turnover rates, disability and early retirement* | *0.5pp* | *(2 328)* | *(1 074)* |
| Financial assumptions (+) | 0.5pp | (4 829) | (2 229) |
| *discount rate* | *0.5pp* | *(2 326)* | *(1 074)* |
| *level of future remuneration* | *0.5pp* | *(2 503)* | *(1 155)* |
| | | **(7 157)** | **(3 303)** |
| Demographic assumptions (-) | -0.5pp | 2 496 | 1 139 |
| *staff turnover rates, disability and early retirement* | *-0.5pp* | *2 496* | *1 139* |
| Financial assumptions (-) | -0.5pp | 4 826 | 2 228 |
| *discount rate* | *-0.5pp* | *2 502* | *1 155* |
| *level of future remuneration* | *-0.5pp* | *2 324* | *1 073* |
| | | **7 322** | **3 367** |

### 21.2.5. Employee benefits maturity and payments of liabilities analysis

#### 21.2.5.1. Maturity of employee benefits analysis

| | Provision for jubilee bonuses | | Retirement benefits | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Less than one year | 547 | 274 | 346 | 292 | 893 | 566 |
| Between one and three years | 555 | 442 | 155 | 174 | 710 | 616 |
| Between three and five years | 673 | 363 | 119 | 114 | 792 | 477 |
| Later than five years | 2 023 | 1 332 | 514 | 533 | 2 537 | 1 865 |
| | **3 798** | **2 411** | **1 134** | **1 113** | **4 932** | **3 524** |
| Weighted average duration of liability (in years) | | | | | 7 | 7 |

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### 21.2.5.2. Ageing of employee benefits payments analysis

| | Provision for jubilee bonuses | | Retirement benefits | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Less than one year | 562 | 283 | 368 | 310 | 930 | 593 |
| Between one and three years | 621 | 490 | 190 | 206 | 811 | 696 |
| Between three and five years | 834 | 453 | 188 | 172 | 1 022 | 625 |
| Later than five years | 5 210 | 3 167 | 1 612 | 1 533 | 6 822 | 4 700 |
| | **7 227** | **4 393** | **2 358** | **2 221** | **9 585** | **6 614** |

### 21.2.6. Total employee benefits expenses recognized in the statement of profit or loss and other comprehensive income

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **In profit and loss** | | |
| Current service costs | (283) | (207) |
| Interest expenses | (52) | (23) |
| Actuarial gains and losses arising from changes | (63) | 257 |
| *demographic assumptions* | *(207)* | *(44)* |
| *financial assumptions* | *121* | *151* |
| *other* | *23* | *150* |
| Past employment costs | (1 525) | - |
| Payments under program | 484 | 380 |
| | **(1 439)** | **407** |
| **In components of other comprehensive income** | | |
| Gains and losses arising from changes | 31 | 96 |
| *demographic assumptions* | *(12)* | *(38)* |
| *financial assumptions* | *33* | *70* |
| *other* | *10* | *64* |
| | **31** | **96** |
| | **(1 408)** | **503** |

Provisions for employee benefits recognized in profit or loss were allocated as follows:

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cost of sales | - | 407 |
| Administrative expenses | (1 439) | - |
| | **(1 439)** | **407** |

Based on current legislation, the Company is obliged to pay contributions to the national pension insurance. These costs are recognized as expenses on social security and health insurance. The Company does not have any other commitments in this respect. Additional information about the retirement benefits is in note 31.3.17.2.

### 21.3. Provision for $CO_2$ emission allowances

The provision for $CO_2$ emission allowances is created for estimated $CO_2$ emission allowances in the reporting period.

## 22. OTHER FINANCIAL LIABILITIES

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Cash pool | - | - | 507 820 | 563 726 | 507 820 | 563 726 |
| Other | 3 184 | 3 115 | - | - | 3 184 | 3 115 |
| | **3 184** | **3 115** | **507 820** | **563 726** | **511 004** | **566 841** |

Based on a loan agreement with the company UNIPETROL, a.s., the Company may utilize current unsecured loans in the form of overdrafts (cash pool) or loans. Interest is paid on the first working day after the close of the reporting period. The interest rates are based on appropriate inter-bank rates and the fair value of the loans approximated its carrying amount.

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## 23. TRADE AND OTHER LIABILITIES

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Trade liabilities | 832 799 | 610 771 |
| Investment liabilities | 11 220 | 41 627 |
| Other | 951 | 1 066 |
| **Financial liabilities** | **844 970** | **653 464** |
| Prepayments for deliveries | - | 553 |
| Payroll liabilities | 20 769 | 17 377 |
| Excise tax and fuel charge | 16 | 18 |
| Other taxation, duties, social security and other benefits | 14 856 | 13 718 |
| Accruals | 25 563 | 17 581 |
| holiday pay accrual | 5 537 | 12 686 |
| wages accrual | 12 175 | 4 895 |
| other | 7 851 | - |
| **Non-financial liabilities** | **61 204** | **49 247** |
| | **906 174** | **702 711** |

Management considers that the carrying amount of trade and other liabilities and accruals approximate their fair value. The Company does not record any past due liability.

## 24. LIABILITIES FROM CONTRACTS WITH CUSTOMERS

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Prepayments for deliveries | 1 397 | - |
| | **1 397** | **-** |

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# EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

## 25. FINANCIAL INSTRUMENTS

### 25.1. Financial instruments by category and class

**Financial assets**
**31/12/2018**

| Financial instruments by class | Note | Financial instruments by category: Financial assets measured at amortized cost | Financial instruments by category: Financial assets at fair value through other comprehensive income | Total |
|---|---|---|---|---|
| Unquoted shares | 12. | - | 879 | 879 |
| Trade receivables | 16. | 379 395 | - | 379 395 |
| Cash pool | 17. | 3 343 | - | 3 343 |
| Cash and cash equivalents | 18. | 19 582 | - | 19 582 |
| Other | 16. | 285 | - | 285 |
| | | **402 605** | **879** | **403 484** |

**31/12/2017**

| Financial instruments by class | Note | Financial instruments by category: Loans and receivables | Financial instruments by category: Financial assets available for sale | Total |
|---|---|---|---|---|
| Unquoted shares | 12. | - | 879 | 879 |
| Trade receivables | 16. | 369 472 | - | 369 472 |
| Cash pool | 17. | 7 981 | - | 7 981 |
| Cash and cash equivalents | 18. | 20 847 | - | 20 847 |
| Other | 16. | 273 | - | 273 |
| | | **398 573** | **879** | **399 452** |

**Financial liabilities**
**31/12/2018**

| Financial instruments by class | Note | Financial instruments by category: Financial liabilities measured at amortized cost | Total |
|---|---|---|---|
| Loans | 20. | 39 | 39 |
| Non-current borrowings | 20. | 174 | 174 |
| Current borrowings | 20. | 405 | 405 |
| Trade liabilities | 23. | 832 799 | 832 799 |
| Investment liabilities | 23. | 11 220 | 11 220 |
| Cash pool | 22. | 507 820 | 507 820 |
| Other | 22.,23. | 4 135 | 4 135 |
| | | **1 356 592** | **1 356 592** |

**31/12/2017**

| Financial instruments by class | Note | Financial instruments by category: Financial liabilities measured at amortized cost | Total |
|---|---|---|---|
| Trade liabilities | 23. | 610 771 | 610 771 |
| Investment liabilities | 23. | 41 627 | 41 627 |
| Cash pool | 22. | 563 726 | 563 726 |
| Other | 22.,23. | 4 181 | 4 181 |
| | | **1 220 305** | **1 220 305** |

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## 25.2. Income, costs, gain and loss in the separate statement of profit or loss and other comprehensive income

### 2018

| | Financial instruments by category | | |
|---|---|---|---|
| | Financial assets measured at amortized costs | Financial liabilities measured at amortized cost | Total |
| Interest income | 37 | - | 37 |
| Interest costs | - | (7 292) | (7 292) |
| Foreign exchange gain/(loss) | 2 903 | (687) | 2 216 |
| Reversal of loss due to impairment of financial instruments | 2 401 | - | 2 401 |
| Other | - | (1 053) | (1 053) |
| | **5 341** | **(9 032)** | **(3 691)** |
| **other, excluded from the scope of IFRS 7** | | | |
| Provisions discounting | | | (2 586) |
| | | | **(2 586)** |

### 2017

| | Financial instruments by category | | |
|---|---|---|---|
| | Loans and receivables | Financial liabilities measured at amortized cost | Total |
| Interest income | 388 | - | 388 |
| Interest costs | - | (2 861) | (2 861) |
| Foreign exchange gain/(loss) | (25 865) | 11 289 | (14 576) |
| Recognition/reversal of receivables impairment allowances recognized in: | | | |
| other operating income/(expenses) | 4 696 | - | 4 696 |
| Other | 41 | (756) | (715) |
| | **(20 740)** | **7 672** | **(13 068)** |
| **other, excluded from the scope of IFRS 7** | | | |
| Provisions discounting | | | (871) |
| | | | **(871)** |

## 25.3. Fair value measurement

| | Note | 31/12/2018 Fair value | 31/12/2018 Carrying amount | 31/12/2017 Fair value | 31/12/2017 Carrying amount |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Unquoted shares | 12. | 879 | 879 | 879 | 879 |
| Trade receivables | 16. | 379 395 | 379 395 | 369 472 | 369 472 |
| Cash pool | 17. | 3 343 | 3 343 | 7 981 | 7 981 |
| Cash and cash equivalents | 18. | 19 582 | 19 582 | 20 847 | 20 847 |
| Other | 16. | 285 | 285 | 273 | 273 |
| | | **403 484** | **403 484** | **399 452** | **399 452** |
| **Financial liabilities** | | | | | |
| Loans | 20. | 579 | 579 | - | - |
| Borrowings | 20. | 39 | 39 | - | - |
| Trade liabilities | 23. | 832 799 | 832 799 | 610 771 | 610 771 |
| Investment liabilities | 23. | 11 220 | 11 220 | 41 627 | 41 627 |
| Cash pool | 22. | 507 820 | 507 820 | 563 726 | 563 726 |
| Other | 22.,23. | 4 135 | 4 135 | 4 181 | 4 181 |
| | | **1 356 592** | **1 356 592** | **1 220 305** | **1 220 305** |

**Financial instruments for which fair value cannot be measured reliably**

As at 31 December 2018 and as at 31 December 2017, the Company held unquoted shares in entity amounting to CZK 879 thousand, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities nor comparable transactions of the same type of instruments. The above mentioned shares were recognized as other non-current financial assets and measured at acquisition cost less impairment allowances. As at 31 December 2018 there are no binding decisions relating to the means and dates of disposal of those assets.

**Fair value hierarchy**

The fair value of financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices from observable current market transactions and dealer quotes for similar instrument.

**Loans and receivables**

The management considers that the carrying amount of loans and receivables approximates their fair value.

**Finacial liabilities valued at amortized cost**

The management considers that the carrying amount of financial liabilities valued at amortized cost approximates their fair value.

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### 25.4. Risks identification

The Company's activities are exposed to many different types of risk. Risk management is mainly focused on the unpredictability of financial markets and aims to minimize any potential negative impacts on the Company's financial results.

### 25.4.1. Commodity risk

The Company is exposed to commodity price risk resulting from changes in raw material, mainly ethylene, ethylendichloride, cyclohexanone, ammonia and sulphur. Management addresses these risks by means of a commodity, supplier and client risk management. The risk of raw material unavailability is also secured by commercial Contingent business interruption insurance.

### 25.4.2. Currency risk

A currency risk arises most significantly from the exposure of trade receivables and liabilities denominated in foreign currencies. Foreign exchange risk regarding trade receivables and receivables is mostly covered by natural hedging of trade and receivables and liabilities denominated in the same currencies. Hedging instruments (forwards, currency swaps) also could be used, to cover significant foreign exchange risk exposure of trade receivables and liabilities not covered by natural hedging.

**Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2018**

| Financial instruments by class | PLN | EUR | USD | Total after translation to CZK |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade receivables | 1 104 | 12 732 | - | 334 125 |
| Cash and cash equivalents | 1 484 | 2 | - | 8 932 |
| | **2 588** | **12 734** | **-** | **343 057** |
| **Financial liabilities** | | | | |
| Trade liabilities | 13 | 6 732 | - | 173 262 |
| | **13** | **6 732** | **-** | **173 262** |

**Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2017**

| Financial instruments by class | PLN | EUR | USD | Total after translation to CZK |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade receivables | 1 376 | 12 106 | - | 317 588 |
| Cash and cash equivalents | 1 658 | 3 | - | 10 221 |
| | **3 034** | **12 109** | **-** | **327 809** |
| **Financial liabilities** | | | | |
| Trade liabilities | 1 | 4 757 | - | 121 488 |
| | **1** | **4 757** | **-** | **121 488** |

**Sensitivity analysis for currency changes risk**

The influence of potential changes in carrying amounts of financial instruments as at 31 December 2018 and as at 31 December 2017 arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency on profit before tax:

| | PLN/CZK | | EUR/CZK | | USD/CZK | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | | | **variation of exchange rates +15%** | | | | | |
| Influence on profit before tax | 2 310 | 2 782 | 23 161 | 28 166 | - | - | 25 471 | 30 948 |

At variation of currency rates by -15%, sensitivity analysis assumes the same value as in the table above only with the opposite sign.
Variations of currency rates described above were calculated based on the historical volatility of particular currency rates and analysts' forecasts.
Sensitivity of financial instruments for currency risk was calculated as the difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/(decreases) in currency rates. In the case of derivative instruments, the influence of currency rate variations on fair value was examined at a constant level of interest rates. The fair value of foreign currency forward contracts is determined based on the discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction price.

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### 25.4.3. Interest rate risk

The Company is exposed to the risk of volatility of cash flows arising from interest rate loans, bank loans and cash pool based on floating interest rates.

**Interest rate structure of financial instruments:**

| Financial instruments by class | PRIBOR 31/12/2018 | PRIBOR 31/12/2017 | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash pool | 3 343 | 7 981 | 3 343 | 7 981 |
| | **3 343** | **7 981** | **3 343** | **7 981** |
| **Financial liabilities** | | | | |
| Loans | 39 | - | 39 | - |
| Borrowings | 579 | - | 579 | - |
| Cash pool | 507 820 | 563 726 | 507 820 | 563 726 |
| | **508 438** | **563 726** | **508 438** | **563 726** |

**Sensitivity analysis for interest rate risk**

The influence of financial instruments on profit before tax due to changes in significant interest rates:

| Interest rate | Assumed variation 31/12/2018 | Assumed variation 31/12/2017 | Influence on profit before tax 2018 | Influence on profit before tax 2017 |
|---|---|---|---|---|
| PRIBOR | +0.5 pp | +0.5 pp | (2 525) | (2 779) |
| | | | **(2 525)** | **(2 779)** |

The above interest rates variations were calculated based on observations of interest rates fluctuations in the current and prior year as well as on the basis of available forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2018 and as at 31 December 2017. The influence of interest rates changes was presented on annual basis.

### 25.4.4. Liquidity and credit risk

**Liquidity risk**

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

**Maturity analysis of financial liabilities**

| 31/12/2018 | Note | Up to 1 year | From 1 to 3 years | Total | Carrying amount |
|---|---|---|---|---|---|
| Loans-undiscounted value | 20. | 39 | - | 39 | 39 |
| Borrowings-undiscounted value | 20. | 405 | 174 | 579 | 579 |
| Cash pool - undiscounted value | 22. | 507 820 | - | 507 820 | 507 820 |
| Trade liabilities | 23. | 832 799 | - | 832 799 | 832 799 |
| Investment liabilities | 23. | 11 220 | - | 11 220 | 11 220 |
| Other | 22.,23. | 951 | 3 184 | 4 135 | 4 135 |
| | | **1 353 234** | **3 358** | **1 356 592** | **1 356 592** |

| 31/12/2017 | Note | Up to 1 year | From 1 to 3 years | Total | Carrying amount |
|---|---|---|---|---|---|
| Cash pool - undiscounted value | 22. | 563 726 | - | 563 726 | 563 726 |
| Trade liabilities | 23. | 610 771 | - | 610 771 | 610 771 |
| Investment liabilities | 23. | 41 627 | - | 41 627 | 41 627 |
| Other | 22.,23. | 1 066 | 3 115 | 4 181 | 4 181 |
| | | **1 217 190** | **3 115** | **1 220 305** | **1 220 305** |

Ultimate responsibility for liquidity risk management rests with the Company's statutory representatives, wo have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate liquid funds, borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**Credit risk**

The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of impairment losses, estimated by the Company's management based on prior experience and their assessment of the credit status of its customers.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers.

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

### 25.4.4. Liquidity and credit risk (continued)

Credit exposure is controlled by counterparty limits that are reviewed and approved by the management. Before accepting any new customer, the Company uses its own or an external credit scoring system to assess a potential customer's credit quality and defines credit limits by customer. As at 31 December 2018, none of the customers represented more than 18% of the total balance of the trade receivables.
Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and, where appropriate, credit guarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.
The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.
Based on the analysis of receivables the counterparties were divided into two groups:
- Group I – counterparties with a good or very good history of cooperation in the current year,
- Group II – other counterparties.

**Division of not past due receivables**

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Group I | 331 330 | 355 454 |
| Group II | - | - |
| | **331 330** | **355 454** |

**Ageing analysis of receivables past due, but not impaired**

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Up to 1 month | 47 972 | 9 183 |
| From 1 to 3 months | 129 | 66 |
| From 6 to 12 months | 4 | 2 |
| Above 1 year | 245 | 5 040 |
| | **48 350** | **14 291** |

**Change in impairment allowances of trade and other receivables**

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| At the beginning of the year | 46 818 | 59 292 |
| Recognition | 455 | 31 178 |
| Reversal | (2 856) | (35 874) |
| Usage | (9 043) | - |
| Impact of IFRS 9 adoption | 4 257 | - |
| Foreign exchange differences | 1 660 | (7 778) |
| | **41 291** | **46 818** |

Company management believes that the risk of impaired financial assets is reflected by recognition of an impairment.

The Company sets impairment charges based on analysis of customers' creditworthiness and ageing of receivables. In determining the recoverability of trade receivable, the Company considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management considers that there is no further credit risk allowance required in excess of the allowance for impairment charges.
Increases and reversals of impairment allowances in respect of the principal amount of trade and other receivables are included in other operating expense or income and in respect of interest for delayed payments in finance costs or income.

### 25.4.5. Emission allowances risk

The Company monitors the emission allowances granted to the Company under the National Allocation Plan and $CO_2$ emissions planned. The Company might enter into transactions on the emission allowances market in order to cover shortages or utilize any excess of emission allowances over the required amount.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## OTHER EXPLANATORY NOTES

### 26. LEASE

#### 26.1. The Company as a lessee

*Operating lease*

As at December 2018 the Company had future minimum lease payments under non-cancellable operating leases amounted to CZK 6 144 thousand (less than one year) and CZK 19 209 thousand (later than one year).

Payments recognized as an expense were as follows:

| | 2018 | 2017 |
|---|---|---|
| Non-cancellable operating lease | 110 | 34 239 |

#### 26.2. The Company as a lessor

Operating leases relate to the investment property owned by the Company with lease terms for indefinite period. Rental income earned by the Company from its investment property and direct operating expenses arising on the investment property for the year are set out in note 10.

### 27. INVESTMENT EXPENDITURES INCURRED AND FUTURE COMMITMENTS RESULTING FROM SIGNED INVESTMENT CONTRACTS

The total value of investment expenditures including borrowing costs amounted to CZK 382 233 thousand as at 31 December 2018 and CZK 340 899 thousand as at 31 December 2017, including environmental expenditures in amount of CZK 170 413 thousand and CZK 5 065 thousand, respectively.

As at 31 December 2018 the value of future commitments resulting from contracts signed to this date amounted to CZK 246 053 thousand (31 December 2017: CZK 112 482 thousand).

### 28. GUARANTEES AND SECURITIES

**Past environmental liabilities**

The responsibility for environmental impacts occurring before the establishment of the joint-stock company was originally assumed by the state through the National Property Fund and later on after the cancellation of the National Property Fund, by the Ministry of Finance. The state issued a guarantee totalling CZK 8 159 000 thousand for the performance of redevelopment work. The guarantee is meant to cover expenses associated with the removal of pollution arising before the Company's privatisation (i.e. before 1 May 1992). The guarantee relates to environmenat projects explicitly stated in the appropriate contract. Funds amounting to CZK 5 598 937 thousand were invested within the guarantee as at 31 December 2018 (31 December 2017: CZK 5 596 611 thousand).

The Company's management did not identify any environmental impacts that would not be covered by the above guarantees.

UNIPETROL RPA, s.r.o. in 2018 issued a guarantee for the Company in favour of DOW Europe GmbH to ensure the payment terms in the amount of CZK 154 350 thousand and in favour of VERSALIS International SA to ensure the payment terms in the amount of CZK 154 350 thousand.

### 29. RELATED PARTY TRANSACTIONS

#### 29.1. Material transactions concluded by the Company with related parties

In 2018 and in 2017 there were no transactions concluded by the Company with related parties on other than arm's length terms.

#### 29.2. Transactions with key management personnel

In 2018 and in 2017 the Company did not grant to key management personnel and their relatives any advances, borrowings, loans, guarantees and commitments or other agreements obliging them to render services to the Company and related parties. In 2018 and in 2017 there were no significant transactions concluded with members of the Board of Directors, the Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

#### 29.3. Transactions with related parties concluded by key management personnel

In 2018 and in 2017 members of the key management personnel submitted statements that they have not concluded any transaction with related parties.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

### 29.4. Transactions and balances of settlements of the Company with related parties

The ultimate controlling party is Polski Koncern Naftowy ORLEN S.A., which held 100% (62.99%) of shares in the parent company UNIPETROL, a.s. in 2018 (2017).

| 2018 | UNIPETROL, a.s. | Entities under control or significant influence of PKN Orlen | Entities under control or significant influence of UNIPETROL, a.s. |
|---|---|---|---|
| Sales | - | 292 323 | 560 818 |
| Purchases | 778 | 340 016 | 1 159 511 |
| Finance costs | 9 085 | - | 755 |

| 31/12/2018 | UNIPETROL, a.s. | Entities under control or significant influence of PKN Orlen | Entities under control or significant influence of UNIPETROL, a.s. |
|---|---|---|---|
| Other financial assets | 3 343 | - | - |
| Trade and other receivables | - | 4 546 | 26 057 |
| Trade and other liabilities, including loans | 778 | 25 618 | 362 976 |
| Other financial liabilities | 507 820 | - | - |

| 2017 | UNIPETROL, a.s. | Entities under control or significant influence of PKN Orlen | Entities under control or significant influence of UNIPETROL, a.s. |
|---|---|---|---|
| Sales | - | 220 049 | 383 834 |
| Purchases | 1 943 | 236 349 | 1 570 680 |
| Finance costs | 4 020 | 21 | - |

| 31/12/2017 | UNIPETROL, a.s. | Entities under control or significant influence of PKN Orlen | Entities under control or significant influence of UNIPETROL, a.s. |
|---|---|---|---|
| Other financial assets | 7 982 | - | - |
| Trade and other receivables | - | 16 010 | 12 440 |
| Trade and other liabilities, including loans | 393 | 55 257 | 191 944 |
| Other financial liabilities | 563 725 | - | - |

## 30. REMUNERATION PAID AND DUE OR POTENTIALLY DUE TO THE BOARD OF DIRECTORS, THE SUPERVISORY BOARD AND OTHER MEMBERS OF KEY EXECUTIVE PERSONNEL

The Board of Direcors's, the Supervisory Board's, statutory representatives and other key executive personnel's remuneration includes short-term employee benefits, retirement benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

### 30.1. Key management personnel and statutory bodies' members' compensation

| | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | (20 278) | (26 068) |
| Termination benefits | (1 246) | - |
| | **(21 524)** | **(26 068)** |

Further detailed information regarding remuneration of key management personnel is included in note 4.3.

### 30.2. Bonus system for key executive personnel

In 2018 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The regulations applicable to the Management Board (members of Board of Directors and Executives), directors directly reporting to the Management Boards of entities and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Company. The goals are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to the achieved results generated by the Company.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## 31. ACCOUNTING PRINCIPLES

### 31.1. Impact of IFRS amendments and interpretations on separate financial statements

#### 31.1.1. Binding amendments to IFRSs and interpretations

| Standards and Interpretations adopted by the EU | Possible impact on financial statements |
|---|---|
| IFRS 9 Financial Instruments | no impact* |
| IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15 | no impact** |
| Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions | Amendments to the existing standards have not led to any material changes in the current financial statements |
| Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | |
| Amendments to IFRS 15 Revenue from Contracts with Customers: Clarifications to IFRS 15 Revenue from Contracts with Customers | |
| Amendments to IAS 40 Transfers of Investment Property | |
| Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)": Amendments resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording | |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | |

***IFRS 9 Financial instruments**
Application of the standard had no significant effect on the financial statements of the Company. The effect of the expected Loss Model to evaluate the credit risk of financial instruments showed similar value of impairment loss relative to the previously applied methodology. Due to the nature of the Company's activities and the nature of the financial assets held, the valuation of financial assets has not been changed under the influence of the application of IFRS 9.

****IFRS 15 Revenue from Contracts with Customers**
Initial application of the Standard had no material impact on timing and amount of revenue recognized by the Company in its financial statements.

#### 31.1.2. IFRSs, amendments and interpretations to IFRSs endorsed by the European Union, not yet effective

| Standards and Interpretations adopted by the EU | Possible impact on financial statements |
|---|---|
| IFRS 16 Leases | impact*** |
| Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation | no impact expected |
| IFRIC 23 Uncertainty over Income Tax Treatments | no impact expected |

The Company intends to adopt new standards IFRSs listed above that are published by the International Accounting Standards Board, but not effective as at the date of publication of these financial statements, in accordance with their effective date.

*****IFRS 16 Leases**
In accordance with the requirements of IFRS, from 1 January 2019, the Company applies for the first time IFRS 16 Leases. Consequently, the Company will change the accounting policy on recognition of lease agreements. Accounting policy changes will be made in accordance with the transitional provisions contained in IFRS 16.
The Company will implement IFRS 16 using the modified retrospective approach, therefore, comparative information for the year 2018 will not be converted.
The Company has estimated the impact of IFRS 16 and found that on 1 January 2019 will recognize the Right of use assets and lease liability at an equal amount of CZK 23 632 thousand, what will not cause the difference in value to be included in retained earnings position.
The incremental borrowing interest rate of the lessee applied to the lease liabilities recognized in the statement of financial position as at 1 January 2019 amounted to 2.78% p.a.

#### 31.1.3. Standards, amendments and interpretations adopted by International Accounting Standards Board, waiting for approval of the European Union

| Standards and Interpretations waiting for approval of the EU | Possible impact on financial statements |
|---|---|
| IFRS 14 Regulatory Deferral Accounts | no impact expected |
| IFRS 17 Insurance Contracts | no impact expected |
| Amendment to IFRS 3: Business combinations | no impact expected |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS - 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments | no impact expected |
| Amendments to IAS 1 Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors: Definition of Material | no impact expected |
| Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement | no impact expected |
| Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures | no impact expected |
| Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording | no impact expected |
| Amendments to references to the conceptual framework in IFRS Standards | no impact expected |

### 31.2. Functional currency and presentation currency of financial statements

These separate financial statements are presented in Czech crowns (CZK), which is the Company's presentation and functional currency. All financial information presented in CZK has been rounded to the nearest thousand.

### 31.3. Applied accounting policies

#### 31.3.1. Transactions in foreign currency

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
At the end of the reporting period:
- foreign currency monetary items including units of currency held by the Company as well as receivables and liabilities due in defined or definable units of currency are translated using the closing rate, i.e. spot exchange rate as at the end of the reporting period,
- non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition as finance income or expense in the period in which they arise, except for monetary items which hedge the currency risk are accounted for in accordance with cash flow hedge accounting principles.

#### 31.3.2. Revenues

The Company applies the principles of IFRS 15 in a five-step model in relation to the portfolio of contracts (or performance obligations) with similar characteristics, if the entity reasonably expects that the impact of the following principles on the financial statements will not significantly differ from the application of the following principles to individual contracts (or performance obligations).
*Requirements to identify a contract with a customer*
A contract with a customer meets its definition when all of the following criteria are met: the parties of the contract have approved the contract and are committed to perform their obligations; the Company can identify each party's rights regarding goods or services to be transferred; the Company can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
*Identification of performance obligations*
At contract inception the Company assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or groups of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.
*Determination of the transaction price*
The Company considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes, fuel charges, excise taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.
To estimate variable consideration, the Company decided to apply the most probable value method for contracts with one value threshold and the expected value method for contracts with more value thresholds from which a rebate is granted to the customer.
*Allocating the transaction price to individual performance obligations*
The Company allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.
*Recognition of revenue when performance obligations are satisfied*
The Company recognises revenue when (or as) the Company satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenues are recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.
The Company transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenues over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits from performance as the Company performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Company is not created, and the Company has an enforceable right to payment for performance completed to date.

#### 31.3.3. Costs

Costs (relating to operating activity) include costs that relate to core activities, i.e. activities for which the Company was founded, costs are recurring and are not of incidental character.
Cost of sales comprises costs of finished goods, merchandise and raw materials sold and adjustments related to inventories written down to net realizable value.
Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.
Administrative expenses include expenses relating to management and administration of the Company as a whole.

### 31.3.4. Other operating income and expenses

Other operating income includes, in particular income from liquidation and sale of non-financial non-current assets, surplus assets, return of court fees, penalties earned, excess of grants received to revenues over the value of costs, assets received free of charge, reversal of receivable impairment allowances and some provisions, compensations earned and revaluation gains, gain on the sale of investment property.
Other operating expenses include in particular loss on liquidation and sale of non-financial non-current assets, assets deficit, court fees, contractual penalties and fines, penalties for non-compliance with environmental protection regulations, cash and tangible assets transferred free of charge, impairment allowances (except those that are recognized as financial costs and cost of sales), compensation paid, write-off of construction in progress which have not produced the desired economic effect, cost of recovery of receivables and revaluation losses, loss on sale of investment property.

### 31.3.5. Finance income and costs

Finance income includes, in particular, income from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and net foreign exchange gains.
Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.
Finance costs include, in particular, loss on sale of shares and securities and costs associated with such sale, impairment losses relating to financial assets such as shares, securities and interest, net foreign exchange losses, interest on own bonds and other securities issued, interest on finance lease, commissions on bank loans, borrowings and guarantees.

### 31.3.6. Tax expense

Income tax expenses include current tax and deferred tax.
Current tax expense is determined in accordance with the relevant tax law based on the taxable profit for a given period and is recognized as a liability, in the amount which has not been paid or receivable, if the amount of the current and prior periods income tax paid exceeds the amount due.
Deferred tax assets and liabilities are accounted for as non-current are not discounted and are offset in the statement of financial position, if there is a legally enforceable right to offset the recognized amounts.
The transactions settled directly in equity are recognized in equity.

### 31.3.7. Property, plant and equipment

Property, plant and equipment are assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period (one year or the operating cycle, if longer than one year).
Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).
Property, plant and equipment are initially stated at cost, including grants related to assets (IAS20). The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use.
The cost of an item of property, plant and equipment also includes estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment and capitalized borrowing costs.
Property, plant and equipment are stated in the statement of financial position prepared at the end of the reporting period at the carrying amount, including grants related to assets. The carrying amount is the amount at which an asset is initially recognised (cost) after deducting any accumulated depreciation and accumulated impairment losses.
Depreciation of an item of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated useful life, considering the residual value.
Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their useful lives.
The following standard useful lives are used for property, plant and equipment:

| | |
|---|---|
| Buildings and constructions | 10-40 years |
| Machinery and equipment | 4-35 years |
| Vehicles and other | 2-20 years |

The straight-line method of depreciation is used. Residual values, estimated useful lives and depreciation methods are reassessed annually. The adjustments to depreciation expense are accounted for in subsequent period (prospectively).
The costs of significant repairs and regular maintenance programs are recognized as property, plant and equipment and depreciated in accordance with their useful lives. The costs of current maintenance of property, plant and equipment are recognized as an expense when they are incurred.
Property, plant and equipment are tested for impairment, when there are indicators or events that may imply that the carrying amount of those assets may not be recoverable.

### 31.3.8. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both.
Investment property shall be recognized as an asset when, and only when:
- it is probable that the future economic benefits that are associated with the investment property will flow to the Company, and
- the cost of the investment property can be measured reliably.

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. For internally constructed investment property the cost is set at the date of construction completion when the asset is brought into use, in accordance with rules set for property, plant and equipment.
After initial recognition investment property shall be measured at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the statement of profit or loss and other comprehensive income in the period which they arise. The Company determines fair value without any deduction for transaction costs it may incur on sale or other disposal.
If the Coompany determines that the fair value of an investment property is not reliably determinable on a continuing basis, the Company shall measure that investment property at cost in accordance with rules set for property, plant and equipment.
An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected.

### 31.3.9. Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance. An asset is identifiable if it is either separable, i.e. is capable of being separated or divided from the Company and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Company intends to do so, or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Company or from other rights and obligations.
Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Company and the cost of the asset can be measured reliably.
An intangible asset arising from development (or from development phase of an internal project) shall be recognised if, and only if, the Company can demonstrate all of the following: the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it, its ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, among other things, the Company can demonstrate the existence of a market for the output of the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, its ability to measure reliably the expenditure attributable to the intangible asset during its development.
If the definition criteria of an intangible asset are not met, the cost incurred to acquire or self develop an asset are recognised in profit or loss when incurred. An intangible asset that is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.
An intangible asset shall be measured initially at cost, including grants related to assets (IAS20). An intangible asset that is acquired in a business combination, is recognised initially at fair value.
After initial recognition, an intangible asset shall be presented in the financial statements at its net carrying amount, including grants related to assets.
Intangible assets are measured at acquisition or at construction cost less amortization and impairment allowances. Intangible assets with a finite useful life are amortized when they become available for use that is when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management over their estimated useful life. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life shall be assumed to be zero.
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.
The following standard useful lives are used for intangible assets:

| | |
|---|---|
| Acquired licenses, patents, and similar intangible assets | 2-15 years |
| Acquired computer software | 2-10 years |

The straight-line method of depreciation is used. Appropriateness of the applied amortization periods and rates is periodically reviewed, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods. Intangible assets with an indefinite useful life are not amortized. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortized shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

### 31.3.9.1. Carbon dioxide emission allowances

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.e. carbon dioxide ($CO_2$).
In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in an emissions trading system. All mentioned entities are allowed to emit $CO_2$ or they are partially granted free of charge in a specified quantity under the derogations provided in article 10a and 10c of the EU Directive 2009/29/EC and are obliged to redeem them in a number corresponding to the size of emission realized in a given year.
$CO_2$ emission rights are initially recognised as intangible assets, which are not amortized (assuming the high residual value), but tested for impairment.
Granted emission allowances should be presented separately as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.
For the estimated $CO_2$ emission during the reporting period, a provision should be created (taxes and charges).
Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate.
Consumption of allowances is recognised using FIFO method (First In, First Out) within the individual types of rights (EUA - European Union Allowances, ERU – Emission Reductions Units, CER – Certified Emission Reduction).

### 31.3.10. Impairment of property, plant and equipment and intangible assets

At the end of the reporting period the Company assesses whether there are any indicators that an asset or cash generating unit (CGU) may be impaired. If any such indicator exists, the entity shall estimate the recoverable amount of the asset (CGU).
The recoverable amount of other assets is the higher of the fair value less costs to sell and value in use.
Fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs to sell.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
Assets that do not generate the independent cash flows are grouped at the lowest level at which cash flows, independent from cash flows from other assets, are generated (cash generating units).
To the cash generating unit the following assets are allocated:
- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated with a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

If there are external or internal indicators that the carrying amount of an asset as at the end of the reporting period may not be recoverable, the impairment tests are carried out. The tests are also carried out annually for intangible assets with indefinite useful life and for goodwill.
When the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss.
The impairment loss shall be allocated to the carrying amount of the assets of the unit in the following order:
- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

At the end of each reporting period an assessment shall be made whether an impairment loss recognized in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.
A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard.

### 31.3.11. Inventories

Inventories are assets held for sale in the ordinary course of business, or in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Inventories comprise products, semi-finished products and work in progress, merchandise and materials.
Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period. Costs of production also include a systematic allocation of fixed and variable production overheads estimated for normal production level.
Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost or net realisable value, after deducting any impairment losses.
Disposals of finished goods, semi-finished products and work in progress are determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.
Merchandise and materials are measured initially at acquisition cost.
As at the end of the reporting period merchandise and raw materials are measured at the lower of cost or net realizable value, considering any impairment allowances. Disposals of merchandise and raw materials are determined based on the weighted average acquisition cost or production cost formula. Impairment tests for specific items of inventories are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.

### 31.3.12. Inventories (continued)

Raw materials held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.
Expenses and revenues connected with inventory write-offs or establishment and release of allowances are included in cost of sales.

### 31.3.12. Trade and other receivables

Trade and other receivables are recognized initially at a fair value increased by transaction costs and subsequently at amortized cost using the effective interest method less impairment allowances.
Impairment allowances of receivables are calculated based on the expected credit loss model.
Recognition and reversal of impairment losses of receivables are recognized in other operating activity in relation to the principal amount and in financial activities in relation to interest for delayed payments.

### 31.3.13. Cash and cash equivalents

Cash comprises cash on hand and in a bank accounts. Cash equivalents are short-term, highly liquid investments (of original maturity up to three months) that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

### 31.3.14. Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale.
Non-current assets are classified as held for sale when the following criteria are simultaneously met:
- the sales were declared by the appropriate level of management;
- the assets are available for an immediate sale in their present condition;
- an active program to locate a buyer has been initiated;
- the sale transaction is highly probable and can be settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

The classification of assets into this category is made in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, an entity shall not classify a non-current asset as held for sale in those financial statements when issued.
Immediately, before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets (excluding financial assets) are measured at the lower of their carrying amount or fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Company's accounting policies. While a non-current asset is classified as held for sale it shall not be depreciated (or amortized). A gain is recognized for any subsequent increase in fair value less costs to sell an asset, but not in excess of the cumulative impairment loss that has been previously recognized.
A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

The Company shall re-present the disclosures presented with refer to discontinued operation for prior periods presented in the separate financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.
If the Company ceases to classify a discontinued operations, the results of operations previously presented in discontinued operations shall be reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

### 31.3.15. Equity

Equity is recorded in the accounting records by type, in accordance with statutory regulations and the parent company's articles of association. Equity includes:

#### 31.3.15.1. Share capital

The share capital is paid by shareholders and is stated at nominal value in accordance with the parent company's articles of association and the entry in the Commercial Register.

#### 31.3.15.2. Revaluation reserve

The revaluation reserve includes revaluation of items, which, according to the Company's regulations, relates to the revaluation reserve, including particularly:
- change in the fair value of the available-for-sale financial assets;
- differences between the net book value and the fair value of a investment property at the date of reclassification from the property occupied by the Company to a investment property.

#### 31.3.15.3. Retained earnings

Retained earnings include:
- the amounts arising from profit distribution/loss cover,
- the undistributed result from prior periods,
- the current reporting period profit/loss,
- the corrections (profit/loss) of prior period errors,
- changes in accounting principles,
- other reserve capital as additional payments to equity,
- actuarial gains and losses from retirement benefits.

### 31.3.16. Trade and other liabilities

Liabilities, including trade liabilities, are initially stated at fair value, increased by, in the case of financial liability not qualified as those measured at fair value through profit or loss, transaction cost and subsequently, at amortized cost using the effective interest rate method.
Accruals are liabilities due for goods received or services provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.
Although it is sometimes necessary to estimate the amount or timing of accruals, the related uncertainty is generally much lower than it is for provisions.

### 31.3.17. Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Comapny has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured reliably. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.
Provisions are not recognized for future operating losses.

#### 31.3.17.1. Environmental provision

The Company creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. The environmental provision for reclamation is periodically reviewed on the basis of expert assessment.

#### 31.3.17.2. Jubilee bonuses and retirement benefits

Under the Company's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. Jubilee bonuses are paid to employees after an elapse of a defined number of years in service. Retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service.
The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as retirement defined benefit plans.
The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.
The present value of those liabilities is estimated at the end of each reporting period by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering the demographic and financial assumptions including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year. Actuarial gains and losses from:
- post employment benefits are recognized in components of other comprehensive income,
- other employment benefits, including jubilee bonuses, are recognized in the statement of profit and loss.

#### 31.3.17.3. Shield programs

Shield programs provision (restructuring provision) is created when the Company initiated a restructuring plan or announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will be carried out. A restructuring provision shall include only the direct expenditures arising from the restructuring, i.e. connected with the termination of employment (paid leave payments and compensations), termination of lease contracts, dismantling of assets.

#### 31.3.17.4. $CO_2$ emissions costs

The Company creates a provision for the estimated $CO_2$ emissions during the reporting period in operating activity costs (taxes and charges).

#### 31.3.17.5. Other provisions

Other provisions include mainly provisions for legal proceedings and are recognized after consideration of all available information, including opinions of independent experts. If on the basis of such information it is more likely than not that a present obligation exists at the end of the reporting period, the Company recognizes a provision (if the recognition criteria are met).
If it is more probable that no present obligation exists at the end of the reporting period, the Company discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

### 31.3.18. Government grants

Government grants are transfers of resources to the Company by the government, government agencies and similar bodies whether local, national or international, in return for past or future compliance with certain conditions relating to the activities of the entity.
Government grants are recognized in the statement of financial position as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it.
Grants related to costs are presented as compensation to the given cost in the period they are incurred. Surplus of the received grant over the value of the given cost is presented as other operating income.
If the government grant relates to assets, it is presented net with the related asset and is recognized in the statement of profit or loss on a systematic basis over the useful life of the related asset through decreased depreciation charges. The treatment regarding Carbon dioxide emission allowances granted is described in note 31.3.9.1.

### 31.3.19. Statement of cash flows

The separate statement of cash flows is prepared using the indirect method.
Cash and cash equivalents presented in the separate statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Company's cash management.
Dividends received are presented in cash flows from investing activities.
Dividends paid are presented in cash flows from financing activities.
Interest received from finance leases, loans granted, short-term securities and cash pooling system are presented in cash flows from investing activities. Other interests received are presented in cash flows from operating activities.
Interest paid and provisions on bank loans and borrowings received, cash pool facility, debt securities issued and finance leases are presented in cash flows from financing activities. Other interests paid are presented in cash flows from operating activities.

### 31.3.20. Financial instruments

#### 31.3.20.1. Measurement of financial assets and liabilities

At initial recognition, the Company measures financial assets and liabilities at their fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
At the end of the reporting period the Company measures loans and receivables including trade receivables at amortized cost using the effective interest rate method. The effective interest is the rate which discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and for shorter period in justified situations, up to the net book value of financial asset or liability.
At the end of the reporting period, the Company measures its financial liabilities at amortized cost using the effective interest rate method.

#### 31.3.20.2. Transfers

In the Company, there were no particular circumstances for the reclassification of financial instruments measured at fair value through profit or loss.

### 31.3.21. Fair value management

The Company classifies financial assets into one of the following categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Company classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.
The Company as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.
At the moment of initial recognition, the Company classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.

### 31.3.21. Fair value management (continued)

The Company classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.
The Company classifies financial liabilities into one of the following categories:
- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Company as liabilities measured at amortized cost classifies trade liabilities, loans, borrowings and bonds. Liabilities on derivatives not designated for hedge accounting are classified by the Company as measured at fair value through profit or loss.
The Company classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows and fair value.
*Measurement of financial assets at amortized cost*
The Company applies the effective interest rate method to measure financial assets at amortized cost.
Trade receivables after initial recognition are measured at amortized cost using the effective interest rate method, including impairment allowances, while trade receivables with a maturity of less than 12 months from the date of recognition (i.e. not including the financing component) and not appointed to factoring, are not discounted and are measured at nominal value.
*Measurement of financial assets at fair value through other comprehensive income*
Gains and losses on a financial asset constituting an equity instrument for which was applied the option of fair value through other comprehensive income is recognized in other comprehensive income, except for revenues from received dividends.
*Measurement of financial assets at fair value through profit or loss*
Gains or losses on the measurement of a financial asset that is classified as measured at fair value through profit or loss are recognized in profit or loss during the period in which they were recognized. Gains or losses from the valuation of items measured at fair value through profit or loss also include interest and dividend income.
*Measurement of hedging financial instruments*
Hedging financial instruments are measured in accordance with the principles of hedge accounting.

### 31.3.22. Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
Assets used under the operating lease, that is under the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessor. Determining whether the transfer or risks and rewards exists depends on the assessment of the essence of the economic substance of the transaction.

### 31.3.23. Contingent assets and liabilities

Contingent liabilities are defined as possible obligations that arise from past events and which are dependent on the occurrence or non-occurrence of some uncertain future events not wholly within the control of the Company or present obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the statement of financial position. However, the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote. Contingent liabilities acquired as the result of a business combination are recognized as provisions in the statement of financial position.
Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.
Contingent assets are not recognized in the statement of financial position as it may lead to recognition of the income, which will never be realized; however, the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable the Company discloses respective information on the contingent asset in the additional information to financial statements and if practicable, estimates the influence on financial results, according to the accounting principles for valuation of provisions.
Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it becomes virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

### 31.3.24. Events after the reporting period

Subsequent events after the reporting date are those events, favorable and unfavorable that occur between the end of the reporting period and date when the financial statements are authorized for issue. Two types of subsequent events can be identified:
- those, that provide evidence of conditions that existed as at the end of the reporting period (events after the reporting period requiring adjustments) and
- those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments).

## 32. APPLICATION OF PROFESSIONAL JUDGEMENT AND ASSUMPTION

The preparation of separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, equity, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In the matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 8. Tax credit/(expense), 9. Property, plant and equipment, 10. Investment property, 11. Intangible assets, 14. Impairment of property, plant, equipment and intangible assets, 15.1. Changes in impairment allowances of inventories to net realizable value and 25. Financial instruments.

The accounting policies described above have been applied consistently to all periods presented in these separate financial statements.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in thousands of CZK)

## 33. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

The following table shows subsidiaries and joint operations forming the consolidated group of UNIPETROL, a.s., and the parent company's interest in the capital of subsidiaries and joint operations held either directly by the parent company or indirectly by the consolidated subsidiaries and allocation of subsidiaries into the Operating segments (as of 31 December 2018).

| Name and place of business | Ownership interest of the parent company in share capital | Ownership interest in share capital through subsidiaries | Operating segment | Website |
|---|---|---|---|---|
| **Parent company** | | | | |
| UNIPETROL, a.s.<br>Milevská 2095/5, 140 00 Praha 4, Czech Republic | | | Corporate Functions | www.unipetrol.cz |
| **Subsidiaries consolidated in full method** | | | | |
| HC VERVA Litvínov, a.s.<br>S.K. Neumanna 1598, Ltvínov Czech Republic | -- | 70.95% | Corporate Functions | www.hokej-litvinov.cz |
| Nadace Unipetrol<br>Záluží 1, 436 01 Litvínov, Czech Republic | -- | 100.00% | Corporate Functions | www.nadaceunipetrol.cz |
| PARAMO, a.s.<br>Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic | 100.00% | -- | Downstream | www.paramo.cz |
| PETROTRANS, s.r.o.<br>Střelničná 2221, 182 00 Praha 8, Czech Republic | 0.63% | 99.37% | Downstream | www.petrotrans.cz |
| SPOLANA s.r.o.<br>ul. Práce 657, 277 11 Neratovice, Czech Republic | -- | 100.00% | Downstream | www.spolana.cz |
| UNIPETROL Deutschland GmbH<br>Paul Ehrlich Str. 1/B, 63225 Langen/Hessen, Germany | 0.10% | 99.90% | Downstream | www.unipetrol.de |
| UNIPETROL DOPRAVA, s.r.o.<br>Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic | 0.12% | 99.88% | Downstream | www.unipetroldoprava.cz |
| UNIPETROL RPA, s.r.o.<br>Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic | 100.00% | -- | Downstream<br>Corporate Functions<br>Retail | www.unipetrolrpa.cz |
| UNIPETROL RPA Hungary Kft.<br>2040 Budaörs, Puskás Tivadar utca 12, Hungary | -- | 100.00% | Downstream | |
| UNIPETROL SLOVENSKO s.r.o.<br>Jašíkova 2, Ružinov, 821 03 Bratislava, Slovak Republic | 13.04% | 86.96% | Downstream | www.unipetrol.sk |
| Unipetrol výzkumně vzdělávací centrum, a.s.<br>Revoluční 84/č.p. 1521,Ústí nad Labem, Czech Republic | 100.00% | -- | Corporate functions | www.vuanch.cz |
| **Joint operations consolidated based on shares in assets and liabilities** | | | | |
| Butadien Kralupy a.s.<br>O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic | 51.00% | -- | Downstream | www.butadien.cz |

The Group has a 70.95% interest in HC VERVA LITVÍNOV, a.s., the remaining non-controlling interest in this company is owned by municipality of Litvínov.

## 34. EVENTS AFTER THE REPORTING PERIOD

The Company's management is not aware of any other events that have occurred since the end of the reporting period that would have any material impact on the financial statements as at 31 December 2018.
As at 30 December 2018, the sole shareholder recalled Mr. Martin Komůrka from the office and elected Mr. Konrad Marek Szykula as statutory representative with the effect from 1 January 2019.

## 35. STATEMENT OF THE COMPANY'S SHAREHOLDER

UNIPETROL RPA, s.r.o., as the sole shareholder of the Company confirmed its continuing interest in successful operation of the Company and declared that it will, within the limits allowed under applicable laws, use its influence on the Company's management and exercise its rights as a sole shareholder of the Company in such a way that the Company would meet its obligations towards third parties covering at least the period of 12 months from the date of the Company's 2018 statutory financial statements.
UNIPETROL RPA, s.r.o. is ready to continue to provide loan financing to the Company at least for the period of 12 months form the date of the Company's 2018 statutory financial statements issuance.
Based on these facts, the financial statements have been prepared on a going concern basis.

## 36. STATEMENTS OF THE MANAGEMENT BOARD AND APPROVAL OF THE FINANCIAL STATEMENTS

The Management Board of SPOLANA s.r.o. hereby declares that to the best of its knowledge the separate financial statements and comparative data were prepared in compliance with the applicable accounting principles adopted by in the Company (disclosed in note 31.3.) and that they reflect true and fair view on the financial position and financial result of the Company, including basic risks and exposures.

The separate financial statements were authorized by the statutory representatives on 4 March 2019.

| Signature of statutory representatives | |
|---|---|
| Krzysztof Stanisław Bączyk | Konrad Marek Szykuła |
| Statutory representative | Statutory representative |

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# INDEPENDENT AUDITOR'S REPORT

To the Partners of SPOLANA s.r.o.

Having its registered office at: ul. Práce 657, 277 11 Neratovice

## Opinion

We have audited the accompanying financial statements of SPOLANA s.r.o.(hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of SPOLANA s.r.o. as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

## Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of Matter

We draw attention to Note 14 to the financial statements which describes the impairment of property plant and equipment and intangible assets. Our opinion is not modified in respect of this matter.

## Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Executives are responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Statutory Executives for the Financial Statements

The Statutory Executives are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Statutory Executives determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Statutory Executives are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Executives either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Executives.
- Conclude on the appropriateness of the Statutory Executives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Executives regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 4 March 2019

| Audit firm: | Statutory auditor: |
|---|---|
| Deloitte Audit s.r.o.<br>registration no. 079 | Martin Tesař<br>registration no. 2030 |
| Deloitte | M. Tesař |