Annual report for the year

2017

SPOLANA a.s.

REPORT OF THE BOARD OF DIRECTORS ON THE BUSINESS ACTIVITIES AND ITS FINANCIAL POSITION FOR 2017

1. OWNERSHIP STRUCTURE

Since June 10 2016 the sole shareholder of SPOLANA a.s. is the company UNIPETROL RPA, s.r.o., with registered office Záluží 1, Litvínov, 436 70, Corporate ID 27597075.

SPOLANA a.s. has no organizational unit abroad.

SPOLANA a.s. did not acquire any own shares.

2. MAIN EVENTS OF 2017

PVC production was performed unevenly depending on limited supplies of ethylene caused by shutdowns of ethylene unit of UNIPETROL RPA, s.r.o. in Litvínov and also due to gradual attenuation of amalgam electrolysis utilization during the last months of running. The most significant event in 2017 on PVC plant was permanent shutdown of obsolete amalgam electrolysis unit in November. This led to termination of caustic soda production and since then PVC is being produced without using mercury from purchased ethylene dichloride (EDC). Despite these limitations PVC production was almost one third higher than in 2016.

Production of caprolactam and ammonium sulphate was unfavourably influenced by unplanned repair of steam boiler in sulphuric acid production unit in March and April 2017 and by lack of ammonia in November. Total production volume remained on the level comparable with 2016. At the end of 2017 necessary works take place to put into operation the new granulation unit for ammonium sulphate. Start of granulated ammonium sulphate production is planned for the first quarter 2018.

3. MARKET DEVELOPMENT

S-PVC (NERALIT)

Due to limited supplies of ethylene the sales volume of PVC grew by only 25% compared to 2016 (for most of the year 2016 the Company purchased ethylene in limited volumes from replacement suppliers due to repair of ethylene unit in Litvínov). Compared to 2016 also higher sales prices were achieved, which along with lower ethylene price resulted in significantly higher margins (ethylene price in 2016 was influenced also by high transport costs from replacement suppliers).

Domestic sales of PVC constituted usual 12% of total sold volume, remaining 88% 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

Also during the year 2017 the production and sale of sodium hydroxide did not reach the planned volumes due to the fact, that in January and February the Ethylene deliveries were interrupted from UNIPETROL RPA, s.r.o. During the time period of August – September there was a big shut down on the PVC and Electrolysis plants. Sodium hydroxide prices were relatively stable during the whole year 2017 despite the tense situation on the market, which was caused by the low stocks of sodium hydroxide in Europe. Prices increased rapidly during the fourth quarter 2017. The Sodium hydroxide production on the Electrolysis plant had been definitely finished in November 2017 in connection with permanent electrolysis shut down.

CAPROLACTAM

Despite of production restrictions in March and April caused by unplanned repair of steam boiler in sulphuric acid production unit the production and sales volume of caprolactam grew by 2% in 2017 especially thanks to higher demand in Europe. Much more significant was increase of sales price which resulted in significantly higher margin despite rising raw material prices. Also in 2018 we expect slight increase in demand.

SPOLSAN

Production of SPOLSAN is technologically connected with caprolactam production so also here slight growth in sales was recorded against 2016. Sales price remained on approximately the same level, most of the production was sold on domestic market which favourably influenced transport costs connected with the sale.

SULPHURIC ACID AND OLEUM

Sales of sulphuric acid and oleum were slightly higher in 2017 compared to 2016 despite the production failure in the first half of the year. In case of oleum sold volumes were still affected by low number of available railway tank cars. In the coming period the Company will concentrate on increase of supplies to traditional customers and acquiring of new customers especially from car battery branch.

4. PROFIT / LOSS

From the financial point of view the year 2017 was successful especially thanks to higher sales prices of most of the products. Revenues of the Company reached CZK 4 810 089 thousand in 2017 which is 29% above 2016 level. The Company made a profit in the amount of CZK 433 465 thousand.

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 2017 were focused especially on following topics:

Greening and optimizing of heat production by replacing coal boilers with the gas boilers and optimizing heat distribution system - a selection of technology and its contractor is done.

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 of liquid caprolactam with the new loading station into tank cars and improvement of caprolactam quality - preparation of contractor selection is under way.

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

6. ENVIRONMENTAL PROTECTION

Significant changes took place in 2017 regarding the operation of amalgam electrolysis, PVC production and power generation.

The Regional Authority of the Central Bohemian Region approved the updated project for the termination of the amalgam electrolysis operation, in the form of binding conditions of the integrated permit. The production based on amalgam electrolysis was terminated by November 30, 2017. Subsequently, the production of PVC was started from substitute raw material - from EDC.

For power plant the Regional Authority of the Central Bohemian Region issued an amendment of the integrated permit, which concerns the future construction of two new gas boilers. The new gas boilers will replace the existing coal boilers and the gas boiler.

In the area of old environmental burdens, no significant changes took place during 2017. Monitoring of underground and surface water and maintenance of the concrete surface in the site of the former BCD technology continued. At the end of 2017, a project of remediation in the area between the internal road and the bank of the river Elbe, which is contaminated with mercury, was submitted for approval to SPOLANA a.s. SPOLANA a.s. had comments on the project and the project will be changed. The public contract for the remediation of groundwater contaminated with chlorinated hydrocarbons in the Petrochemical area was not completed in 2017.

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.

8. EXPECTED DEVELOPMENT OF THE COMPANY

Development of Company's activities for 2017 to 2021 was defined by Strategic plan approved in 2017.

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: at the end of 2017 construction of the new line for production of granulated ammonium sulphate was finished. At present the contractor performs comprehensive tests, production will be started during the first quarter 2018.

Power plant: at present project of construction of the new energy centre is being prepared, which will fulfil emission limits valid from 2020.

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 2017.

In Neratovice, 26 February 2018

....	....
Jacek Andrzej Aliński	Martin Komůrka
Chairman of the Board of Directors	Member of the Board of Directors

REPORT ON RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY

AND

BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

for 2017

in accordance with Section 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 1.1.2017 to 31.12.2017 is the vesting period for this Report on relations between the controlling entity and the controlled entity and between the controlled entity and other entities controlled by the same controlling entity (hereinafter the „Report on Relations").

The structure of relations between the entities

Controlled entity

SPOLANA a.s. with registered office at ul. Práce 657, 277 11 Neratovice, Corporate ID: 451 47 787, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Enclosure 1462 (hereinafter „SPOLANA a.s.").

Controlling entities

The controlling entity is UNIPETROL RPA, s.r.o. with registered office at Záluží 1, 436 70 Litvínov, Czech republic, ID No.: 275 97 075, entered in the Commercial Register maintained by the Regional Court in Ústí nad Labem, Section C, Insert 24430 (hereinafter „UNIPETROL RPA, s.r.o.").

UNIPETROL, a.s., with registered office at Na Pankráci 127, 140 00 Praha 4, ID No.: 616 72 190, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 3020 (hereinafter „UNIPETROL, a.s.") is the only shareholder of UNIPETROL RPA, s.r.o.

Polski Koncern Naftowy ORLEN Spólka Akcyjna with registered office at Chemików 7, PŁOCK, Poland (hereinafter „Polski Koncern Naftowy ORLEN S.A.") is the majority shareholder of UNIPETROL, a.s.

Other Controlled Entities

The entities controlled by the Controlling Entity – Polski Koncern Naftowy ORLEN Spólka Akcyjna are members of business group „PKN ORLEN S.A.", whose scheme is shown in Appendix No. 1.

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. 2.

The role of the Controlled Entity

The role of SPOLANA a.s. in the framework in the capital group is production and sale of chemical products and plastics, production, distribution and supplies of energies.

The method and means of controlling

The company UNIPETROL RPA, s.r.o. is the sole shareholder of SPOLANA a.s. and has direct influence on SPOLANA a.s.

The company UNIPETROL, a.s. is the sole shareholder of UNIPETROL RPA, s.r.o. and has indirect influence on SPOLANA a.s.

The company Polski Koncern Naftowy ORLEN S.A. is the majority shareholder of UNIPETROL, a.s. and has indirect influence on SPOLANA a.s. (through UNIPETROL, a.s. and UNIPETROL RPA, s.r.o.)

The list of actions undertaken in the last financial period made on instigation or in the interest of the Controlling Entity or entities controlled by such entity, on condition such actions concern assets exceeding 10% of the controlled entity's equity capital identified in the 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 Entity and the Controlling Entity or between the Controlled Entities

The mutual agreements between SPOLANA a.s. and the companies UNIPETROL RPA, s.r.o., UNIPETROL a.s. and Polski Koncern Naftowy ORLEN S.A. as well as with other Controlled Entities 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 Board of Directors of SPOLANA a.s. based on available information declares that between above mentioned companies in the framework of the business group were not concluded any contracts, acts or measures that would incurred any detriment, special advantage or disadvantage in accordance with the article 82 (4) of the Act of 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 a.s. except those arising from standard participation in international business group.

The Company's Board of Directors 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.

Neratovice, 26 February 2018

On behalf of the Board of Directors of SPOLANA a.s.

....	....
Jacek Andrzej Aliński	Martin Komůrka
Chairman of the Board of Directors	Member of the Board of Directors

Appendix No. 1

BUSINESS GROUP OF POLSKI KONCERN NAFTOWY ORLEN S.A. – CONTROLLED ENTITIES

1 January 2017 - 31 December 2017

Company controlled by PKN ORLEN S.A.	Residence	Shares in directly and indirectly controlled companies in % of the capital		Note
		as at 1.1.2017	as at 31.12.2017	
1. Unipetrol a.s.	Prague	**62,99%**	**62,99%**	
2. AB ORLEN Lietuva	Juodeikiai	**100,00%**	**100,00%**	
2.1 UAB Mazeikiu Nafta Trading House	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.	Włocławek	**100,00%**	**100,00%**	
5. Inowrocławskie Kopalnie Soli "SOLINO" S.A.	Inowrocław	**100,00%**	**100,00%**	
6. Kopalnia Soli Lubień sp. z o.o.	Warszawa	**100,00%**	**100,00%**	
7. ORLEN Administracja Sp. z o.o.	Płock	**100,00%**	**100,00%**	
8. ORLEN Asfalt sp. z o.o.	Płock	**100,00%**	**100,00%**	
8.1 ORLEN Asfalt Ceska Republika s.r.o.	Pardubice	100,00%	100,00%	
9. ORLEN Serwis S.A.	Płock	**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.	Płock	**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.	Płock	**99,85%**	**99,88%**	Company increased its registered capital and all, new 13 861 shares were taken up by Euronaft Trzebinia Sp. z o.o. on 2.10.2017. Subsequently, PKN ORLEN acquired 11 201 shares from Euronaft Trzebinia Sp. z o.o. on 30.11.2017. The remaining shares owned by Euronaft Trzebinia Sp. z o.o. were redeemed.
16. ORLEN Centrum Usług Korporacyjnych sp. z o.o.	Płock	**100,00%**	**100,00%**	
17. Orlen Laboratorium S.A.	Płock	**99,38%**	**100,00%**	Mandatory buy-out of minority shareholders completed on 10.3.2017.
18. ORLEN Ochrona Sp. z o.o.	Płock	**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	22,00%	67,49%	ORLEN Oil Sp. z o.o. acquired 1 064 shares of Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o. on 20.12.2017.
20. ORLEN Paliwa Sp. z o.o.	Widełka	**100,00%**	**100,00%**	
20.1 Petro-Mawi Sp. z o.o. w likwidacji	Sosnowiec	60,00%	0,00%	Company liquidated on 30.05.2017.
21. ORLEN Projekt S.A.	Płock	**99,77%**	**99,77%**	
22. ORLEN Transport Kraków Sp. z o.o. w upadłości	Kraków	**98,41%**	**0,00%**	Company liquidated on 17.7.2017.
24. ORLEN Upstream Sp. z o.o.	Warszawa	**100,00%**	**100,00%**	

24.1 Orlen Upstream Canada Ltd	Calgary	100,00%	100,00%	
24.1.1 1426628 Alberta Ltd.	Calgary	100,00%	100,00%	
24.1.2 OneEx Operations Partnership	Calgary	100,00%	100,00%	
24.1.3 Pierdiae Production GP Ltd.	Calgary	50,00%	50,00%	The remaining stake owned by Pierdiae Energy Limited.
24.1.3.1 671519 N.B. Ltd.	Saint John	100,00%	100,00%	
24.1.4 KCK Atlantic Holdings Ltd.	Calgary	100,00%	100,00%	
24.1.4.1 Pierdiae Production LP	Saint John	80,00%	80,00%	The remaining stake owned by Pierdiae Energy Limited.
24.2 FX Energy Inc.	Salt Lake City	100,00%	100,00%	
24.2.1 Frontier Exploration, Inc.	Salt Lake City	100,00%	100,00%	
24.2.2 FX Energy Netherlands Partnership C.V.	Utrecht	100,00%	100,00%	
24.2.2.1 FX Energy Netherlands B.V.	Utrecht	100,00%	100,00%	
24.2.2.1.1 FX Energy Polska Sp. z o.o.	Warszawa	100,00%	100,00%	
25. ORLEN Aviation Sp. z o.o. (previously Petrolot Sp. z o.o.)	Warszawa	**100,00%**	**100,00%**	Company changed its business name onto ORLEN Aviation Sp. z o.o. on 19.5.2017
26. ORLEN Południe S.A.	Trzebinia	**100,00%**	**100,00%**	
26.1 Energomedia Sp. z o.o.	Trzebinia	100,00%	100,00%	
26.2 Euronaft Trzebinia Sp. z o.o.	Trzebinia	100,00%	100,00%	
26.3 KONSORCJUM OLEJÓW PRZEPRACOWANYCH - ORGANIZACJA ODZYSKU OPAKOWAŃ I OLEJÓW S.A.	Jedlicze	89,00%	89,00%	
26.4 RAN-WATT Sp. z o.o. w likwidacji	Toruń	51,00%	51,00%	
27. Ship - Service S.A.	Warszawa	**60,86%**	**60,86%**	
28. ORLEN Finance AB	Stokholm	**100,00%**	**100,00%**	
29. ORLEN Capital AB	Stokholm	**100,00%**	**100,00%**	
30. Baltic Power Sp. z o.o.	Warszawa	**100,00%**	**100,00%**	
31. Basell Orlen Polyolefins Sp. z o.o.	Płock	**50,00%**	**50,00%**	
31.1 Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	Płock	100,00%	100,00%	
32. Płocki Park Przemysłowo-Technologiczny S.A.	Płock	**50,00%**	**50,00%**	
32.1 Centrum Edukacji Sp. z o.o.	Płock	69,43%	69,43%	

Appendix No. 2

BUSINESS GROUP OF UNIPETROL, a.s. – CONTROLLED ENTITIES

1 January 2017 – 31 December 2017

Companies controlled by UNIPETROL, a.s. **Companies with direct share of UNIPETROL, a.s.** Companies with indirect share of UNIPETROL, a.s.	Residence	Shares in directly and indirectly controlled companies in % of the capital		Note
		1.1.2017	**31.12.2017**	
1. UNIPETROL RPA, s.r.o., ID 275 97 075	Litvínov, Záluží 1	**100,00**	**100,00**	
1.1 HC VERVA Litvínov, a.s., ID 640 48 098	Litvínov , S.K. Neumanna 1598	70,95	70,95	Other shareholders - Litvínov city owns 22,14% and HC Litvínov, o.s. owns 6,91%
1.2 UNIPETROL DOPRAVA, s.r.o., ID 640 49 701	Litvínov, Růžodol 4	99,88	99,88	0,12% owned by UNIPETROL, a.s.
1.3 UNIPETROL DEUTSCHLAND GmbH, ID HRB 34346	Langen, Germany, Paul-Ehrlich-Strasse 1B	99,90	99,90	0,1% owned by UNIPETROL, a.s.
1.4 UNIPETROL SLOVENSKO, s.r.o., ID 357 77 087	Bratislava - mestská časť Ružinov, Jašíkova 2, Slovensko	86,96	86,96	13,04% owned by UNIPETROL, a.s.
1.5 UNIPETROL RPA Hungary Kft., ID 13-09-181774	2040 Budaörs, Puskás Tivadar utca 12, Hungary	100,00	100,00	
1.6 SPOLANA a.s., ID 451 47 787	Neratovice, ul. Práce 657	100,00	100,00	
1.7 Nadace Unipetrol, ID 056 61 544	Litvínov, Záluží 1	100,00	100,00	
1.8 PETROTRANS, s.r.o. ID 251 23 041	Praha 8, Libeň, Střelničná 2221/50	99,37	99,37	0,63% owned by UNIPETROL, a.s.
2. Unipetrol výzkumně vzdělávací centrum, a.s., ID 622 43 136	Ústí nad Labem, Revoluční 1521/ 84	**100,00**	**100,00**	
3. ČESKÁ RAFINÉRSKÁ, a.s., ID 627 41 772	Litvínov, Záluží 2	**100,00**	-	Company merged to UNIPETROL RPA, s.r.o. on 1.1.2017
4. PARAMO, a.s., ID 481 73 355	Pardubice, Svítkov, Přerovská 560	**100,00**	**100,00**	
4.1 Paramo Oil s.r.o., v likvidaci ID 246 87 341	Pardubice, Přerovská 560	100,00	100,00	Company entered into liquidation on 27.7.2017
5. Butadien Kralupy a.s., ID 278 93 995	Kralupy nad Vltavou, O. Wichterleho 810	**51,00**	**51,00**	49% shares owned by SYNTHOS Kralupy a.s.
Other companies with share of UNIPETROL, a.s.				
1. UNIVERSAL BANKA, a.s, in bankruptcy, ID 482 64 865	Praha 1, Senovážné náměstí 1588/4	**16,45**	**16,45**	12,24% shares owned by UNIPETROL RPA, s.r.o.
2. ORLEN HOLDING MALTA LIMITED, ID C 39945	Level 3, Triq ir-Rampa ta' San Giljan, Balluta Bay, St Julians, STJ1062 Malta	**0,5**	**0,5**	99,5% shares owned by PKN ORLEN S.A.

Appendix No. 3

THE LIST OF MUTUAL AGREEMENTS BETWEEN THE CONTROLLING AND CONTROLLED ENTITY OR BETWEEN THE CONTROLLED ENTITIES

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
118-2015 / 1200000375	ANWIL S.A.	Supplier	Long-term contract for supplies of ammonia (č.1200000375) + 2 amendments	Supplies of ammonia	1.5.2015	31.12.2017	1.5.2015
358-2012	ANWIL S.A.	Supplier	Framework contract on cooperation in purchase + 2 amendments	Cooperation in the field of purchase	9.11.2012	indefinite	9.11.2012
211-2007	ANWIL S.A.	Supplier	Cooperation agreement + 5 amendments	Providing of advisory and similar services	1.1.2007	indefinite	27.3.2007
180-2014	ANWIL S.A.	Supplier	IT services – hosting of SAP servers	Providing of server hosting for information system SAP	1.1.2014	indefinite	5.11.2014
214-2013	ANWIL S.A.	Customer	Framework agreement on sales of S-PVC Neralit 581 a 601 + 2 amendments	Sales of PVC	1.6.2013	indefinite	17.6.2013
225-2015	ANWIL S.A.	Supplier	Agreement on possible loan	Confidentiality agreement	1.12.2015	30.11.2025	1.12.2015
84-2015	ORLEN SERWIS S.A., odštěpný závod	Supplier	Agreement on coaling + 1 admendment	Coaling of coal boilers	1.5.2015	indefinite	1.5.2015
198-2015	ORLEN SERWIS S.A., odštěpný závod	Customer	Agreement on energy supplies + 2 amendment	Supplies of electrical energy, heat and water	1.1.2015	indefinite	10.12.2015
55-2016	ORLEN SERWIS S.A., odštěpný závod	Supplier	Agreement for work – management and maintenace of heat exchanger stations + 1 amendment	Management and maintenace of heat exchanger stations	1.4.2016	31.3.2018	17.3.2016
56-2016	ORLEN SERWIS S.A., odštěpný závod	Supplier	Agreement for work – maintenace and repairs of electrical equipment for facility management +1 amendment	Maintenace and repairs of electrical equipment for facility management	1.4.2016	31.3.2018	17.3.2016

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
66-2016	ORLEN SERWIS S.A., odštěpný závod	Supplier	Framework agreement for work – maintenace of operating assets + 2 amendments	Maintenace of operating assets	1.1.2016	indefinite	29.3.2016
153-2014	ORLEN SERWIS S.A., odštěpný závod	Customer	Ageement of service provision in area of work safety and fire prevention	Providing of services	1.7.2014	indefinite	17.7.2014
68-2015	ORLEN SERWIS S.A., odštěpný závod	Customer	Lease contract	Lease of commercial space	1.1.2015	indefinite	25.3.2015
76-2015	ORLEN SERWIS S.A., odštěpný závod	Cooperation	Agreement on cooperation	Cooperation	26.3.2015	indefinite	26.3.2015
377-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Customer	Providing of telecommunication and post services	Providing of telecommunication and post services	1.12.2012	indefinite	1.12.2012
383-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Customer	Contract for lease of commercial space and movable assets + connected services (supplies of energies)	Lease of commercial space and connected services	1.12.2012	indefinite	26.11.2012
368-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Supplier	Guarding services + 4 amendments	Security guard of company area	1.12.2012	indefinite	1.12.2012
369-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Supplier	Supporting services (reception, post services, dispatching) + 4 amendments.	Providing of reception services, clearance of post packets, dispatching of vehicles for loading	1.12.2012	indefinite	1.12.2012
155-2016	PARAMO, a.s.	Supplier	Frame ageement on oils and lubricants supplies +1 amendment	Supplies of oils and lubricants	1.1.2017	indefinite	31.3.2017

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
90-2016	PKN ORLEN S.A., ANWIL S.A., UNIPETROL RPA, s.r.o.	Cooperation	Agreement on cooperation in treatment with key customers (PSH/01/2016)	Cooperation in the field of purchase	24.3.2016	indefinite	24.3.2016
64-2017	PKN ORLEN S.A., UNIPETROL RPA, s.r.o., Synthos S.A.	Supplier	Confidentiality agreement, information protection and prohibition of abuse - styren	Confidentiality agreement	19.7.2017	18.7.2025	19.7.2017
430-2007	PKN ORLEN S.A.	Supplier	Agreement on access to SAP Poland	Provision of IT services	31.10.2007	indefinite	9.11.2007
190-2009	PKN ORLEN S.A.	Supplier	Comission for SAP licenses maintenace + 2 amendments	Maintenace of SAP licences	1.1.2008	indefinite	27.7.2009
49-2017	PKN ORLEN S.A.	Supplier	Agreement on purchase of emission allowances	Purchase of emission allowances missing for coverage of emissions 2016	13.4.2017	one-case	13.4.2017
52-2017	PKN ORLEN S.A.	Supplier	Agreement on liquid sulphur supplies +2 amendements	Purchase of sulphur	1.1.2017	31.12.2017	27.4.2017
107-2017	PKN ORLEN S.A.	Supplier	Assessment of VCM based on conclusion BAT LVOC (5600010520)	VCM production	13.11.2017	30.7.2018	2.1.2018
177-2013	UNIPETROL DEUTSCHLAND GmbH	Customer	Agreement on exclusive distribution of S-PVC for Germany + 3 amendments.	Sales of PVC for customers in Germany	1.6.2013	31.3.2018	1.6.2013
121-2003	UNIPETROL DOPRAVA, s.r.o.	Customer	Agreement on leasing of information technologies + 1 amendment	Leasing of IT means - computers, network etc.	1.7.2002	indefinite	30.6.2002

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
67-2004	UNIPETROL DOPRAVA, s.r.o.	Customer	Contract for lease of commercial space and providing of connected services + 10 amendments	Leasing of commercial space and connected services	1.1.2004	21.3.2017	31.12.2003
194-2005 / 2008-2	UNIPETROL DOPRAVA, s.r.o.	Customer	Contract for telecomunication and post services + 2 amendments	Providing of telecommunication and post services	25.3.2005	indefinite	25.3.2005
52-2015 / 2015-22	UNIPETROL DOPRAVA, s.r.o.	Supplier	Agreement for work – maintenance of railway siding in Neratovice + 2 amendments	Maintenance management for railway siding	1.1.2015	indefinite	19.2.2015
362-2005 / 2008-579	UNIPETROL DOPRAVA, s.r.o.	Supplier	Agreement on providing of transprot services – transport, forwarding, leasing of railway freight cars	a) Transport on railway siding (Neratovice) b) Railway transport services outside of railway siding including forwarding c) leasing of railway freight cars	1.7.2002	indefinite	28.6.2002
34-2017	UNIPETROL DOPRAVA, s.r.o.	Customer	Contract for lease of commercial space and providing of connected services	Leasing of commercial space and connected services	1.4.2017	indefinite	10.1.2018
39-2017	UNIPETROL DOPRAVA, s.r.o.	Customer	Agreement on energy supplies +1 amendment	Supplies of energy	1.4.2017	indefinite	7.11.2017
8-2018	UNIPETROL DOPRAVA, s.r.o.	Customer	Agency agreement on railway operation on siding Spolana (2010-102)	Providing of railway siding operation	1.7.2002	indefinite	1.1.2002
266-2016	UNIPETROL RPA, s.r.o.	Cooperation	Agreement on electricity, gas and coal purchases +1 amendment (SML/UN1026/13)	Supplies of energy	1.1.2015	26.4.2014	25.4.2018
53-2014 / 312-2014 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Supplier	Confidentiality agreement, information protection and prohibition of abuse	Unipetrol RPA will provide to SPOLANA a.s. confidential information from lifetime study for ethylene pipeline – Nátional ethylene pipeline - prepared in December 2012 by the company CEPS a.s.	12.3.2014	indefinite	12.3.2014

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
91-2016	UNIPETROL RPA, s.r.o.	Supplier	Service level agreement – services of shared services center + 1 amendment	Agreement on services	1.11.2016	indefinite	1.11.2016
146-2016	UNIPETROL RPA, s.r.o.	Cooperation	Agreement on start of Model Aktivní Energetické Obchodní Skupiny - model GAHE	Cooperation-model GAHE	1.1.2017	31.12.2020	22.11.2016
150-2016	UNIPETROL RPA, s.r.o.	Supplier	Agreement on electricity supplies +1 amendment	Supplies of energy	1.1.2017	31.12.2020	9.12.2016
19-2017	UNIPETROL RPA, s.r.o.	Supplier	Frame agreement on ammonia supplies (1256-2016)	Purchase of ammonia	1.1.2017	31.12.2017	20.2.2017
82-2017	UNIPETROL RPA, s.r.o.	Supplier	Agreement on ethylene supplies (1119-2016) +1 amendment	Purchase of ethylene	1.1.2017	31.12.2017	30.8.2017
85-2017	UNIPETROL RPA, s.r.o.	Supplier	Agreement no. 0925-2017 2017 on administration of liability insurance – 2. layer	Administration of liability insurance 2. layer	5.1.2017	30.4.2018	27.10.2015
91-2017	UNIPETROL RPA, s.r.o.	Supplier	Agreement on lease of rail freight cars	Lease of rail freight cars	1.1.2017	31.12.2018	13.9.2017
95-2017	UNIPETROL RPA, s.r.o.	Supplier	Agreement on propylene supplies (2000083353/OS-T/2017)	Purchase of propylene	22.9.2017	27.8.2017	22.9.2017
27-2012	UNIPETROL RPA, s.r.o.	Supplier	Agreement on sulphur supplies	Purchase of sulphur	2.8.2012	indefinite	2.8.2012
54-2014	UNIPETROL RPA, s.r.o.	Supplier	Frame agreement 946/2014 on supplies of fuel	Purchase of fuel	21.3.2014	indefinite	21.3.2014

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
156-2016	UNIPETROL RPA, s.r.o.	Supplier	Agreement on agent services in gas supplies	Purchase of gas	1.1.2017	indefinite	29.12.2016
98-2017	UNIPETROL RPA, s.r.o.	Supplier	Agreement on supplies of fuel through payment cards BENZINA	Purchase of fuel on gas stations	28.7.2017	indefinite	28.7.2017
114-2017	UNIPETROL RPA, s.r.o.	Supplier	Agreement on propylene supplies (2000085382/OS-T/2017)	Purchase of propylene	24.11.2017	18.12.2017	24.11.2017
SAP 6008315	UNIPETROL RPA, s.r.o.	Customer	Agreement on NaOH supplies by cars (1032-2017 rev. 0 amend. 0)	Purchase of sodium hydroxide	1.10.2017	31.12.2017	26.10.2017
SAP 6008316	UNIPETROL RPA, s.r.o.	Customer	Agreement on NaOH supplies on railway (1031-2017 rev. 0 amend. 0)	Purchase of sodium hydroxide	1.10.2017	31.12.2017	26.10.2017
SAP 6007902	UNIPETROL RPA, s.r.o.	Customer	Agreement on NaOH supplies (0693-2017 rev. 0 amend. 0)	Purchase of sodium hydroxide	1.7.2017	30.9.2017	28.7.2017
SAP 6007926	UNIPETROL RPA, s.r.o.	Customer	Agreement on sulphur supplies in the 2. half of 2017 (0694-2017 rev. 0 amend. 0)	Purchase of sulphur	1.7.2017	31.12.2017	11.8.2017
SAP 6007287	UNIPETROL RPA, s.r.o.	Customer	Agreement on NaOH supplies in the 2. quarter of 2017 on railway (0368-2017 rev. 0 amend. 0)	Purchase of sodium hydroxide	1.4.2017	30.6.2017	25.4.2017
SAP 6007289	UNIPETROL RPA, s.r.o.	Customer	Agreement NaOH supplies in the 2. quarter 2017 by cars (0366-2017 rev. 0 amend. 0)	Purchase of sodium hydroxide	1.4.2017	30.6.2017	27.4.2017
SAP 6006672	UNIPETROL RPA, s.r.o.	Customer	Agreement on sulphur supplies in the 1. half of 2017 (0074-2017 rev. 0 amend. 0)	Purchase of sulphur	1.1.2017	30.6.2017	3.2.2017

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
SAP 6006657	UNIPETROL RPA, s.r.o.	Customer	Agreement on NaOH supplies in 1. quarter 2017 (0073-2017 rev. 0 amend. 0)	Purchase of sodium hydroxide	1.1.2017	31.3.2017	30.1.2017
261-2013	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod	Supplier	Agreement on supplies of fuel through payment cards BENZINA + 1 amendment	Purchase of fuel on gas stations	10.9.2013	27.7.2017	10.9.2013
203-2013 / 1071 - 2016 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Customer	Confidentiality agreement, information protection and prohibition of abuse	Confidentiality agreement in the area of IT	10.6.2013	indefinite	10.6.2013
9-2016	UNIPETROL, a.s.	Creditor	Agreement on creating of pledge to real estate	Creation of pledge to real estate	20.1.2016	indefinite	24.2.2016
10-2016	UNIPETROL, a.s.	Creditor	Credit agreement 200 mln. CZK	Providing of operating credit	20.1.2016	indefinite	20.1.2016
131-2016 / 0071-2016	UNIPETROL, a.s.	Supplier	Administration of liability insurance 1. layer	Administration of liability insurance 1. layer	1.5.2016	30.4.2017	14.9.2015
132-2016 / 0086-2016	UNIPETROL, a.s.	Supplier	Administration of liability insurance 2. layer	Administration of liability insurance 2. layer	1.5.2016	30.4.2017	27.10.2015
139-2016	UNIPETROL, a.s.	Supplier	Agreement on providing complex services (CLA) – internal audit	Providing of internal audit services	23.2.2016	indefinite	23.2.2016
16-2017	UNIPETROL, a.s.	Creditor	Agreement on credit A	Financing of the Company through group cash-pool	11.7.2016	indefinite	11.7.2016
17-2017	UNIPETROL, a.s.	Creditor	Agreement on credit B	Financing of the Company through group cash-pool	11.7.2016	indefinite	11.7.2016
31-2017	UNIPETROL, a.s.	Supplier	Liability insurance of stautory board members	Administration of liability insurance	1.11.2016	31.10.2017	5.18.2017
53-2017	UNIPETROL, a.s.	Supplier	Agreement on information and access IT systems, as amended	Confidentiality agreement	1.1.2017	indefinite	8.8.2017

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
60-2017	UNIPETROL, a.s.	Supplier	Agreement no. 0072-2017 on administration of liability insurance – 1. layer	Administration of liability insurance 1. layer	5.1.2017	30.4.2018	26.7.2017

Unipetrol
ORLEN GROUP

SPOLANA a.s.

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 2017

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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	2017	2016
Statement of profit or loss			
Revenues	3.	4 810 089	3 740 290
Cost of sales	4.1.	(4 066 047)	(3 806 992)
Gross profit/(loss) on sales		**744 042**	**(66 702)**
Distribution expenses	4.2.	(142 201)	(128 944)
Administrative expenses	4.2.	(189 056)	(171 831)
Other operating income	5.1.	61 259	54 493
Other operating expenses	5.2.	(50 280)	(155 188)
Profit/(Loss) from operations		**423 764**	**(468 172)**
Finance income	6.1.	429	7 033
Finance costs	6.2.	(19 064)	(11 517)
Net finance costs		**(18 635)**	**(4 484)**
Profit/(Loss) before tax		**405 129**	**(472 656)**
Tax expense	7.	28 336	-
Net profit/(loss)		**433 465**	**(472 656)**
Other comprehensive income			
items which will not be reclassified into profit or loss		**96**	**-**
Actuarial gains and losses		96	-
		96	**-**
Total net comprehensive income		**433 561**	**(472 656)**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-38.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

Statement of financial position

	Note	31/12/2017	31/12/2016
ASSETS			
Non-current assets			
Property, plant and equipment	8.	548 094	218 146
Investment property	9.	16 264	30 049
Intangible assets	10.	399	-
Other non-current financial assets	11.	879	879
Deferred tax assets	7.	28 336	-
Other non-current assets	12.	6 900	-
		600 872	**249 074**
Current assets			
Inventories	13.	588 518	538 524
Trade and other receivables	14.	402 578	436 959
Other financial assets	15.	7 981	3 585
Cash and cash equivalents	16.	20 847	9 798
		1 019 924	**988 866**
Total assets		**1 620 796**	**1 237 940**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17.1.	3 455 229	3 455 229
Retained earnings	17.2.	(3 436 106)	(3 869 667)
Total equity		**19 123**	**(414 438)**
LIABILITIES			
Non-current liabilities			
Provisions	18.	132 390	295 207
Other non-current financial liabilities	19.	3 115	2 966
		135 505	**298 173**
Current liabilities			
Trade and other liabilities	20.	702 711	859 358
Provisions	18.	199 731	38 697
Deferred income	21.	-	1 833
Other financial liabilities	19.	563 726	454 317
		1 466 168	**1 354 205**
Total liabilities		**1 601 673**	**1 652 378**
Total equity and liabilities		**1 620 796**	**1 237 940**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-38.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

Statement of changes in equity

	Share capital	Retained earnings	Total equity
Note	17.1.	17.2.	
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**
01/01/2016	3 455 229	(3 397 011)	58 218
Net loss	-	(472 656)	(472 656)
Total net comprehensive income	-	**(472 656)**	**(472 656)**
31/12/2016	**3 455 229**	**(3 869 667)**	**(414 438)**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-38.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

Statement of cash flows

		2017	2016
Cash flows from operating activities			
Profit/(Loss) before tax		**405 129**	**(472 656)**
Adjustments for:			
Depreciation and amortisation	4.2.	13 052	96 474
Foreign exchange (gain)/loss		-	(490)
Interest and dividends, net		2 953	8 214
(Profit)/Loss on investing activities		8 411	(24 433)
Change in provisions		31 938	153 840
Other adjustments		(20 109)	84
Change in working capital		(197 910)	189 205
inventories		*(47 121)*	*8 173*
receivables		*30 247*	*(71 006)*
liabilities		*(181 036)*	*252 038*
Net cash from/(used in) operating activities		**243 464**	**(49 762)**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(333 433)	(112 025)
Disposal of property, plant and equipment and intangible assets		-	629
Outflows from cash pool assets		(4 396)	(3 585)
Settlement of financial derivatives		-	(1)
Other		25	1
Net cash used in investing activities		**(337 804)**	**(114 981)**
Cash flows from financing activities			
Proceeds from cash pool liabilities		109 084	118 909
Interest paid		(3 557)	(6 257)
Other		(138)	(2 498)
Net cash provided by financing activities		**105 389**	**110 154**
Net increase/(decrease) in cash and cash equivalents		**11 049**	**(54 589)**
Effect of exchange rate changes on cash and cash equivalents		-	489
Cash and cash equivalents, beginning of the year		9 798	63 898
Cash and cash equivalents, end of the year	**16.**	**20 847**	**9 798**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-38.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (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 a.s. (the "Company") is a joint stock company established 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 a.s.
ul. Práce 657
277 11 Neratovice
Czech Republic

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 a.s.

Statutory and supervisory bodies

Members of the statutory and supervisory bodies of SPOLANA a.s. as at 31 December 2017 were as follows:

	Position	Name
Board of Directors	Chairman	Karel Pavlíček
	Vice-chairman	Michał Krzysztof Kaliciak
	Member	Filip Mikołajczyk
	Member	Miroslav Falta
Supervisory Board	Chairman	Tomáš Herink
	Vice-chairman	Artur Tomasz Frankiewicz
	Member	Pavel Sláma

Changes in the Board of Directors in 2017 were as follows:

Position	Name	Change	Date of change
Member	Miroslav Falta	Elected to the office	28 November 2017, with the effect as of 1 December 2017
Member	Jacek Andrzej Aliński	Elected to the office	6 December 2017, with the effect as of 1 January 2018
Member	Martin Komůrka	Elected to the office	20 December 2017, with the effect as of 1 January 2018
Chairman	Karel Pavlíček	Recalled from the office	31 December 2017
Vice-chairman	Michał Krzysztof Kaliciak	Recalled from the office	31 December 2017

Changes in the Supervisory Board in 2017 were as follows:

Position	Name	Change	Date of change
Member	Łukasz Piotrowski	Elected to the office	1 January 2017
Member	Łukasz Piotrowski	Recalled from the office	30 April 2017
Member	Tomáš Herink	Elected to the office as member	1 May 2017
Chairman	Tomáš Herink	Elected to the office as chairman	15 June 2017

Group indetification 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 it have been included in the consolidated financial statements of UNIPETROL, a.s. with its registered office at Praha 4, Na Pankráci 127, 140 00, ID No. 616 72 190.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (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 2017. 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 2017, results of its operations and cash flows for the year ended 31 December 2017.
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 28.3.

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

3. REVENUES

	2017	2016
Sales of finished goods	4 770 405	3 688 093
Sales of services	27 388	29 091
Revenues from sales of finished goods and services, net	**4 797 793**	**3 717 184**
Sales of merchandise	5 861	20 539
Sales of raw materials	6 435	2 567
Revenues from sales of merchandise and raw materials, net	**12 296**	**23 106**
	4 810 089	**3 740 290**

3.1. Revenues by assortments

	2017	2016
PVC plant	2 230 811	1 686 126
Caprolactam plant	2 510 690	1 986 649
Other	68 588	67 515
	4 810 089	**3 740 290**

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

3.2. Revenues by geographical division

	2017	2016
Czech Republic	967 560	819 637
European Union	3 543 306	2 697 354
Other	299 223	223 299
	4 810 089	**3 740 290**

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

4. OPERATING EXPENSES

4.1. Cost of sales

	2017	2016
Cost of finished goods and services sold	(4 058 823)	(3 786 923)
Cost of merchandise and raw materials sold	(7 224)	(20 069)
	(4 066 047)	**(3 806 992)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

4.2. Cost by nature

	2017	2016
Materials and energy	(3 493 729)	(3 093 631)
Cost of merchandise and raw materials sold	(7 224)	(20 069)
External services	(457 973)	(401 920)
Employee benefits	(355 169)	(326 051)
Depreciation and amortization	(13 052)	(96 474)
Taxes and charges	(37 147)	(39 617)
Other	(108 228)	(225 547)
	(4 472 522)	**(4 203 309)**
Change in inventories	24 938	(59 646)
Operating expenses	**(4 447 584)**	**(4 262 955)**
Distribution expenses	142 201	128 944
Administrative expenses	189 056	171 831
Other operating expenses	50 280	155 188
Cost of sales	**(4 066 047)**	**(3 806 992)**

4.3. Employee benefits costs

	2017	2016
Payroll expenses	(256 163)	(236 198)
Future benefits expenses	407	807
Social security expenses	(86 362)	(81 213)
Other employee benefits expenses	(13 051)	(9 447)
	(355 169)	**(326 051)**

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 at as balance sheet day		7	7

2016	Employees	Key Management	Total
Wages and salaries	(224 824)	(11 374)	(236 198)
Social and health insurance	(78 444)	(2 769)	(81 213)
Social expense	(9 161)	(286)	(9 447)
Change of employee benefits provision	807	-	807
	(311 622)	**(14 429)**	**(326 051)**
Number of employees average per year	671.00	3.42	674.42
Number of employees as at balance sheet day	675	4	679
Number of Board of Directors and Supervisory Board members at as balance sheet day		6	6

5. OTHER OPERATING INCOME AND EXPENSES

5.1. Other operating income

	2017	2016
Profit on sale of non-current non-financial assets	689	-
Reversal of provisions	225	-
Reversal of receivables impairment allowances	35 874	5 693
Penalties and compensations	14 056	1 983
Revaluation of investment properties	-	25 345
Other	10 415	21 472
	61 259	**54 493**

5.2. Other operating expenses

	2017	2016
Loss on sale of non-current non-financial assets	-	(1 084)
Recognition of provisions	(4 000)	(130 000)
Recognition of receivables impairment allowances	(31 178)	(20 248)
Costs and losses due to removing damages	-	(148)
Donations	(50)	(61)
Revaluation of investment properties	(9 177)	-
Other	(5 875)	(3 647)
	(50 280)	**(155 188)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

6. FINANCE INCOME AND COSTS

6.1. Finance income

	2017	2016
Interest	388	285
Net foreign exchange gain	-	6 747
Other	41	1
	429	**7 033**

6.2. Finance costs

	2017	2016
Interest	(2 861)	(6 591)
Net foreign exchange loss	(14 576)	-
Other	(1 627)	(4 926)
	(19 064)	**(11 517)**

7. TAX CREDIT/(EXPENSE)

	2017	2016
Tax credit in the statement of profit or loss		
Current tax	-	-
Deferred tax	28 336	-
	28 336	**-**

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2017 (2016: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2018 and forward i.e. 19%.

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

	2017	2016
Profit/(Loss) for the year	433 465	(472 656)
Total tax credit	28 336	-
Profit/(Loss) before tax	405 129	(472 656)
Income tax using domestic income tax rate	(76 975)	89 805
Non-deductible expenses	(66 432)	(127 908)
Tax exempt income	73 158	89 680
Recognition of previously unrecognized deferred tax asset	28 336	-
Change in not recognized deferred tax assets	-	(51 577)
Utilization of unused tax losses	67 699	-
Other differences	2 550	-
Total tax credit	**28 336**	**-**
Effective tax rate	**(6.99)%**	**-**

7.2. 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 2018 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.

	31/12/2016	Deferred tax recognized in statement of profit or loss	31/12/2017
Deferred tax liabilities			
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 2018 - 2022.
In the calculation of deferred tax assets as at 31 December 2017 the Company has not recognized unused tax losses in the amount of CZK 558 534 thousand due to the unpredictability of future taxable income (31 December 2016: CZK 1 048 443 thousand). These unrecognized tax losses will expire by the end of 2021.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

8. PROPERTY, PLANT AND EQUIPMENT

8.1. Changes in property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
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 increases/(decreases)	-	105	-	-	(139)	(34)
31/12/2017						
Net book value	**111 864**	**23 654**	**132 070**	**4 248**	**276 258**	**548 094**
Gross book value	111 864	130 540	226 262	4 291	270 946	**743 903**
Accumulated depreciation	-	(106 886)	(94 192)	(43)	5 312	**(195 809)**
	111 864	**23 654**	**132 070**	**4 248**	**276 258**	**548 094**
01/01/2016						
Net book value						
Gross book value	111 864	43 032	94 593	-	16 024	**265 513**
Accumulated depreciation	-	(41 477)	(44 633)	-	-	**(86 110)**
	111 864	**1 555**	**49 960**	-	**16 024**	**179 403**
increase/(decrease) net						
Investment expenditures	-	4 203	15 579	-	70 088	89 870
Depreciation	-	(64 672)	(37 289)	301	5 312	(96 348)
Reclassifications	-	66 682	36 114	-	(54 993)	47 803
Sale	-	-	-	(301)	-	(301)
Liquidation	-	(188)	(1 293)	-	-	(1 481)
Other decreases	-	-	(800)	-	-	(800)
31/12/2016						
Net book value	**111 864**	**7 580**	**62 271**	-	**36 431**	**218 146**

Main investment expenditures in 2017 were spent for the granulation technology of ammonium sulphate (CZK 124 423 thousand), the equipment for PVC production (CZK 80 438 thousand), the replacement of oxychlorine reactors (CZK 41 808 thousand) and the realization of flood prevention provision on substation (CZK 11 697 thousand).

In January 2016, the Company signed a loan agreement for an unbinding credit line up to CZK 200 000 thousand with UNIPETROL, a.s. The credit line is secured by a mortgage created to the Company's land situated outside production unit of the enterprises for PVC, Caprolactam and EVH. In July 2016 the loan was paid. At the date of compilation of the financial statements, the mortgage is still in effect.

As at 31 December 2017 in accordance with International Accounting Standard 36 "Impairment of assets" the Company has verified the existence of impairment indicators.

The Company has compared the inputs to the impairment test model prepared as at 31 December 2016 with data available as at 31 December 2017, especially the business plan for the year 2018 and the financial results of the year 2017. Taking above stated facts into consideration, in relation to net book value of assets as at 31 December 2017, the Company has not identified any indicators of the impairment. The Company has also not identified any indicator which would leed to the reversal of the impairment.

The Company's future financial performance is based on a number of factors and assumptions in respect of macroeconomics development, such as foreign exchange rates, commodity prices, interest rates, partially 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.

8.2. Other information on property, plant and equipment

	31/12/2017	31/12/2016
The gross book value of all fully depreciated property, plant and equipment still in use	6 380	143 512

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 2017 would not be influenced.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

9. INVESTMENT PROPERTY

	2017	2016
At the beginning of the year	30 049	70 371
Reclassification to property, plant and equipment	(4 852)	(65 667)
Transfer from property, plant and equipment	244	
Fair value measurement	(9 177)	25 345
increase	-	25 345
decrease	(9 177)	-
	16 264	**30 049**

Rental income amounted to CZK 2 751 thousand in 2017 (2016: CZK 12 010 thousand). Operating costs related to investment property amounted to CZK 168 thousand in 2017 (2016: CZK 4 210 thousand).

9.1. Fair value of investment property measurement

Investment property as at 31 December 2017 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 9.07% was used for the calculation of the investment property fair value.

In the year ended 31 December 2017 and the comparative period there were no changes in the measurement approach.

			Fair value hierarchy	
	Carrying amount	Fair value	Level 2	Level 3
31/12/2017	16 264	16 264	-	16 264
31/12/2016	30 049	30 049	-	30 049

9.2. 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	(634)	-1 pp	634

10. INTANGIBLE ASSETS

10.1. Changes in intangible assets

	Software	Assets under development	CO_2 emission allowance	Total
01/01/2017				
Net book value				
Gross book value	-	68	-	68
Accumulated amortization	-	(68)	-	(68)
	-	-	-	-
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**
Gross book value	46	423	-	469
Accumulated amortization	(2)	(68)	-	(70)
	44	**355**	-	**399**
01/01/2016				
Net book value				
Gross book value	-	(58)	-	(58)
Accumulated amortization	-	58	-	58
	-	-	-	-
Increase/(decrease) net				
Investment expenditures	-	126	14 175	14 301
Amortization	-	(126)	-	(126)
Other decreases	-	-	(14 175)	(14 175)
31/12/2016				
Net book value	-	-	-	-

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

10.2. 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 2017 would not be influenced.

10.3. 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 2017 the Company obtained CO_2 emission allowances in the amount of 130 221 tons.

	Value	Quantity (in tonnes)
01/01/2017		
Granted free of charge for 2017	18 402	130 221
Settlement for 2016	(33 729)	(233 445)
Purchase/(Sale), net	15 327	103 224
Estimated annual consumption 2017	48 379	288 465

As at 31 December 2017 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 8.14 (31 December 2016: EUR 6.54).
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.

11. OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2017	31/12/2016
TIÚ-PLAST a.s.	879	879
	879	**879**

The Company had equity investments of CZK 879 thousand as at 31 December 2017 (31 December 2016: 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.

12. OTHER NON-CURRENT ASSETS

	31/12/2017	31/12/2016
Prepayments	6 900	-
Non-financial assets	**6 900**	-
	6 900	-

13. INVENTORIES

	31/12/2017	31/12/2016
Raw materials	305 619	288 213
Work in progress	100 559	126 910
Finished goods	96 893	79 065
Merchandise	-	112
Spare parts	85 447	44 224
Inventories, net	**588 518**	**538 524**
Impairment allowances of inventories to net realizable value	35 331	89 086
Inventories, gross	**623 849**	**627 610**

13.1. Changes in impairment allowances of inventories to net realizable value

	2017	2016
At the beginning of the year	89 086	87 245
Recognition	12 116	(2 714)
Usage	(9 469)	(6 293)
Reversal	(56 402)	-
Reclass from non-current to current	-	10 848
	35 331	**89 086**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

14. TRADE AND OTHER RECEIVABLES

	31/12/2017	31/12/2016
Trade receivables	369 472	320 105
Other	273	113
Financial assets	**369 745**	**320 218**
Other taxation, duty, social security receivables	9 192	83 313
Advances for construction in progress	2 766	-
Prepaid inventories	8 700	14 027
Prepayments and deferred costs	12 175	19 401
Non-financial assets	**32 833**	**116 741**
Receivables, net	**402 578**	**436 959**
Receivables impairment allowance	46 818	59 292
Receivables, gross	**449 396**	**496 251**

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 35 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 22.4. and detailed information about receivables from related parties is presented in note 26.

15. OTHER FINANCIAL ASSETS

	31/12/2017	31/12/2016
Cash pool	7 981	3 585
	7 981	**3 585**

16. CASH AND CASH EQUIVALENTS

	31/12/2017	31/12/2016
Cash on hand and in bank	20 847	9 798
	20 847	**9 798**
Incl. restricted cash	8 989	8 996

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.

17. SHAREHOLDERS' EQUITY

17.1. Share capital

The issued capital of the Company as at 31 December 2017 amounted to CZK 3 455 229 thousand (31 December 2016: CZK 3 455 229 thousand). This represents 29 636 460 (31 December 2016: 29 636 460) bearer ordinary shares, each with a nominal value of CZK 116 and 1 500 bearer ordinary shares, each with nominal value of CZK 11 600. All issued shares have been fully paid and bear voting rights proportional to their nominal value.

Shareholders' structure

	Number of shares	Nominal value of shares (in CZK)	Share in share capital
UNIPETROL RPA, s.r.o.	29 637 960	3 455 229 360	100%
	29 637 960	**3 455 229 360**	**100%**

17.2. Retained earnings

The shareholder decided to allocate the loss for 2016 at the amount of CZK 472 656 thousand to retained earnings.

17.3. 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 2017 and as at 31 December 2016 Company´s financial leverage amounted to 2 838.88% and (107.3%), 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

17.3.1. Net debt

	31/12/2017	31/12/2016
Cash on hand and in bank	20 847	9 798
Cash pool liabilities	(563 726)	(454 317)
	(542 879)	**(444 519)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

17.3.2. Net working capital

	Inventories	Receivables	Liabilities	Working capital
31/12/2016	538 524	436 959	859 358	116 125
31/12/2017	588 518	402 578	702 711	288 385
Change from statement of financial position	**(49 994)**	**34 381**	**(156 647)**	**(172 260)**
Adjustments				
Reclass of spare parts	2 873	-	-	2 873
Movements in prepayments for construction in progress	-	2 766	-	2 766
Movements in non-current receivables/liabilities	-	(6 900)	150	(6 750)
Movements in investing liabilities	-	-	(24 539)	(24 539)
Change from statement of cash flows	**(47 121)**	**30 247**	**(181 036)**	**(197 910)**

18. PROVISIONS

	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Environmental provision	129 282	291 395	160 381	-	289 663	291 395
Jubilee bonuses and retirement benefits provision	2 958	3 437	566	590	3 524	4 027
Provision for CO_2 emission allowances	-	-	38 784	38 107	38 784	38 107
Other provision	150	375	-	-	150	375
	132 390	**295 207**	**199 731**	**38 697**	**332 121**	**333 904**

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**

Change in provisions in 2016

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2016	156 348	4 834	50 579	375	212 136
Recognition	134 203	-	38 107	-	172 310
Discounting	844	-	-	-	844
Usage	-	(512)	(32 072)	-	(32 584)
Reversal	-	(295)	(18 507)	-	(18 802)
	291 395	**4 027**	**38 107**	**375**	**333 904**

18.1. 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 in 2019 in case of fly-ash deposits and in 2024 in case of toxic waste dump. The provision amounted to CZK 129 million as at 31 December 2017 (31 December 2016: CZK 128 million).
Additionally, the Company has the provision for liquidation and restoration of the amalgam electrolysis which was shut down in November 2017. Remediation works already started, CZK 3 million were used to cover remediation works in December 2017. The provision amounted CZK 160 million as at 31 December 2017 (31 December 2016: CZK 163 million).

18.2. 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 1.5% in 2017 (2016: 0.56%), assumptions used were based on the Collective Agreement.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

18.2.1. Change in employee benefits obligations

	Provision for jubilee bonuses 31/12/2017	Provision for jubilee bonuses 31/12/2016	Retirement benefits 31/12/2017	Retirement benefits 31/12/2016	Total 31/12/2017	Total 31/12/2016
At the beginning of the year	2 821	3 647	1 206	1 187	4 027	4 834
Current service costs	121	-	86	-	207	-
Interest expenses	16	-	7	-	23	-
Actuarial gains and losses arising from changes	(257)	-	(96)	-	(353)	-
demographic assumptions	*44*	-	*38*	-	*82*	-
financial assumptions	*(151)*	-	*(70)*	-	*(221)*	-
other	*(150)*	-	*(64)*	-	*(214)*	-
Past employment costs	-	(446)	-	151	-	(295)
Payments under program	(290)	(380)	(90)	(132)	(380)	(512)
	2 411	**2 821**	**1 113**	**1 206**	**3 524**	**4 027**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2017 and as at 31 December 2016.

18.2.2. Division of employee benefits liabilities by employees

	Active employees 31/12/2017	Active employees 31/12/2016	Pensioners 31/12/2017	Pensioners 31/12/2016	Total 31/12/2017	Total 31/12/2016
Czech Republic	3 524	4 027	-	-	3 524	4 027
					3 524	**4 027**

18.2.3. Geographical division of employee benefits liabilities

	Provision for jubilee bonuses 31/12/2017	Provision for jubilee bonuses 31/12/2016	Retirement benefits 31/12/2017	Retirement benefits 31/12/2016	Total 31/12/2017	Total 31/12/2016
Czech Republic	2 411	2 821	1 113	1 206	3 524	4 027
					3 524	**4 027**

18.2.4. Sensitivity analysis to changes in actuarial assumptions

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**

Actuarial assumptions	Assumed variations as at 31/12/2016	Czech Republic: Influence on provision for jubilee bonuses 2016	Czech Republic: Influence on retirement benefits 2016
Demographic assumptions (+)	0.5pp	(106)	(35)
staff turnover rates, disability and early retirement	*0.5pp*	*(106)*	*(35)*
Financial assumptions (+)	0.5pp	(109)	(45)
discount rate	*0.5pp*	*(109)*	*(45)*
		(215)	**(80)**
Demographic assumptions (-)	-0.5pp	113	37
staff turnover rates, disability and early retirement	*-0.5pp*	*113*	*37*
Financial assumptions (-)	-0.5pp	116	49
discount rate	*-0.5pp*	*116*	*49*
		229	**86**

18.2.5. Employee benefits maturity and payments of liabilities analysis

18.2.5.1. Maturity of employee benefits analysis

	Provision for jubilee bonuses 31/12/2017	Provision for jubilee bonuses 31/12/2016	Retirement benefits 31/12/2017	Retirement benefits 31/12/2016	Total 31/12/2017	Total 31/12/2016
Less than one year	274	266	292	323	566	589
Between one and three years	442	504	174	149	616	653
Between three and five years	363	302	114	125	477	427
Later than five years	1 332	1 749	533	609	1 865	2 358
	2 411	**2 821**	**1 113**	**1 206**	**3 524**	**4 027**
Weighted average duration of liability (in years)					7	11

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

18.2.5.2. Ageing of employee benefits payments analysis

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Less than one year	283	270	310	330	593	600
Between one and three years	490	590	206	192	696	782
Between three and five years	453	410	172	216	625	626
Later than five years	3 167	8 530	1 533	3 276	4 700	11 806
	4 393	**9 800**	**2 221**	**4 014**	**6 614**	**13 814**

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

	31/12/2017	31/12/2016
In profit and loss		
Current service costs	(207)	-
Interest expenses	(23)	-
Actuarial gains and losses arising from changes	257	-
demographic assumptions	*(44)*	-
financial assumptions	*151*	-
other	*150*	-
Past employment costs	-	295
Payments under program	380	512
	407	**807**
In components of other comprehensive income		
Gains and losses arising from changes	96	-
demographic assumptions	*(38)*	-
financial assumptions	*70*	-
other	*64*	-
	96	**-**
	503	**807**

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

	31/12/2017	31/12/2016
Cost of sales	407	-
Administrative expenses	-	807
	407	**807**

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 28.3.18.2.

18.3. 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.

19. OTHER FINANCIAL LIABILITIES

	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Cash pool	-	-	563 726	454 317	563 726	454 317
Other	3 115	2 966	-	-	3 115	2 966
	3 115	**2 966**	**563 726**	**454 317**	**566 841**	**457 283**

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. Its total amount, including accrued interest, was CZK 563 726 thousand as at 31 December 2017 (31 December 2016: CZK 454 317 thousand). The interest rates are based on appropriate inter-bank rates and the fair value of the loans approximated its carrying amount.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

20. TRADE AND OTHER LIABILITIES

	31/12/2017	31/12/2016
Trade liabilities	610 771	800 245
Investment liabilities	41 627	17 088
Other	1 066	772
Financial liabilities	**653 464**	**818 105**
Prepayments for deliveries	553	1 740
Payroll liabilities	17 377	14 605
Excise tax and fuel charge	18	-
Other taxation, duties, social security and other benefits	13 718	12 811
Accruals	17 581	12 097
holiday pay accrual	12 686	3 664
wages accrual	4 895	8 433
Non-financial liabilities	**49 247**	**41 253**
	702 711	**859 358**

Management considers that the carrying amount of trade and other liabilities and accruals approximate their fair value.

21. DEFERRED INCOME

	31/12/2017	31/12/2016
Deferred income from sodium hydrooxide	-	1 712
Other	-	121
	-	**1 833**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

22. FINANCIAL INSTRUMENTS

22.1. Financial instruments by category and class

Financial assets
31/12/2017

		Financial instruments by category		
Financial instruments by class	Note	Loans and receivables	Financial assets available for sale	Total
Unquoted shares	11.	-	879	879
Trade receivables	14.	369 472	-	369 472
Cash pool	15.	7 981	-	7 981
Cash and cash equivalents	16.	20 847	-	20 847
Other	14.	273	-	273
		398 573	**879**	**399 452**

31/12/2016

		Financial instruments by category		
Financial instruments by class	Note	Loans and receivables	Financial assets available for sale	Total
Unquoted shares	11.	-	879	879
Trade receivables	14.	320 105	-	320 105
Cash pool	15.	3 585	-	3 585
Cash and cash equivalents	16.	9 798	-	9 798
Other	14.	113	-	113
		333 601	**879**	**334 480**

Financial liabilities
31/12/2017

		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortized cost	Total
Trade liabilities	20.	610 771	610 771
Investment liabilities	20.	41 627	41 627
Cash pool	19.	563 726	563 726
Other	19.,20.	4 181	4 181
		1 220 305	**1 220 305**

31/12/2016

		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortized cost	Total
Trade liabilities	20.	800 245	800 245
Investment liabilities	20.	17 088	17 088
Cash pool	19.	454 317	454 317
Other	19.,20.	3 738	3 738
		1 275 388	**1 275 388**

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

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)

2016

	Financial instruments by category		
	Loans and receivables	Financial liabilities measured at amortized cost	Total
Interest income	285	-	285
Interest costs	-	(6 591)	(6 591)
Foreign exchange gain/(loss)	10 801	(4 054)	6 747
Recognition/reversal of receivables impairment allowances recognized in:			
other operating income/(expenses)	(14 555)	-	(14 555)
Other	1	(4 082)	(4 081)
	(3 468)	**(14 727)**	**(18 195)**
other, excluded from the scope of IFRS 7			
Provisions discounting			(844)
			(844)

22.3. Fair value measurement

	Note	31/12/2017 Fair value	31/12/2017 Carrying amount	31/12/2016 Fair value	31/12/2016 Carrying amount
Financial assets					
Unquoted shares	11.	879	879	879	879
Trade receivables	14.	369 472	369 472	320 105	320 105
Cash pool	15.	7 981	7 981	3 585	3 585
Cash and cash equivalents	16.	20 847	20 847	9 798	9 798
Other	14.	273	273	113	113
		399 452	**399 452**	**334 480**	**334 480**
Financial liabilities					
Trade liabilities	20.	610 771	610 771	800 245	800 245
Investment liabilities	20.	41 627	41 627	17 088	17 088
Cash pool	19.	563 726	563 726	454 317	454 317
Other	19.,20.	4 181	4 181	3 738	3 738
		1 220 305	**1 220 305**	**1 275 388**	**1 275 388**

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2017 and as at 31 December 2016, the Comapny 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 2017 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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22.4. 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.

22.4.1. Commodity risk

The Company is exposed to commodity price risk resulting from changes in raw material, mainly ethylene, vacuum salt, 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.

22.4.2. 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 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**

Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2016

Financial instruments by class	PLN	EUR	USD	Total after translation to CZK
Financial assets				
Trade receivables	1 296	8 936	1 026	275 681
Cash and cash equivalents	13	4	-	184
	1 309	**8 940**	**1 026**	**275 865**
Financial liabilities				
Trade liabilities	146	3 522	-	96 046
Investment liabilities	-	32	-	875
	146	**3 554**	**-**	**96 921**

Sensitivity analysis for currency changes risk

The influence of potential changes in carrying amounts of financial instruments as at 31 December 2017 and as at 31 December 2016 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	
	2017	2016	2017	2016	2017	2016	2017	2016
			variation of exchange rates +15%					
Influence on profit before tax	2 782	1 068	28 166	21 827	-	3 946	30 948	26 841

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.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in thousands of CZK)

22.4.3. 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:

	PRIBOR		WIBOR		Total	
Financial instruments by class	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets						
Cash pool	7 981	3 585	-	-	7 981	3 585
	7 981	**3 585**	-	-	**7 981**	**3 585**
Financial liabilities						
Cash pool	563 726	454 317	-	-	563 726	454 317
	563 726	**454 317**	-	-	**563 726**	**454 317**

Sensitivity analysis for interest rate risk

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

	Assumed variation		Influence on profit before tax	
Interest rate	31/12/2017	31/12/2016	2017	2016
PRIBOR	+0.5 pp	+0.5 pp	(2 779)	(2 254)
WIBOR	+0.5 pp	+0.5 pp	-	-
			(2 779)	**(2 254)**

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 2017 and as at 31 December 2016. The influence of interest rates changes was presented on annual basis.

22.4.4. 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

		31/12/2017			
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	19.	563 726	-	563 726	563 726
Trade liabilities	20.	610 771	-	610 771	610 771
Investment liabilities	20.	41 627	-	41 627	41 627
Other	19.,20.	1 066	3 115	4 181	4 181
		1 217 190	**3 115**	**1 220 305**	**1 220 305**

		31/12/2016			
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	19.	454 317	-	454 317	454 317
Trade liabilities	20.	800 245	-	800 245	800 245
Investment liabilities	20.	17 088	-	17 088	17 088
Other	19.,20.	773	2 965	3 738	3 738
		1 272 423	**2 965**	**1 275 388**	**1 275 388**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has 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. 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 2017, none of the customers represented more than 17% of the total balance of the trade receivables.

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22.4.4. Liquidity and credit risk (continued)

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

	31/12/2017	31/12/2016
Group I	355 454	297 342
Group II	-	-
	355 454	**297 342**

Ageing analysis of receivables past due, but not impaired

	31/12/2017	31/12/2016
Up to 1 month	9 183	22 861
From 1 to 3 months	66	5
From 3 to 6 months	-	10
From 6 to 12 months	2	-
Above 1 year	5 040	-
	14 291	**22 876**

Change in impairment allowances of trade and other receivables

	31/12/2017	31/12/2016
At the beginning of the year	59 292	42 422
Recognition	31 178	20 248
Reversal	(35 874)	(5 693)
Usage	-	(464)
Foreign exchange differences	(7 778)	2 779
	46 818	**59 292**

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.

22.4.5. 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.

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OTHER EXPLANATORY NOTES

23. LEASE

23.1. The Company as a lessee

Operating lease
At the balance sheet date, the Company is a lessee under non-cancellable operating lease arrangements.
Future minimum lease payments under non-cancellable operating lease arrangements were as follows:

	31/12/2017	31/12/2016
Less than one year	23 575	3 895
Between one and five years	61 147	6 178
Later than five years	1 865	-
	86 587	**10 073**

The Company leases railway cars, PSA unit for the production of liquid nitrogen and other vehicles under operating leases. Lease payments are adjusted annually to reflect market conditions. None of the leases includes contingent rentals.
Payments recognized as an expense were as follows:

	2017	2016
Non-cancellable operating lease	34 239	39 829

23.2. 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 9.

24. INVESTMENT EXPENDITURES INCURRED AND FUTURE COMMITMENTS RESULTING FROM SIGNED INVESTMENT CONTRACTS

The total value of investment expenditures including borrowing costs amounted to CZK 340 899 thousand as at 31 December 2017 and CZK 86 902 thousand as at 31 December 2016, including environmental expenditures in amount of CZK 5 065 thousand and CZK 9 300 thousand, respectively.
As at 31 December 2017 the value of future commitments resulting from contracts signed to this date amounted to CZK 112 482 thousand (31 December 2016: CZK 219 445 thousand).

25. 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 5 596 611 thousand were invested within the guarantee as at 31 December 2017 (31 December 2016: CZK 5 594 931 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 2017 issued a guarantee for the Company in favour of DOW Europe GmbH to ensure the payment terms in the amount of CZK 153 240 thousand.

26. RELATED PARTY TRANSACTIONS

26.1. Material transactions concluded by the Company with related parties

In 2017 and in 2016 there were no transactions concluded by the Company with related parties on other than arm's length terms.

26.2. Transactions with key management personnel

In 2017 and in 2016 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 2017 and in 2016 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.

26.3. Transactions with related parties concluded by key management personnel

In 2017 and in 2016 members of the key management personnel submitted statements that they have not concluded any transaction with related parties.

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26.4. Transactions and balances of settlements of the Company with related parties

The ultimate controlling party is Polski Koncern Naftowy ORLEN S.A., which held 62.99% of shares in the parent company UNIPETROL, a.s. in 2017 and 2016.

2017	UNIPETROL, a.s.	ANWIL S.A.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Sales	-	216 496	3 553	383 834
Purchases	1 943	97 269	139 080	1 570 680
Finance costs	4 020	21	-	-

31/12/2017	UNIPETROL, a.s.	ANWIL S.A.	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	-	15 633	377	12 440
Trade and other liabilities, including loans	393	31 418	23 839	191 944
Other financial liabilities	563 725	-	-	-

2016	UNIPETROL, a.s.	ANWIL S.A.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Sales	-	279 732	3 765	354 943
Purchases	-	174 103	362 271	903 977
Finance costs	2 501	7 241	8	-

31/12/2016	UNIPETROL, a.s.	ANWIL S.A.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Other financial assets	3 585	-	-	-
Trade and other receivables	-	6 399	384	16 596
Trade and other liabilities, including loans	8	5 303	23 209	423 409
Other financial liabilities	454 317	-	-	-

27. 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 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.

27.1. Key management personnel and statutory bodies' members' compensation

	2017		2016	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current year	(22 181)	-	(9 964)	-
Paid for previous year	(3 887)	-	(3 987)	-
Potentially due to be paid in the following year	(7 179)	-	(4 037)	-

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

27.2. Bonus system for key executive personnel

In 2017 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 so-said 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.

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28. ACCOUNTING PRINCIPLES

28.1. Impact of IFRS amendments and interpretations on separate financial statements

28.1.1. Binding amendments to IFRSs and interpretations

Standards and Interpretations adopted by the EU	Possible impact on financial statements
Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative	no impact
Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses	no impact

28.1.2. 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 9 Financial Instruments	impact*
IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15	impact**
IFRS 16 Leases	impact***
Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	no impact expected
Amendments to IFRS 15 Revenue from Contracts with Customers: Clarifications to IFRS 15 Revenue from Contracts with Customers	no impact expected

28.1.3. 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
Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions	no impact expected
Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	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 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures	no impact expected
Amendments to IAS 40 Transfers of Investment Property: Transfers of Investment	no impact expected
Amendments to various standards due to "Improvements to IFRSs (cycle 2014-2016)" 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	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
IFRIC 22 Foreign Currency Transactions and Advance Consideration	no impact expected
IFRIC 23 Uncertainty over Income Tax Treatments	no impact expected

*The new Standard will have 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, classification and valuation of financial assets will not change under the influence of the application of IFRS 9.

**Initial application of the Standard will not have a material impact on timing and amount of revenue recognized by the Company in its financial statements.

***Bringing operating leases in statement of financial position will result in recognizing a new asset – the right to use the underlying asset – and a new liability – the obligation to make lease payments. The right-of-use of asset will be depreciated and the liability accrues interest.

It is expected that the standard, when initially applied, may have an impact on the amounts of non-current assets and lease liabilities reported in the Company financial statement, mainly in respect of machinery and equipment and vehicles. As at 31 December 2017 the Company does not have a reliable estimates of the influence of IFRS16 on the financial statements, as its analysis are in progress.

28.2. 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.

28.3. Applied accounting policies

28.3.1. 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.

28.3.2. Revenues

Revenues from sales (from operating activity) include revenues that relate to core activities, i.e. activities for which the Company was founded, revenues are recurring and are not of incidental character.
Revenues from sales are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from the sale of goods and services are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods and services decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges.
Revenues are measured at the fair value of the received or due payments. Revenues from sale are adjusted for profit or loss from settlement of cash flows hedging instruments related to the above mentioned revenues.
Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Company and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognized up to the cost incurred, but not greater than the cost which is expected to be recovered by the Company.

28.3.3. 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.

28.3.4. 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.

28.3.5. 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.

28.3.6. 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.

28.3.7. Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the net profit or loss for a given period which is attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.
The Company has no potential dilutive shares.

28.3.8. 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.

28.3.9. 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.

28.3.10. 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

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28.3.10. Intangible assets (continued)

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.

28.3.10.1. 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).

28.3.11. 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.

28.3.11. Impairment of property, plant and equipment and intangible assets (continued)

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.

28.3.12. 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.
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.

28.3.13. 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 based on an individual analysis of the value of held collaterals, and based on possible compensations of debts, allowances.
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.

28.3.14. 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.

28.3.15. 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

28.3.15. Non-current assets held for sale and discontinued operations (continued)

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.

28.3.16. 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:

28.3.16.1. 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.

28.3.16.2. 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.

28.3.16.3. 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.

28.3.17. 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.

28.3.18. 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.

28.3.18.1. 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.

28.3.18.2. 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.

28.3.18.3. 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.

28.3.18.4. 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).

28.3.18.5. 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.

28.3.19. 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 28.3.10.1.

28.3.20. 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.

28.3.21. Financial instruments

28.3.21.1. 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.

28.3.21.2. Transfers

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

28.3.22. Fair value management

The Company maximises the use of relevant observable inputs and minimizes the use of unobservable inputs to meet the objective of fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.
The Company measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets.
The fair value of derivatives is based on discounted future flows related to contracted transactions as the difference between term price and transaction price.
Forward rates of exchange are not modeled as a separate risk factor, but they are calculated as a result of a spot rate and a forward interest rate for foreign currency in relation to CZK.
Derivative instruments are presented as assets when their valuation is positive and as liabilities when their valuation is negative.
Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognised in the current year profit or loss.
As compared to the previous reporting period, the Company has not changed valuation methods concerning derivative instruments.

28.3.23. 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.

28.3.24. 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.

28.3.25. Events after the reporting period

Subsequent events after the reporting date are those events, favourable and unfavourable 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).

29. 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: 7. Tax credit/(expense), 8. Property, plant and equipment, 9. Investment property, 10. Intangible assets, 13.1. Changes in impairment allowances of inventories to net realizable value and 22. Financial instruments.

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

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30. 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 2017).

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. Na Pankráci 127, 140 00 Praha 4, Czech Republic			Corporate Functions	www.unipetrol.cz
Subsidiaries consolidated in full method				
HC VERVA Litvínov, a.s. S.K. Neumanna 1598, Ltivínov Czech Republic	–	70.95%	Corporate Functions	www.hokej-litvinov.cz
Nadace Unipetrol Záluží 1, 436 01 Litvínov, Czech Republic	–	100.00%	Corporate Functions	www.nadaceunipetrol.cz
PARAMO, a.s. Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	100.00%	–	Downstream	www.paramo.cz
Paramo Oil s.r.o. (in liquidation) Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	–	100.00%	Downstream	
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Downstream	www.petrotrans.cz
SPOLANA a.s. ul. Práce 657, 277 11 Neratovice, Czech Republic	–	100.00%	Downstream	www.spolana.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B, 63225 Langen/Hessen, Germany	0.10%	99.90%	Downstream	www.unipetrol.de
UNIPETROL DOPRAVA s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12%	99.88%	Downstream	www.unipetroldoprava.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	–	Downstream Corporate Functions Retail	www.unipetrolrpa.cz
UNIPETROL RPA Hungary Kft. 2040 Budaörs, Puskás Tivadar utca 12, Hungary	–	100.00%	Downstream	
UNIPETROL SLOVENSKO s.r.o. Jašíkova 2, Ružinov, 821 03 Bratislava, Slovak Republic	13.04%	86.96%	Downstream	www.unipetrol.sk
Unipetrol výzkumně vzdělávací centrum, a.s. 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. 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.

31. EVENTS AFTER THE REPORTING PERIOD

At its meeting the Board of Directors elected Jacek Andrzej Aliński chairman of the Board, Miroslav Falta vice-chairman of the Board, effective 2 January 2018, and Martin Komůrka member of the Board, effective 1 January 2018.
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 2017.

32. 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 2017 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 2017 statutory financial statements issuance.
Based on these facts, the financial statements have been prepared on a going concern basis.

33. STATEMENTS OF THE MANAGEMENT BOARD AND APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors of SPOLANA a.s. 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 28.3.) 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 Board of Directors meeting held on 26 February 2018.

Signature of statutory representatives	
Jacek Andrzej Aliński	Martin Komůrka
Chairman of the Board of Directors	Member of the Board of Directors

Deloitte.

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Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SPOLANA a.s.

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

Opinion

We have audited the accompanying financial statements of SPOLANA a.s. (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 2017, 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 a.s. as at 31 December 2017, 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.

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 Board of Directors is 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 Board of Directors and Supervisory Board for the Financial Statements

The Board of Directors is 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 Board of Directors determines 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 Board of Directors is 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

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 Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 Board of Directors and the Supervisory Board 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 26 February 2018

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Martin Tesař
registration no. 2030