Unipetrol
ORLEN GROUP

Annual report for the year 2019

SPOLANA s.r.o.

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Annual Report of the Company SPOLANA s.r.o. was prepared in accordance with the provisions of article 21 of the Act No. 563/1991 Coll., on Accounting, as amended.

1 IDENTIFICATION DATA AND OVERVIEW OF COMPANY ACTIVITIES

Company name: SPOLANA s.r.o.

Registered office: Neratovice, ul. Práce 657, PSČ 27711, Czech Republic

Identification number: 451 47 787

Registered capital

1 024 786 460 Kč – registered on 19 December 2019

Based on the decision of the sole shareholder of the company SPOLANA s.r.o., which is the company UNIPETROL RPA, s.r.o., from 19 December 2019 the registered capital of the company SPOLANA s.r.o. was increased by CZK 995 000 000 to total amount of CZK 1 024 786 460. Obligation to increase the registered capital by CZK 995 000 000 was taken over by the sole shareholder UNIPETROL RPA, s.r.o. and as of 31 December 2019 the contribution was completely repaid.

Company foundation

The company SPOLANA a.s. was established on 1 May 1992 by the transformation of the state enterprise. From the end of 2001 to November 2006 the Company was part of capital group UNIPETROL, which since May 2005 became part of polish rafine group PKN ORLEN. In November 2006 the Company was sold within the group to the polish company Zakłady Azotowe ANWIL S.A., whose subsidiary the Company was until June 2016. On 10 June 2016 all shares of the Company were purchased by the company UNIPETROL RPA, s.r.o. and thus became the sole shareholder of the Company.

As of 1 December 2018 the Company changed its legal form from a joint stock company (a.s.) to a limited liability company. Since this day the business name of the Company is SPOLANA s.r.o.

The Company is part of consolidation group of UNIPETROL, a.s., majority shareholder of the company UNIPETROL, a.s. is Polski Koncern Naftowy ORLEN S.A.

The company SPOLANA s.r.o. did not acquire any of its own shares.

Main business activity

Main business activity of the Company is production of chemical products in an industrial way. The Company produces suspension polyvinylchloride (PVC), caprolactam, ammonium sulfate and sulfuric acid.

Statutory body - executives:

Mgr. Krzysztof Stanisław Bączyk	in office since 1 December 2018
Ing. Miroslav Falta	in office since 1 December 2018
Adam Paweł Sadłowski	in office since 1 December 2018
Konrad Marek Szykuła	in office since 1 January 2019

2 FINANCIAL RESULTS

The year 2019 was not favorable for the Company, due do decrease in demand and due to many technical problems on production units there was a significant drop in produced volumes and revenues. Revenues from PVC reduced by 30.4%, revenues from sales of caprolactam decreased by 17%, increased only sales of sulfuric acid (by 46.8%), which, unfortunately, create only small share of total revenues. Total revenues of the Company were CZK 3 717 336 thousand compared to CZK 4 888 981 thousand in 2018, which means a decline by 24%. Operational profit/loss (EBIT) was negative CZK – 402 872 thousand and was influenced negatively by created impairment losses to new acquired fixed assets in the amount of CZK 187 484 thousand. Net loss reached CZK -410 727 thousand.

3 INFORMATION ON EXPECTED DEVELOPMENT

Development of Company activities for the period 2019 to 2023 was defined by Strategic plan, approved in 2018.

In response to recognized impairment losses, revitalization program was prepared and approved at the end of 2019. The aim of the program to increase efficiency and operational availability of the production units, decrease of production costs and reduction of environmental impact.

PVC production: since November 2017 VCM/PVC production is being carried out from externally purchased raw materials. On inactive amalgam electrolysis plant dismantling of technology is being carried out.

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

Power plant: at the end of 2018 operation of coal boilers burning brown coal was terminated. At present steam is produced on natural gas boiler. This step has significant positive impact on the environment (especially reduction of air emissions and elimination of dust load from coal handling and thus improvement of working environment). Construction of new energy center was completed, at present trial operation is in progress.

4 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 2019.

5 OTHER INFORMATION

1. 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 2019 were focused especially on following topics:

Greening and optimizing of heat production by replacing coal boilers with the gas boilers and by optimizing heat distribution system – the construction of a new energy center was realized and trial operation with verifiable savings of fuel was launched.

Modernization of sulphuric acid production with an increase of specific heat production - a feasibility study was prepared focusing on the renewal of the plant with a higher utilization of reaction heat for steam production. Based on the study higher level of documentation for tender is being prepared.

Increase of storage capacity and quality of liquid caprolactam – the design organisation was selected which should prepare tender documentation and documentation for building permission.

Activities aiming to reduce trichlorethylene emissions into the working area and environment from caprolactam production have been expanded by other measures, implementation documentation was prepared and supplier was selected.

Works are being performed on projects aiming to change caprolactam production on technology without trichloroethylene (four possible ways are followed at present).

A study was prepared for transition of production of HAS (hydroxylamine sulphate) and ammonium sulphate in caprolactam production from flow cooling to circulating cooling. In the first stage renewal and intensification of existing circulating waterwork is being prepared.

Study of renewal of machinery cooling of HAS (hydroxylamine sulphate) production was prepared consisting in installation of circulating coolers of ammonia, which will replace flow cooling by river water.

2. ENVIRONMENTAL ACTIVITIES

During 2018 the Regional Authority of the Central Bohemian Region launched a review of integrated permits concerning the operation of the wastewater treatment plant and the production of vinyl chloride (VCM). The review was launched on the basis of the best available techniques; the conclusions of which have to be applied within four years. Preliminarily, serious deficiencies have not been identified in the wastewater treatment plant. In VCM production, we slightly exceed the emission limit for nitrogen oxides on the cracking furnace. In this case, negotiations were held with state administration bodies. In 2020 Spolana will apply for an exception for transitional period until the problem is solved.

In August 2018, SPOLANA s.r.o. filed the review report for the use of trichloroethylene (TCE) in caprolactam production under EC Regulation 1907/2006 (REACH). The permit to use TCE is available for Spolana up to April 2020, in a re-examination request Spolana has requested an extension of the permit for another 12 years. In 2019 ECHA advised the European Commission to prolong the permission for requested 12 years. European Commission issues final decision in this matter, decision was not made yet.

In the area of old ecological burdens the monitoring of underground and surface water and the maintenance of the concrete area in the site of the former BCD technology continued during 2019. At the end of the year 2018, the Ministry of Finance had issued a public contract for remediation in the area between the in-house communications and the Labe River, which is contaminated with mercury. The winner of the tender is association of companies AVE CZ and Geosan Group. In 2019 preparing works for remediation were performed. A public contract for the remediation of groundwater contaminated with chlorinated hydrocarbons in the area „Petrochemie“ was cancelled in 2018. In 2019 a purpose risk analysis was approved which assesses the development of groundwater contamination, with an impact on the necessary updating of the Czech Environmental Inspectorate's decision. SPOLANA s.r.o. applied Czech Environmental Inspectorate to update issued decision with effect on prolongation of the remediation deadline till 31 December 2032. As part of the underground survey, contamination with persistent organic substances was detected in the PVC production site and, to a lesser extent, in Electrolysis site. Contamination concerns to old environmental burdens. SPOLANA s.r.o. notified the matter to the Ministry of Finance and to Czech Environmental Inspectorate which requests additional survey to specify the extent of contamination. Additional survey was not started yet.

3. 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, increasing qualifications of employees in the interest of Company development
- 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.
- From 2018 the monthly bonus of superior was added to the scheme to increase the motivation
- The change of surcharges from 10% to 20% for the fire brigade
- From 2018, the wage conditions were revised and updated according to the current needs of individual plants

In the fourth quarter 2019 negotiations began on a new Collective agreement for the period 2020 – 2023, the new Collective agreement was signed on 29 January 2020 with effect from 1 January 2020.

4. INFORMATION ON ORGANIZATIONAL UNITS ABROAD

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

6 FINANCIAL STATEMENTS

An integral part of this Annual Report are Independent Auditor´s Report and Fiancial Staements for the year 2019 which include:

- Statement of profit or loss and other comprehensive income for the period 1 January 2019 to 31 December 2019
- Statement of financial position as per 31 December 2019
- Statement of changes in equity for the period from 1 January 2019 to 31 December 2019
- Statement of cash flows for the period from 1 January 2019 to 31 December 2019
- Notes to the Fiancial Statements

7 REPORT ON RELATIONS BETWEEN THE CONTROLLING PERSON AND THE CONTROLLED PERSON AND BETWEEN THE CONTROLLED PERSON AND OTHER PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON IN THE YEAR 2019

An integral part of this Annual Report is Report on relations between the controlling person and the controlled person and between the controlled person and other persons controlled by the same controlling person in the year 2019.

Signature of statutory representatives

Konrad Marek Szykuła
Executive

Miroslav Falta
Executive

Annexes:

1. Auditor´s Report
2. Financial Statements for the year 2019
3. Report on relations between related parties for the year 2019

Unipetrol

ORLEN GROUP

SPOLANA s.r.o.

SEPARATE
FINANCIAL STATEMENTS
Translation from the Czech original

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

FOR THE YEAR 2019

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SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

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

Statement of profit or loss and other comprehensive income

	Note	2019	2018
Statement of profit or loss			
Revenues	3.	3 717 336	4 888 981
Cost of sales	4.1.	(3 627 358)	(4 369 981)
Gross profit on sales		**89 978**	**519 000**
Distribution expenses	4.2.	(85 422)	(100 918)
Administrative expenses	4.2.	(218 773)	(222 839)
Other operating income	5.1.	18 882	39 390
Other operating expenses	5.2.	(208 213)	(786 910)
Reversal of loss due to impairment of financial instruments	6.	676	2 401
Loss from operations		**(402 872)**	**(549 876)**
Finance income	7.1.	125	2 253
Finance costs	7.2.	(23 137)	(10 931)
Net finance costs		**(23 012)**	**(8 678)**
Loss before tax		**(425 884)**	**(558 554)**
Tax expense	8.	15 157	18 923
Net loss		**(410 727)**	**(539 631)**
Other comprehensive income			
Items which will not be reclassified into profit or loss			
Actuarial gains and losses		*(2)*	*31*
		(2)	**31**
Total net comprehensive income		**(410 729)**	**(539 600)**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-39.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

Statement of financial position

	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment	9.	111 864	111 864
Investment property	10.	18 863	22 567
Other non-current financial assets	12.	879	879
Deferred tax assets	8.2.	62 416	47 259
Other non-current assets	13.	6 900	6 900
		200 922	**189 469**
Current assets			
Inventories	15.	611 013	603 501
Trade and other receivables	16.	347 203	436 048
Other financial assets	17.	49 323	3 343
Cash and cash equivalents	18.	13 281	19 582
		1 020 820	**1 062 474**
Total assets		**1 221 742**	**1 251 943**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	19.1.	1 024 786	29 786
Retained earnings	19.2.	(988 881)	(554 520)
Total equity		**35 905**	**(524 734)**
LIABILITIES			
Non-current liabilities			
Loans, borrowings	20.	-	174
Provisions	21.	205 670	134 321
Lease liabilities	22.	14 791	-
Other financial liabilities	22.	3 259	3 184
		223 720	**137 679**
Current liabilities			
Trade and other liabilities	23.	821 601	906 174
Liabilities from contracts with customers	24.	4 351	1 397
Loans, borrowings	20.	264	444
Provisions	21.	125 868	223 163
Deferred income	25.	507	-
Lease liabilities	22.	8 402	-
Other financial liabilities	22.	1 124	507 820
		962 117	**1 638 998**
Total liabilities		**1 185 837**	**1 776 677**
Total equity and liabilities		**1 221 742**	**1 251 943**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-39.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

Statement of changes in equity

	Share capital	Retained earnings	Total equity
Note	19.1.	19.2.	
01/01/2019 (previously reported)	29 786	(554 520)	(524 734)
Impact of IFRS 16 adoption	-	(23 632)	(23 632)
01/01/2019 (converted data)	29 786	(578 152)	(548 366)
Net loss	-	(410 727)	(410 727)
Items of other comprehensive income	-	(2)	(2)
Total net comprehensive income	-	**(410 729)**	**(410 729)**
Increase of share capital*	995 000	-	995 000
31/12/2019	**1 024 786**	**(988 881)**	**35 905**
01/01/2018 (previously reported)	3 455 229	(3 436 106)	19 123
Impact of IFRS 9 adoption	-	(4 257)	(4 257)
01/01/2018 (converted data)	3 455 229	(3 440 363)	14 866
Net loss	-	(539 631)	(539 631)
Items of other comprehensive income	-	31	31
Total net comprehensive income	-	**(539 600)**	**(539 600)**
Decrease of share capital*	(3 425 443)	3 425 443	-
31/12/2018	**29 786**	**(554 520)**	**(524 734)**

*Further described in note 19.1.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

Statement of cash flows

	Note	2019	2018
Cash flows from operating activities			
Loss before tax		**(425 884)**	**(558 554)**
Adjustments for:			
Depreciation and amortisation	4.2.	-	36 635
Interest and dividends, net		18 921	8 086
Profit on investing activities		(4 278)	(6 864)
Impairment allowances to property, plant and equipment and intangible assets	14.	187 484	772 852
Change in provisions		64 096	72 451
Other adjustments		(54 146)	(31 307)
Change in working capital		(13 323)	216 658
inventories		*(7 512)*	*(14 983)*
receivables		*87 478*	*2 981*
liabilities		*(93 289)*	*228 660*
Net cash from/(used in) operating activities		**(227 130)**	**509 957**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(185 644)	(450 860)
Disposal of property, plant and equipment and intangible assets		-	102
Proceeds/(outflows) from cash pool assets		(45 979)	4 638
Other		56	38
Net cash used in investing activities		**(231 567)**	**(446 082)**
Cash flows from financing activities			
Proceeds/(outflows) from loans and borrowings		(354)	618
Outflows from cash pool liabilities		(506 833)	(56 320)
Interest paid		(17 754)	(8 630)
Payments of liabilities under lease agreements		(16 761)	-
Increase of share capital		995 000	-
Other		(902)	(810)
Net cash provided by/(used in) financing activities		**452 396**	**(65 142)**
Net decrease in cash and cash equivalents		**(6 301)**	**(1 267)**
Effect of exchange rate changes on cash and cash equivalents		-	2
Cash and cash equivalents, beginning of the year*		19 582	20 847
Cash and cash equivalents, end of the year*	18.	**13 281**	**19 582**

*including restricted cash

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-39.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

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

1. DESCRIPTION OF THE COMPANY

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

Identification number of the Company
451 47 787

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

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

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

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

Statutory and supervisory bodies
Statutory representatives of the Company as at 31 December 2019 were as follows:

Position	Name
Statutory representative	Krzysztof Stanisław Bączyk
Statutory representative	Miroslav Falta
Statutory representative	Adam Paweł Sadłowski
Statutory representative	Konrad Marek Szykula

Changes in statutory representatives in 2019 were as follows:

Position	Name	Change	Date of change
Statutory representative	Konrad Marek Szykula	Elected to the office	1 January 2019

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

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 2019. 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 2019, results of its operations and cash flows for the year ended 31 December 2019.
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 32.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

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

3. REVENUES

	2019	2018
Revenues from sales of finished goods and services, net	3 713 352	4 848 329
revenue from contracts with customers	*3 701 842*	*4 836 664*
excluded from scope of IFRS 15	*11 510*	*11 665*
Revenues from sales of merchandise and raw materials, net	3 984	40 652
revenue from contracts with customers	*3 984*	*40 652*
excluded from scope of IFRS 15	-	-
	3 717 336	**4 888 981**
revenue from contracts with customers	*3 705 826*	*4 877 316*

Contracts excluded from the scope of IFRS 15 refer to lease agreements.

3.1. Revenues by assortments

	2019	2018
Revenue from contracts with customers	3 705 826	4 877 316
PVC plant	*1 470 808*	*2 204 874*
Caprolactam plant	*2 187 389*	*2 590 921*
Other	*47 629*	*81 521*
excluded from scope of IFRS 15	11 510	11 665
Other	*11 510*	*11 665*
	3 717 336	**4 888 981**

Revenues from 1 individual customer in the amount of CZK 454 032 thousand represented more than 10% of the Company's total revenues in 2019 (2018: CZK 490 776 thousand).

3.2. Revenues by geographical division

	2019	2018
Revenue from contracts with customers	3 705 826	4 877 316
Czech Republic	*763 701*	*818 622*
European Union	*2 615 557*	*3 828 312*
Other countries	*326 568*	*230 382*
excluded from scope of IFRS 15	11 510	11 665
Czech Republic	*11 510*	*11 665*
	3 717 336	**4 888 981**

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

3.3. Revenues from contracts with customers by type of contract

	2019	2018
Based on fixed price contracts	3 175 825	4 306 287
Based on variable price contracts	526 412	564 963
Based on time and materials consumption	3 589	6 066
	3 705 826	**4 877 316**

3.4. Revenues from contracts with customers by date of transfer

	2019	2018
At point of time	2 864 534	3 340 370
Over time	841 292	1 536 946
	3 705 826	**4 877 316**

3.5. Revenues from contracts with customers by duration of contract

	2019	2018
Short-term contracts	3 705 826	4 877 316
Long-term contracts	-	-
	3 705 826	**4 877 316**

3.6. Revenues from contracts with customers by sales channel

	2019	2018
Direct sales	-	-
Other sales	3 705 826	4 877 316
	3 705 826	**4 877 316**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

4. OPERATING EXPENSES

4.1. Cost of sales

	2019	2018
Cost of finished goods and services sold	(3 623 206)	(4 366 878)
Cost of merchandise and raw materials sold	(4 152)	(3 103)
	(3 627 358)	**(4 369 981)**

4.2. Cost by nature

	Note	2019	2018
Materials and energy		(2 978 819)	(3 770 669)
Cost of merchandise and raw materials sold		(4 152)	(3 103)
External services		(393 756)	(437 436)
Employee benefits		(444 875)	(396 764)
Depreciation and amortization		-	(36 635)
Taxes and charges		(25 203)	(86 470)
Recognition of impairment allowances of property, plant and equipment and intangible assets	14.	(187 484)	(772 852)
Other		(79 979)	(71 668)
		(4 114 268)	**(5 575 597)**
Change in inventories		(25 498)	94 883
Cost of products and services for own use		-	66
Operating expenses		**(4 139 766)**	**(5 480 648)**
Distribution expenses		85 422	100 918
Administrative expenses		218 773	222 839
Other operating expenses		208 213	786 910
Cost of sales		**(3 627 358)**	**(4 369 981)**

4.3. Employee benefits costs

	2019	2018
Payroll expenses	(316 899)	(283 753)
Future benefits expenses	(505)	(1 439)
Social security expenses	(107 143)	(95 473)
Other employee benefits expenses	(20 328)	(16 099)
	(444 875)	**(396 764)**

2019	Employees	Key Management	Total
Wages and salaries	(300 820)	(16 079)	(316 899)
Social and health insurance	(102 569)	(4 574)	(107 143)
Social expense	(17 321)	(3 007)	(20 328)
Change of employee benefits provision	(502)	(3)	(505)
	(421 212)	**(23 663)**	**(444 875)**
Number of employees average per year	710.83	3.50	714.33
Number of employees as at balance sheet day	733	5	738
Number of statutory representatives as at balance sheet day		4	4

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

5. OTHER OPERATING INCOME AND EXPENSES

5.1. Other operating income

	2019	2018
Profit on sale of non-current non-financial assets	-	102
Reversal of provisions	7 982	50
Penalties and compensations	971	786
Revaluation of investment properties	-	8 145
Stocktaking discrepancies	9 354	13 597
Derecognition of other liabilities	-	16 098
Other	575	612
	18 882	**39 390**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

5.2. Other operating expenses

		2019	2018
Loss on sale of non-current non-financial assets		-	(1 385)
Recognition of provisions		(14 316)	(50)
Recognition of impairment allowances of property, plant and equipment and intangible assets	14.	(187 484)	(772 852)
Revaluation of provision to CO_2 consumption		-	(6 345)
Donations		(263)	(86)
Revaluation of investment properties		(3 704)	-
Other		(2 445)	(6 192)
		(208 213)	**(786 910)**

6. REVERSAL OF LOSS DUE TO IMPAIRMENT OF FINANCIAL INSTRUMENTS

Reversal of loss at the amount of CZK 676 thousand (2018: CZK 2 401 thousand) related to impairment of trade receivables.

7. FINANCE INCOME AND COSTS

7.1. Finance income

	2019	2018
Interest	125	37
Net foreign exchange gain	-	2 216
	125	**2 253**

7.2. Finance costs

	2019	2018
Interest	(18 078)	(7 292)
Net foreign exchange loss	(2 257)	-
Other	(2 802)	(3 639)
	(23 137)	**(10 931)**

8. TAX CREDIT/(EXPENSE)

	2019	2018
Tax credit/(expense) in the statement of profit or loss		
Current tax	-	-
Deferred tax	15 157	18 923
	15 157	**18 923**

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2019 (2018: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2020 and forward i.e. 19%.

8.1. The reconciliaton of effective tax rate

	2019	2018
Loss for the year	(410 727)	(539 631)
Total tax credit	15 157	18 923
Loss before tax	(425 884)	(558 554)
Income tax using domestic income tax rate	80 918	106 125
Non-deductible expenses	(75 114)	(71 377)
Tax exempt income	37 042	20 377
Recognition of previously unrecognized deferred tax asset	-	18 923
Change in not recognized deferred tax assets	(29 780)	-
Utilization of unused tax losses	-	57 360
Impairment allowances of property, plant and equipment and intangible assets	2 891	(146 842)
Other differences	(800)	34 357
Total tax credit	**15 157**	**18 923**
Effective tax rate	**(3.56%)**	**(3.39%)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

8.2. Deferred tax

Deferred taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19% in 2020 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.

	31/12/2018	Deferred tax recognized in statement of profit or loss	31/12/2019
Deferred tax receivables			
Unused tax losses carried forward	47 259	15 157	62 416
	47 259	**15 157**	**62 416**

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

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 2020 - 2022.
In the calculation of deferred tax assets as at 31 December 2019 the Company has not recognized unused tax losses in the amount of CZK 266 494 thousand due to the unpredictability of future taxable income (31 December 2018: CZK 169 051 thousand). These unrecognized tax losses will expire by the end of 2023.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. PROPERTY, PLANT AND EQUIPMENT

9.1. Changes in property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2019						
Net book value						
Gross book value	111 864	253 019	433 097	17 594	294 284	**1 109 858**
Accumulated depreciation	-	(253 019)	(433 097)	(17 594)	(294 284)	**(997 994)**
	111 864	**-**	**-**	**-**	**-**	**111 864**
increase/(decrease) net						
Investment expenditures	-	-	-	-	182 582	182 582
Impairment allowances	-	(22 696)	(46 755)	(469)	(120 535)	(190 455)
Reclassifications	-	12 367	54 520	473	(67 360)	-
Liquidation	-	(4)	(2 612)	-	-	(2 616)
Other increases/(decreases)	-	10 333	(5 153)	(4)	5 313	10 489
31/12/2019						
Net book value	**111 864**	**-**	**-**	**-**	**-**	**111 864**
Gross book value	111 864	275 715	479 852	18 064	414 819	**1 300 314**
Accumulated depreciation and impairment allowances	-	(275 715)	(479 852)	(18 064)	(414 819)	**(1 188 450)**
	111 864	**-**	**-**	**-**	**-**	**111 864**
01/01/2018						
Net book value						
Gross book value	111 864	130 540	226 263	4 291	270 946	**743 904**
Accumulated depreciation	-	(106 886)	(94 193)	(43)	5 312	**(195 810)**
	111 864	**23 654**	**132 070**	**4 248**	**276 258**	**548 094**
Increase/(decrease) net						
Investment expenditures	-	-	-	-	367 184	367 184
Depreciation	-	(5 584)	(29 913)	(1 092)	-	(36 589)
Impairment allowances	-	(140 549)	(308 991)	(16 459)	(299 596)	(765 595)
Reclassifications	-	124 166	208 219	13 303	(343 846)	1 842
Liquidation	-	-	(1 385)	-	-	(1 385)
Other decreases	-	(1 687)	-	-	-	(1 687)
31/12/2018						
Net book value	**111 864**	**-**	**-**	**-**	**-**	**111 864**

Main investment expenditures in 2019 were spent for the equipment for new energy supply (CZK 33 980 thousand), the heating of non-production buildings (CZK 21 702 thousand) and the replacement of oxychlorine reactors (CZK 13 000 thousand).
Detailed information regarding impairment recognized in 2019 a 2018 is presented in note 14.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

9.2. Other information on property, plant and equipment

	31/12/2019	31/12/2018
The gross book value of all fully depreciated property, plant and equipment still in use	111 724	5 250

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 2019 would not be influenced.

10. INVESTMENT PROPERTY

	2019	2018
At the beginning of the year	22 567	16 264
Reclassification to property, plant and equipment	-	(1 842)
Fair value measurement	(3 704)	8 145
increase	-	8 145
decrease	(3 704)	
	18 863	**22 567**

Rental income amounted to CZK 3 411 thousand in 2019 (2018: CZK 3 572 thousand). Operating costs related to investment property amounted to CZK 639 thousand in 2019 (2018: CZK 204 thousand).

10.1. Fair value of investment property measurement

Investment property as at 31 December 2019 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 7.16% was used for the calculation of the investment property fair value.
In the year ended 31 December 2019 and the comparative period there were no changes in the measurement approach.

			Fair value hierarchy	
	Carrying amount	Fair value	Level 2	Level 3
31/12/2019	18 863	18 863	-	18 863
31/12/2018	22 567	22 567	-	22 567

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

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

		Level 3		
	Increase by	Total impact	Decrease by	Total impact
Change in discount rate	+1 pp	(814)	-1 pp	814

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

11. INTANGIBLE ASSETS

11.1. Changes in intangible assets

	Software	Assets under development	CO_2 emission allowance	Total
01/01/2019				
Net book value				
Gross book value	400	6 973	-	**7 373**
Accumulated amortization	(400)	(6 973)	-	**(7 373)**
	-	-	-	-
increase/(decrease) net				
Investment expenditures	-	(2)	12 962	12 960
Impairment allowances	(6)	69	-	63
Other decreases	6	(67)	(12 962)	(13 023)
31/12/2019				
Net book value	-	-	-	-
Gross book value	406	6 904	-	**7 310**
Accumulated depreciation and impairment allowances	(406)	(6 904)	-	**(7 310)**
	-	-	-	-
01/01/2018				
Net book value				
Gross book value	46	423	-	**469**
Accumulated amortization	(2)	(68)	-	**(70)**
	44	**355**	-	**399**
Increase/(decrease) net				
Investment expenditures	-	6 904	12 664	19 568
Amortization	(46)	-	-	(46)
Impairment allowances	(352)	(6 905)	-	(7 257)
Reclassifications	354	(354)	-	-
Other decreases	-	-	(12 664)	(12 664)
31/12/2018				
Net book value	-	-	-	-

Detailed information regarding impairment recognized in 2019 a 2018 is presented in note 14.

11.2. Other information on intangible assets

The Company reviews useful lives of intangible assets and introduces an adjustment to amortization charges prospectively according to its accounting policy. Should the amortization rates from the previous year be applied, amortization expense for 2019 would not be influenced.

11.3. CO_2 emission allowances

Based on the Czech National Allocation Scheme for the years 2013-2020 the Company was to obtain CO_2 emission allowances free of charge. During the year ended 31 December 2019 the Company obtained CO_2 emission allowances in the amount of 125 024 tons.

	Value	Quantity (in tonnes)
01/01/2019		
Granted free of charge for 2019	69 101	125 024
Settlement for 2018	(82 063)	(203 618)
Purchase, net	12 962	78 594
Estimated annual consumption 2019	66 658	154 420

As at 31 December 2019 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 24.48 (31 December 2018: EUR 24.64). CO_2 emission allowances purchased by the Company are included in the statement of cash flows, under investing activities in Acquisition of property, plant and equipment and intangible assets.

12. OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2019	31/12/2018
TIÚ-PLAST a.s.	879	879
	879	**879**

The Company had equity investments of CZK 879 thousand as at 31 December 2019 (31 December 2018: CZK 879 thousand) which represent ownership interests in TIÚ-PLAST a.s. that do not have a quoted market price and whose fair value cannot be reliably measured and therefore are carried at acquisition cost less any impairment losses.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

13. OTHER NON-CURRENT ASSETS

	31/12/2019	31/12/2018
Prepayments	6 900	6 900
Non-financial assets	**6 900**	**6 900**
	6 900	**6 900**

The non-current prepayments relate to the deposit for the purchase of natural gas.

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

As at 31 December 2019 in accordance with International Accounting Standard 36 "Impairment of assets" the Company has verified the existence of impairment indicators in relation to Cash Generating Units ("CGUs") i.e. the smallest identifiable group of assets that generate cash inflows largely independent from other assets.
As of 31 December 2019 new financial projections for the years 2020-2035 existed in the Company, prepared based on new macroeconomic assumptions provided in the second half of 2019.

Impairment analysis on Company assets' as at 31 December 2019 was based on the following financial data:

- non-audited financial statements as at 31 December 2019,
- financial projections for the years 2020-2035 included in Long-Term Plan approved in second half of 2019,
- necessary adjustments mainly relating to capital expenditures and effectiveness activities for the years 2020-2035, corresponding with IAS 36 requirement of basing the analysis on projections excluding impact of development and restructuring (IAS 36.33 b) and maintenance of shareholding structure in the Group as at 31 December 2019.

During development of assumptions to impairment tests the possibility of estimation of the fair value and value in use of individual assets was considered. Lack of market transactions for similar assets to those held by the Company which would allow to reliably estimate their fair value makes fair value method of valuation not possible to implement. As a result, it was concluded that the best estimate of the actual values of individual assets of the Company will be its value in use ("VIU").
The recoverable amounts of CGUs were estimated based on their value in use.
The assets used in analyses: i.e. fixed assets (excluding lands and CO_2 allowances) and net working capital were derived from non-audited financial statements as at 31 December 2019.
For determining the value in use as at given balance sheet date forecasted cash flows were discounted using the discount rates after taxation reflecting the risk levels specific for particular sectors to which the Company belongs.
The discount rate is calculated as the weighted average cost of capital of 7.85%. Long term inflation considered in the model was 2.00%.
The period of analysis was established on the basis of the approved plan.

The results of impairment analysis as at 31 December 2019 and impact on financial statements (in CZK million)

CGU	Fixed assets	Net working capital	VIU	Impairment
SPOLANA s.r.o.	-	159	128	-

The impairment allowance of CZK 187 484 thousand was allocated to property, plant and equipment at the amount of CZK 182 582 thousand, to intangible assets at the amount of CZK -2 thousand, to right of use assets at the amount of CZK 4 904 thousand and these were recorded in other operating part of statement of profit and loss in as at 31 December 2019. The impairment allowance of CZK 772 852 thousand was allocated to property, plant and equipment at the amount of CZK 765 595 thousand, to intangible assets at the amount of CZK 7 257 thousand and these were recorded in other operating part of statement of profit and loss as at 31 December 2018.
The Company's future financial performance is based on a number of factors and assumptions including macroeconomics development, such as foreign exchange rates, commodity prices, interest rates outside the Company's control. The change of these factors and assumptions might influence the Company's financial position, including the results of the impairment test of non-current assets, and consequently might lead to changes in the financial position and performance of the Company.

15. INVENTORIES

	31/12/2019	31/12/2018
Raw materials	239 273	218 058
Work in progress	123 978	140 620
Finished goods	152 712	157 444
Spare parts	95 050	87 379
Inventories, net	**611 013**	**603 501**
Impairment allowances of inventories to net realizable value	69 444	57 593
Inventories, gross	**680 457**	**661 094**

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

	2019	2018
At the beginning of the year	57 593	35 331
Recognition	52 208	33 561
Usage	(40 158)	(9 391)
Reversal	(199)	(1 908)
	69 444	**57 593**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

16. TRADE AND OTHER RECEIVABLES

	31/12/2019	31/12/2018
Trade receivables	284 891	379 395
Other	259	285
Financial assets	**285 150**	**379 680**
Other taxation, duty, social security receivables	2 858	2 517
Advances for construction in progress	42 108	43 475
Prepaid inventories	3 646	2 732
Prepayments and deferred costs	13 441	7 644
Non-financial assets	**62 053**	**56 368**
Receivables, net	**347 203**	**436 048**
Expected credit loss	39 118	41 291
Receivables, gross	**386 321**	**477 339**

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 35.18 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 27.4. and detailed information about receivables from related parties is presented in note 31.

17. OTHER FINANCIAL ASSETS

	31/12/2019	31/12/2018
Cash pool	49 323	3 343
	49 323	**3 343**

18. CASH AND CASH EQUIVALENTS

	31/12/2019	31/12/2018
Cash on hand and in bank	13 281	19 582
	13 281	**19 582**
incl. restricted cash	8 994	8 992

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

19. SHAREHOLDERS' EQUITY

19.1. Share capital

The issued capital of the Company as at 31 December 2019 amounted to CZK 1 024 786 thousand (31 December 2018: CZK 29 786 thousand). On 30 May 2018 the sole shareholder of the Company decided on the decrease of registered capital of the Company from the amount of CZK 3 455 229 thousand to a new amount of CZK 29 786 thousand, provided that the decrease was made for the purpose of covering the Company's loss. On 19 December 2019 the sole shareholder of the Company decided on the increase of registered capital of the Company from the amount of CZK 29 786 thousand to a new amount of CZK 1 024 786 thousand.
UNIPETROL RPA, s.r.o. is the sole shareholder of SPOLANA s.r.o.

19.2. Retained earnings

The shareholder decided to allocate the loss for 2018 at the amount of CZK 539 631 thousand to retained earnings.

19.3. Equity management policy

Equity management is performed on the Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholder.
The Company monitors the equity debt ratio (net financial leverage). As at 31 December 2019 and as at 31 December 2018 Company´s financial leverage amounted to (36.25%) and 3.61%, 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 and cash equivalents

19.3.1. Net debt

	31/12/2019	31/12/2018
Cash on hand and in bank	13 281	19 582
Loans, borrowings	(264)	(618)
Loans, borrowings non-current	*-*	*(174)*
Loans, borrowings current	*(264)*	*(444)*
	13 017	**18 964**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

19.3.2. Net working capital

	Inventories	Receivables	Liabilities	Working capital
31/12/2018	603 501	436 048	906 174	133 375
31/12/2019	611 013	347 203	821 601	136 615
Change from statement of financial position	**(7 512)**	**88 845**	**(84 573)**	**(3 240)**
Adjustments				
Movements in prepayments for construction in progress	-	(1 367)	-	(1 367)
Movements in investing liabilities	-	-	(8 716)	(8 716)
Change from statement of cash flows	**(7 512)**	**87 478**	**(93 289)**	**(13 323)**

20. LOANS, BORROWINGS

	Non-current		Current		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Bank loans	-	-	90	39	90	39
Borrowings	-	174	174	405	174	579
	-	**174**	**264**	**444**	**264**	**618**

20.1. Loans

by currency/by interest rate

	31/12/2019	31/12/2018
CZK/PRIBOR	90	39
	90	**39**

20.2. Borrowings

by currency/by interest rate

	31/12/2019	31/12/2018
CZK/PRIBOR	174	579
	174	**579**

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 27 and are presented together with other financial instruments.

21. PROVISIONS

	Non-current		Current		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Environmental provision	201 067	130 181	40 000	130 094	241 067	260 275
Jubilee bonuses and retirement benefits provision	4 437	4 040	1 002	892	5 439	4 932
Provision for CO_2 emission allowances	-	-	84 866	92 177	84 866	92 177
Other provision	166	100	-	-	166	100
	205 670	**134 321**	**125 868**	**223 163**	**331 538**	**357 484**

Change in provisions in 2019

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2019	260 275	4 932	92 177	100	357 484
Recognition	14 250	1 150	74 753	66	90 219
Reclassification	(7 982)	-	-	-	(7 982)
Discounting	1 686	-	-	-	1 686
Usage	(27 162)	(643)	(82 064)	-	(109 869)
	241 067	**5 439**	**84 866**	**166**	**331 538**

Change in provisions in 2018

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

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

21.1. Environmental provision

Under the environmental provision the Company has the provision for land restoration created as a result of the legal obligation to restore the fly-ash deposits and toxic waste dump after it is discontinued, which is expected after 2020 in case of fly-ash deposits and in 2024 in case of toxic waste dump. The provision amounted to CZK 124 million as at 31 December 2019 (31 December 2018: CZK 130 million).
Additionally, the Company has the provision for liquidation and restoration of the amalgam electrolysis which was shut down in November 2017. CZK 27 million were used to cover remediation works as at 31 December 2019 (31 December 2018: CZK 30 million). The provision amounted CZK 103 million as at 31 December 2019 (31 December 2018: CZK 130 million).

21.2. Provision for jubilee bonuses and retirement benefits

The Company realizes the program of paying out retirement benefits and jubilee bonuses in line with remuneration policies in force. The jubilee bonuses are paid to employees after the elapse of a defined number of years in service. Retirement benefits are paid as a one-time payment at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service. The base for the calculation of the provision for an employee is the expected benefit which the Company is obliged to pay in accordance with internal regulations.
The present value of these obligations is estimated at the end of each reporting year and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation.
Employment benefit provisions for retirement and anniversary benefits received by employees were created using discount rates in the range 1.4% in 2019 (2018: 2%), assumptions used were based on the Collective Agreement.

21.2.1. Change in employee benefits obligations

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
At the beginning of the year	3 798	2 411	1 134	1 113	4 932	3 524
Current service costs	191	193	152	90	343	283
Interest expenses	76	36	23	16	99	52
Actuarial gains and losses arising from changes	157	63	2	(31)	159	32
demographic assumptions	*64*	*207*	*(38)*	*12*	*26*	*219*
financial assumptions	*150*	*(121)*	*68*	*(33)*	*218*	*(154)*
other	*(57)*	*(23)*	*(28)*	*(10)*	*(85)*	*(33)*
Past employment costs	-	1 525	549	-	549	1 525
Payments under program	(580)	(430)	(63)	(54)	(643)	(484)
	3 642	**3 798**	**1 797**	**1 134**	**5 439**	**4 932**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2019 and as at 31 December 2018.

21.2.2. Division of employee benefits liabilities by employees

	Active employees		Pensioners		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Czech Republic	5 439	4 932	-	-	5 439	4 932
					5 439	**4 932**

21.2.3. Geographical division of employee benefits liabilities

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Czech Republic	3 642	3 798	1 797	1 134	5 439	4 932
					5 439	**4 932**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

21.2.4. Sensitivity analysis to changes in actuarial assumptions

Actuarial assumptions	Assumed variations as at 31/12/2019	Czech Republic	
		Influence on provision for jubilee bonuses 2019	Influence on retirement benefits 2019
Demographic assumptions (+)	0.5pp	(122)	(57)
staff turnover rates, disability and early retirement	*0.5pp*	*(122)*	*(57)*
Financial assumptions (+)	0.5pp	9	5
discount rate	*0.5pp*	*(126)*	*(57)*
level of future remuneration	*0.5pp*	*135*	*62*
		(113)	**(52)**
Demographic assumptions (-)	-0.5pp	125	38
staff turnover rates, disability and early retirement	*-0.5pp*	*125*	*38*
Financial assumptions (-)	-0.5pp	6	3
discount rate	*-0.5pp*	*134*	*61*
level of future remuneration	*-0.5pp*	*(128)*	*(58)*
		131	**41**

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

21.2.5. Employee benefits maturity and payments of liabilities analysis

21.2.5.1. Maturity of employee benefits analysis

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Less than one year	415	547	587	346	1 002	893
Between one and three years	667	555	219	155	886	710
Between three and five years	505	673	160	119	665	792
Later than five years	2 055	2 023	831	514	2 886	2 537
	3 642	**3 798**	**1 797**	**1 134**	**5 439**	**4 932**
Weighted average duration of liability (in years)					7	7

21.2.5.2. Ageing of employee benefits payments analysis

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Less than one year	429	562	623	368	1 052	930
Between one and three years	750	621	274	190	1 024	811
Between three and five years	612	834	242	188	854	1 022
Later than five years	4 998	5 210	2 390	1 612	7 388	6 822
	6 789	**7 227**	**3 529**	**2 358**	**10 318**	**9 585**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

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

	31/12/2019	31/12/2018
In profit and loss		
Current service costs	(343)	(283)
Interest expenses	(99)	(52)
Actuarial gains and losses arising from changes	(157)	(63)
demographic assumptions	*(64)*	*(207)*
financial assumptions	*(150)*	*121*
other	*57*	*23*
Past employment costs	(549)	(1 525)
Payments under program	643	484
	(505)	**(1 439)**
In components of other comprehensive income		
Gains and losses arising from changes	(2)	31
demographic assumptions	*38*	*(12)*
financial assumptions	*(68)*	*33*
other	*28*	*10*
	(2)	**31**
	(507)	**(1 408)**

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

	31/12/2019	31/12/2018
Cost of sales	(505)	
Administrative expenses	-	(1 439)
	(505)	**(1 439)**

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 32.3.17.2.

21.3. Provision for CO_2 emission allowances

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

22. LEASE LIABILITIES AND OTHER FINANCIAL LIABILITIES

	Non-current		Current		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Lease liabilities	14 791	-	8 402	-	23 193	-
Cash pool	-	-	1 124	507 820	1 124	507 820
Other	3 259	3 184	-	-	3 259	3 184
	18 050	**3 184**	**9 526**	**507 820**	**27 576**	**511 004**

Based on a loan agreement with the company UNIPETROL, a.s., the Company may utilize current unsecured loans in the form of overdrafts (cash pool) or loans. Interest is paid on the first working day after the close of the reporting period. The interest rates are based on appropriate inter-bank rates and the fair value of the loans approximated its carrying amount. Additional information about lease liabilities is in note 26.

23. TRADE AND OTHER LIABILITIES

	31/12/2019	31/12/2018
Trade liabilities	736 906	832 799
Investment liabilities	15 383	11 220
Other	1 477	951
Financial liabilities	**753 766**	**844 970**
Payroll liabilities	25 154	20 769
Excise tax and fuel charge	24	16
Other taxation, duties, social security and other benefits	17 660	14 856
Accruals	24 997	25 563
holiday pay accrual	-	5 537
wages accrual	13 847	12 175
other	11 150	7 851
Non-financial liabilities	**67 835**	**61 204**
	821 601	**906 174**

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

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24. LIABILITIES FROM CONTRACTS WITH CUSTOMERS

	31/12/2019	31/12/2018
Prepayments for deliveries	4 351	1 397
	4 351	**1 397**

25. DEFERRED INCOME

	31/12/2019	31/12/2018
Deferred income from sulfuric acid	507	-
	507	**-**

26. LEASE

26.1. The Company as a lessee

Changes in right of use assets

	Land	Machinery and equipment	Vehicles and other	Total
Net book value				
01/01/2019 Impact of IFRS 16 adoption				
Gross book value	1 324	11 593	10 714	**23 631**
Impairment allowances	(1 324)	(11 593)	(10 714)	**(23 631)**
	-	-	-	-
increase/(decrease) net				
Impairment allowances	(28)		(4 876)	**(4 904)**
Other*	28	-	4 876	**4 904**
31/12/2019				
Net book value	-	-	-	-
Gross book value	1 352	11 593	15 590	**28 535**
Impairment allowances	(1 352)	(11 593)	(15 590)	**(28 535)**
	-	-	-	-

*The line Other includes newly concluded contracts, contracts modifications and exchange differences.

Maturity analysis for undiscounted lease liabilities

	2019
up to 1 year	8 402
from 1 to 2 years	5 873
from 2 to 3 years	5 487
from 3 to 4 years	2 965
from 4 to 5 years	147
above 5 years	1 120
	23 994

Amount of lease contracts recognized in the statement of profit or loss and other comprehensive income

		2019
Costs due to:		**(12 074)**
interest on lease	Finance costs	(655)
short-term lease	Cost by nature: External Services	(10 662)
lease of low-value assets that are not short-term lease	Cost by nature: External Services	(757)

Reconciliation of future minimum lease payments dislosed as at 31 December 2018 with lease liabilities recognized in the statement of financial position as as 1 January 2019

Value of future minimum lease payments under operating lease	25 353
Contractual lease liabilities as at 31/12/2018	**25 353**
Discount	(1 722)
Present value of lease liabilities as at 01/01/2019	**23 631**

The weighted average marginal interest rate of the Company as a lessee applied to the lease liabilities recognised in the statement of financial position as at 1 January 2019 amounted to 2.78%.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

26.2. The Company as a lessor

Lease payments under operating leases are recognized on a straight-line basis over the lease period as revenues from sale of services.

Maturity analysis for undiscounted lease payments

	2019
up to 1 year	1 505
from 1 to 2 years	2 670
from 2 to 3 years	2 670
from 3 to 4 years	2 670
from 4 to 5 years	2 670
above 5 years	29 363
	41 548

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

27. FINANCIAL INSTRUMENTS

27.1. Financial instruments by category and class

Financial assets
31/12/2019

		Financial instruments by category		
Financial instruments by class	Note	Financial assets measured at amortized cost	Financial assets at fair value through other comprehensive income	Total
Unquoted shares	*12.*	-	879	879
Trade receivables	*16.*	284 891	-	284 891
Cash pool	*17.*	49 323	-	49 323
Cash and cash equivalents	*18.*	13 281	-	13 281
Other	*16.*	259	-	259
		347 754	**879**	**348 633**

31/12/2018

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

Financial liabilities
31/12/2019

		Financial instruments by category		
Financial instruments by class	Note	Financial liabilities measured at amortized cost	Liabilities excluded from the scope of IFRS 9	Total
Loans	*20.*	90	-	39
Current borrowings	*20.*	174	-	174
Trade liabilities	*23.*	736 906	-	736 906
Investment liabilities	*23.*	15 383	-	15 383
Cash pool	*22.*	1 124	-	1 124
Lease liabilities	*22.*	-	23 193	23 193
Other	*22.,23.*	4 736	-	4 736
		758 413	**23 193**	**781 606**

31/12/2018

		Financial instruments by category		
Financial instruments by class	Note	Financial liabilities measured at amortized cost	Liabilities excluded from the scope of IFRS 9	Total
Loans	*20.*	39	-	39
Non-current borrowings	*20.*	174	-	174
Current borrowings	*20.*	405	-	405
Trade liabilities	*23.*	832 799	-	832 799
Investment liabilities	*23.*	11 220	-	11 220
Cash pool	*22.*	507 820	-	507 820
Other	*22.,23.*	4 135	-	4 135
		1 356 592	**-**	**1 356 592**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

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

2019

	Financial instruments by category			
	Financial assets measured at amortized costs	Financial liabilities measured at amortized cost	Liabilities excluded from the scope of IFRS 9	Total
Interest income	125	-	-	125
Interest costs	-	(17 423)	(655)	(18 078)
Foreign exchange gain/(loss)	(4 274)	2 017	-	(2 257)
Reversal of loss due to impairment of financial instruments	676	-	-	676
Other	-	(1 116)	-	(1 116)
	(3 473)	**(16 522)**	**(655)**	**(20 650)**
other, excluded from the scope of IFRS 7				
Provisions discounting				(1 686)
				(1 686)

2018

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

27.3. Fair value measurement

	Note	31/12/2019 Fair value	31/12/2019 Carrying amount	31/12/2018 Fair value	31/12/2018 Carrying amount
Financial assets					
Unquoted shares	*12.*	879	879	879	879
Trade receivables	*16.*	284 891	284 891	379 395	379 395
Cash pool	*17.*	49 323	49 323	3 343	3 343
Cash and cash equivalents	*18.*	13 281	13 281	19 582	19 582
Other	*16.*	259	259	285	285
		348 633	**348 633**	**403 484**	**403 484**
Financial liabilities					
Borrowings	*20.*	174	174	579	579
Loans	*20.*	90	90	39	39
Trade liabilities	*23.*	736 906	736 906	832 799	832 799
Investment liabilities	*23.*	15 383	15 383	11 220	11 220
Cash pool	*22.*	1 124	1 124	507 820	507 820
Lease liabilities	*22.*	23 994	23 193	-	-
Other	*22.,23.*	4 736	4 736	4 135	4 135
		782 407	**781 606**	**1 356 592**	**1 356 592**

Financial instruments for which fair value cannot be measured reliably
As at 31 December 2019 and as at 31 December 2018, the Company held unquoted shares in entity amounting to CZK 879 thousand, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities nor comparable transactions of the same type of instruments. The above mentioned shares were recognized as other non-current financial assets and measured at acquisition cost less impairment allowances. As at 31 December 2019 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.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

27.4. 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.

27.4.1. Commodity risk

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

27.4.2. 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 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 2019

Financial instruments by class	PLN	EUR	USD	Total after translation to CZK
Financial assets				
Trade receivables	-	8 705	-	221 188
Cash and cash equivalents	434	1	-	2 620
	434	**8 706**	**-**	**223 808**
Financial liabilities				
Trade liabilities	1	5 164	-	131 232
	1	**5 164**	**-**	**131 232**

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

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

Sensitivity analysis for currency changes risk

The influence of potential changes in carrying amounts of financial instruments as at 31 December 2019 and as at 31 December 2018 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	
	2019	2018	2019	2018	2019	2018	2019	2018
	variation of exchange rates +15%							
Influence on profit before tax	388	2 310	13 499	23 161	-	-	13 887	25 471

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 2019 (in thousands of CZK)

27.4.3. Interest rate risk

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

Interest rate structure of financial instruments:

Financial instruments by class	PRIBOR 31/12/2019	PRIBOR 31/12/2018	Total 31/12/2019	Total 31/12/2018
Financial assets				
Cash pool	49 323	3 343	49 323	3 343
	49 323	**3 343**	**49 323**	**3 343**
Loans	90	39	90	39
Borrowings	174	579	174	579
Cash pool	1 124	507 820	1 124	507 820
	1 388	**563 726**	**1 388**	**563 726**

Sensitivity analysis for interest rate risk

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

Interest rate	Assumed variation 31/12/2019	Assumed variation 31/12/2018	Influence on profit before tax 2019	Influence on profit before tax 2018
PRIBOR	+0.5 pp	+0.5 pp	240	(2 525)
			240	**(2 525)**

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 2019 and as at 31 December 2018. The influence of interest rates changes was presented on annual basis.

27.4.4. 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

31/12/2019	Note	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Above 5 years	Total	Carrying amount
Loans-undiscounted value	*20.*	90	-	-	-	90	90
Borrowings-undiscounted value	*20.*	174	-	-	-	174	174
Cash pool - undiscounted value	*22.*	1 124	-	-	-	1 124	1 124
Trade liabilities	*23.*	736 906	-	-	-	736 906	736 906
Investment liabilities	*23.*	15 383	-	-	-	15 383	15 383
Lease liabilities	*22.*	8 402	11 360	3 112	1 120	23 994	23 193
Other	*22.,23.*	1 477	3 259	-	-	4 135	4 135
		763 556	**14 619**	**3 112**	**1 120**	**782 407**	**781 606**

31/12/2018	Note	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Above 5 years	Total	Carrying amount
Loans-undiscounted value	*20.*	39	-	-	-	39	39
Borrowings-undiscounted value	*20.*	405	174	-	-	579	579
Cash pool - undiscounted value	*22.*	507 820	-	-	-	507 820	507 820
Trade liabilities	*23.*	832 799	-	-	-	832 799	832 799
Investment liabilities	*23.*	11 220	-	-	-	11 220	11 220
Other	*22.,23.*	951	3 184	-	-	4 135	4 135
		1 353 234	**3 358**	**-**	**-**	**1 356 592**	**1 356 592**

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

Credit risk

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

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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

27.4.4. Liquidity and credit risk (continued)

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 2019, none of the customers represented more than 21% of the total balance of the trade receivables.
Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and, where appropriate, credit guarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.
The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.
Based on the analysis of receivables the counterparties were divided into two groups:

- Group I – counterparties with a good or very good history of cooperation in the current year,
- Group II – other counterparties.

The division of not past due receivables

	31/12/2019	31/12/2018
Group I	282 132	331 330
Group II	-	-
	282 132	**331 330**

The change in expected credit loss of trade and other receivables

	31/12/2019	31/12/2018
At the beginning of the year	41 291	46 818
Recognition	245	455
Reversal	(921)	(2 856)
Usage	(1 714)	(9 043)
Impact of IFRS 9 adoption	-	4 257
Foreign exchange differences	217	1 660
	39 118	**41 291**

Ageing analysis of trade receivables and expected credit loss as at 31 December 2019

	Trade receivables, gross value	Expected credit loss (in horizon of whole life)	Weighted average rate of expected credit loss	Trade receivables, net value
current	283 067	1 194	0.0042	281 873
from 1 to 30 days	2 263	31	0.0137	2 232
from 31 to 60 days	639	21	0.0327	618
from 61 to 90 days	-	-	-	-
more than 90 days past due	38 040	37 872	0.9956	168
	324 009	**39 118**		**284 891**

Ageing analysis of trade receivables and expected credit loss as at 31 December 2018

	Trade receivables, gross value	Expected credit loss (in horizon of whole life)	Weighted average rate of expected credit loss	Trade receivables, net value
current	332 636	1 591	0.0048	331 045
from 1 to 30 days	48 018	46	0.0010	47 972
from 31 to 60 days	127	-	-	127
from 61 to 90 days	4	1	0.4044	3
more than 90 days past due	39 901	39 653	0.9938	248
	420 686	**41 291**		**379 395**

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.

27.4.5. 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.

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

The total value of investment expenditures including borrowing costs amounted to CZK 187 486 thousand as at 31 December 2019 and CZK 382 233 thousand as at 31 December 2018, including environmental expenditures in amount of CZK 39 180 thousand and CZK 170 413 thousand, respectively.
As at 31 December 2019 the value of future commitments resulting from contracts signed to this date amounted to CZK 268 370 thousand (31 December 2018: CZK 246 053 thousand).

29. 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 5 600 547 thousand were invested within the guarantee as at 31 December 2019 (31 December 2018: CZK 5 598 937 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 2019 issued a guarantee for the Company in favour of DOW Europe GmbH to ensure the payment terms in the amount of CZK 152 460 thousand and in favour of VERSALIS International SA to ensure the payment terms in the amount of CZK 152 460 thousand.

30. RELATED PARTY TRANSACTIONS

30.1. Material transactions concluded by the Company with related parties

In 2019 and in 2018 there were no transactions concluded by the Company with related parties on other than arm's length terms.

30.2. Transactions with key management personnel

In 2019 and in 2018 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 2019 and in 2018 there were no significant transactions concluded with key management personnel, members of the Board of Directors, the Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

30.3. Transactions with related parties concluded by key management personnel

In 2019 and in 2018 members of the key management personnel submitted statements that they have not concluded any transaction with related parties.

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

The ultimate controlling party is Polski Koncern Naftowy ORLEN S.A., which held 100% (100%) of shares in the parent company UNIPETROL, a.s. in 2019 (2018).

2019	UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Sales	-	44 451	321 810
Purchases	2 572	243 543	906 077
Finance income	34	-	-
Finance costs	17 218	-	902

31/12/2019	UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Other financial assets	49 323	-	-
Trade and other receivables	-	2 827	49 520
Trade and other liabilities, including loans	1 184	30 307	277 998
Other financial liabilities	1 124	-	-

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

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

31. REMUNERATION PAID AND DUE OR POTENTIALLY DUE TO THE KEY EXECUTIVE PERSONNEL AND STATUTORY REPRESENTATIVES

The remuneration of the key executive personnel and statutory represetatives includes short-term employee benefits, retirement benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

31.1. Key management personnel and statutory representatives compensation

	2019	2018
Short-term employee benefits	(23 663)	(20 278)
Termination benefits	-	(1 246)
	(23 663)	**(21 524)**

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

31.2. Bonus system for key executive personnel

In 2019 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Company. The goals are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to the achieved results generated by the Company.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

32. ACCOUNTING PRINCIPLES

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

32.1.1. Binding amendments to IFRSs and interpretations

Standards and interpretations adopted by the EU	Impact on financial statements
IFRS 16 Leases	impact*
Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	no impact
IFRIC 23 Uncertainty over Income Tax Treatments	no impact
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	no impact
Annual Improvements to IFRS Standards 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	no impact
Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement	no impact

***IFRS 16 Leases**

In accordance with the requirements of IFRS, from 1 January 2019, the Company applied for the first time IFRS 16 Leases. Consequently, the Company has changed the accounting policy on recognition of lease agreements. Accounting policy changes have been made in accordance with the transitional provisions contained in IFRS 16.

The Company has implemented IFRS 16 using the modified retrospective approach, therefore, comparative information for the year 2018 were not be converted.

The Company has estimated the impact of IFRS 16 and found that on 1 January 2019 recognized the Right of use assets and lease liability at an equal amount of CZK 23 632 thousand. The difference in value was included in retained earnings position.

The incremental borrowing interest rate of the lessee applied to the lease liabilities recognized in the statement of financial position as at 1 January 2019 amounted to 2.78% p.a.

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

New and revised IFRS Standards adopted by the EU in issue but not yet effective	Possible impact on financial statements
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures: Interest Rate Benchmark Reform	no impact expected
Amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors: Definition of Material	no impact expected
Amendments to references to the conceptual framework in IFRS Standards	no impact expected

32.1.3. New and revised IFRS 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 17 Insurance Contracts	no impact expected
Amendment to IFRS 3 Business combinations	no impact expected
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments	no impact expected
Amendments to IAS 1 Classification of Liabilities as Current or Non-Current	no impact expected
Amendments to references to the conceptual framework in IFRS Standards	no impact expected

32.2. 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.

32.3. Applied accounting policies

32.3.1. 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.

32.3.2. Revenues

The Company applies the principles of IFRS 15 in a five-step model in relation to the portfolio of contracts (or performance obligations) with similar characteristics, if the entity reasonably expects that the impact of the following principles on the financial statements will not significantly differ from the application of the following principles to individual contracts (or performance obligations).

Requirements to identify a contract with a customer

A contract with a customer meets its definition when all of the following criteria are met: the parties of the contract have approved the contract and are committed to perform their obligations; the Company can identify each party's rights regarding goods or services to be transferred; the Company can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identification of performance obligations

At contract inception the Company assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or groups of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.

Determination of the transaction price

The Company considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes, fuel charges, excise taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.

To estimate variable consideration, the Company decided to apply the most probable value method for contracts with one value threshold and the expected value method for contracts with more value thresholds from which a rebate is granted to the customer.

Allocating the transaction price to individual performance obligations

The Company allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognition of revenue when performance obligations are satisfied

The Company recognises revenue when (or as) the Company satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenues are recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.

The Company transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenues over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits from performance as the Company performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Company is not created, and the Company has an enforceable right to payment for performance completed to date.

32.3.3. 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.

32.3.4. 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.

32.3.5. 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.

32.3.6. 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.

32.3.7. Property, plant and equipment

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

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

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

32.3.8. Investment property

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

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

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

32.3.9. Intangible assets

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

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

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

32.3.9.1. Carbon dioxide emission allowances

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

32.3.10. Impairment of property, plant and equipment and intangible assets

At the end of the reporting period the Company assesses whether there are any indicators that an asset or cash generating unit (CGU) may be impaired. If any such indicator exists, the entity shall estimate the recoverable amount of the asset (CGU).
The recoverable amount of other assets is the higher of the fair value less costs to sell and value in use.
Fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs to sell.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
Assets that do not generate the independent cash flows are grouped at the lowest level at which cash flows, independent from cash flows from other assets, are generated (cash generating units).
To the cash generating unit the following assets are allocated:

- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated with a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

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

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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

32.3.11. Inventories

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

32.3.12. Trade and other receivables

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

32.3.13. Cash and cash equivalents

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

32.3.14. Non-current assets held for sale and discontinued operations

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

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

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

32.3.15. Equity

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

32.3.15.1. Share capital

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

32.3.15.2. Revaluation reserve

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

32.3.15.3. Retained earnings

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

32.3.16. Trade and other liabilities

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

32.3.17. Provisions

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

32.3.17.1. Environmental provision

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

32.3.17.2. Jubilee bonuses and retirement benefits

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

- post employment benefits are recognized in components of other comprehensive income,
- other employment benefits, including jubilee bonuses, are recognized in the statement of profit and loss.

32.3.17.3. Shield programs

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

32.3.17.4. CO_2 emissions costs

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

32.3.17.5. Other provisions

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

32.3.18. Government grants

Government grants are transfers of resources to the Company by the government, government agencies and similar bodies whether local, national or international, in return for past or future compliance with certain conditions relating to the activities of the entity.
Government grants are recognized in the statement of financial position as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it.
Grants related to costs are presented as compensation to the given cost in the period they are incurred. Surplus of the received grant over the value of the given cost is presented as other operating income.
If the government grant relates to assets, it is presented net with the related asset and is recognized in the statement of profit or loss on a systematic basis over the useful life of the related asset through decreased depreciation charges. The treatment regarding Carbon dioxide emission allowances granted is described in note 32.3.9.1.

32.3.19. Statement of cash flows

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

32.3.20. Financial instruments

32.3.20.1. Measurement of financial assets and liabilities

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

32.3.20.2. Transfers

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

32.3.21. Fair value management

The Company classifies financial assets into one of the following categories:

- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Company classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.
The Company as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.
At the moment of initial recognition, the Company classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.
The Company classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.
The Company classifies financial liabilities into one of the following categories:

- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

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

32.3.22. Lease

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

32.3.23. Contingent assets and liabilities

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

32.3.24. Events after the reporting period

Subsequent events after the reporting date are those events, favorable and unfavorable that occur between the end of the reporting period and date when the financial statements are authorized for issue. Two types of subsequent events can be identified:

- those, that provide evidence of conditions that existed as at the end of the reporting period (events after the reporting period requiring adjustments) and
- those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments).

33. APPLICATION OF PROFESSIONAL JUDGEMENT AND ASSUMPTION

The preparation of separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, equity, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
In the matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 8. Tax credit/(expense), 9. Property, plant and equipment, 10. Investment property, 11. Intangible assets, 14. Impairment of property, plant, equipment and intangible assets, 15.1. Changes in impairment allowances of inventories to net realizable value and 27. Financial instruments.
The accounting policies described above have been applied consistently to all periods presented in these separate financial statements.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2019 (in thousands of CZK)

34. 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 2019).

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. Milevská 2095/5, 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
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Downstream	www.petrotrans.cz
SPOLANA s.r.o. 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 Retail	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.

35. EVENTS AFTER THE REPORTING PERIOD

The Company's management is not aware of any other events that have occurred since the end of the reporting period that would have any material impact on the financial statements as at 31 December 2019.

36. 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 2019 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 2019 statutory financial statements issuance.
Based on these facts, the financial statements have been prepared on a going concern basis.

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

The Management Board of SPOLANA s.r.o. hereby declares that to the best of its knowledge the separate financial statements and comparative data were prepared in compliance with the applicable accounting principles adopted by in the Company (disclosed in note 32.3.) and that they reflect true and fair view on the financial position and financial result of the Company, including basic risks and exposures.

The separate financial statements were authorized by the statutory representatives on 27 February 2020.

Signature of statutory representatives

Konrad Marek Szykuła	Miroslav Falta
Executive	Executive

SPOLANA s.r.o.

REPORT ON RELATIONS BETWEEN THE CONTROLLING PERSON AND THE CONTROLLED PERSON

AND

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

in 2019

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

Financial period from 1 January 2019 to 31 December 2019 is the vesting period for this Report on relations between the controlling person and the controlled person and between the controlled person and other persons controlled by the same controlling person (hereinafter the "Report on Relations").

The structure of relations between the entities

Controlled person

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

Controlling persons

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

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

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

Other controlled persons

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

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

The role of the controlled person

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

The method and means of controlling

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

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

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

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

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

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

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

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

The conclusion

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

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

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

In Neratovicích, 27 February 2020

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

Konrad Marek Szykuła
Executive

Miroslav Falta
Executive

Appendix No. 1

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

1. 1. 2019 – 31. 12. 2019

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

Appendix No. 2
Capital Group of PKN ORLEN S.A. - Controlled Companies
1 January 2019 - 31 December 2019

Company controlled by PKN ORLEN S.A.	Residence	Shares in directly and undirectly controlled company		Note
		as at 1.1.2019	as at 31.12.2019	
1. UNIPETROL, a.s.	**Prague**	**100,00%**	**100,00%**	
2. AB ORLEN Lietuva	**Juodeikiai**	**100,00%**	**100,00%**	
2.1 UAB Mazeikiu naftos prekybos namai	Vilnius	100,00%	0,00%	On 9.12.2019 company was incorporated into AB ORLEN Lietuva
2.2 SIA ORLEN Latvija	Riga, Latvia	100,00%	100,00%	On 9.12.2019 company moved directly under AB ORLEN Lietuva
2.3 ORLEN Eesti OU	Tallin, Estonia	100,00%	100,00%	On 9.12.2019 company moved directly under AB ORLEN Lietuva
2.2 UAB EMAS	Juodeikiai	100,00%	0,00%	On 03.06.2019 transfer of company shares to ORLEN Serwis S.A.
3. AB ORLEN Baltics Retail (previously AB Ventus Nafta)	**Vilnius**	**100,00%**	**100,00%**	Change of company name (from AB Ventus Nafta) on 16.10.2019
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%**	
9.1 ORLEN Service Česká republika s.r.o.	Litvinov	n.d.	100,00%	On 10.12.2019 seting up a new company with 100% shares interest of ORLEN Serwis S.A.
9.2 UAB EMAS	Juodeikiai	100,00%	100,00%	On 03.06.2019 transfer of company shares from AB Orlen Lietuva
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%**	
12.1 ORLEN Detuschland Betriebsgesellschaft mbH	Hamburg	n.d.	100,00%	On 6.11.2019 purchase 100% of shares of Waterside XXXVII Vermögensverwaltungsgesellschaft mbH, and change name of the company.
13. ORLEN EKO Sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
14. Orlen Holding Malta Limited	**St. Julians, Malta**	**100,00%**	**100,00%**	99.5% owned by PKN ORLEN S.A., remaining part by UNIPETROL, a.s.
14.1 Orlen Insurance Ltd.	St. Julians, Malta	100,00%	100,00%	99.99% owned by Orlen Holding Malta, remaining part by PKN ORLEN S.A.
15. ORLEN KolTrans S.A.	**Płock**	**99,91%**	**100,00%**	Change of legal form 1.3.2019. On 05.12.2019 PKN ORLEN S.A. purchased 325 shares from minority shareholders. After this transaction PKN ORLEN S.A. became sole shareholder of ORLEN KolTrans S.A.
16. ORLEN Centrum Usług Korporacyjnych sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
17. Orlen Laboratorium S.A.	**Płock**	**100,00%**	**100,00%**	
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	90,00%	0,00%	On 2.12.2019 Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o. merged with Orlen Oil Sp. z o.o.
20. ORLEN Paliwa Sp. z o.o.	**Widełka**	**100,00%**	**100,00%**	
21. ORLEN Projekt S.A.	**Płock**	**100,00%**	**100,00%**	
22. ORLEN Upstream Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
22.1. Orlen Upstream Canada Ltd	Calgary	100,00%	100,00%	
22.1.1 1426628 Alberta Ltd.	Calgary	100,00%	100,00%	
22.1.2 OneEx Operations Partnership	Calgary	100,00%	100,00%	99.99% owned by Orlen Upstream Canada Ltd., remaining part by 1426628 Alberta Ltd
22.1.3 Pieridae Production GP Ltd.	Calgary	50,00%	50,00%	
22.1.3.1 671519 N.B. Ltd.	Saint John	100,00%	100,00%	
22.1.4 KCK Atlantic Holdings Ltd.	Calgary	100,00%	100,00%	
22.1.4.1 Pieridae Production LP	Calgary	80,00%	80,00%	
22.2 FX Energy Inc.	Salt Lake City	100,00%	100,00%	
22.2.1 Frontier Exploration, Inc.	Salt Lake City	100,00%	100,00%	
22.2.2 FX Energy Netherlands Partnership C.V.	Salt Lake City	100,00%	100,00%	99.99% owned by Frontier Exploration, Inc., remaining part by FX Energy Inc.
22.2.2.1 FX Energy Netherlands B.V.	Utrecht	100,00%	100,00%	
22.2.2.1.1 FX Energy Polska Sp. z o.o.	Warszawa	100,00%	100,00%	
23. ORLEN Aviation Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
24. ORLEN Południe S.A.	**Trzebinia**	**100,00%**	**100,00%**	
24.1 Energomedia Sp. z o.o.	Trzebinia	100,00%	100,00%	
24.2 Euronaft Trzebinia Sp. z o.o.	Trzebinia	100,00%	0,00%	On 01.02.2019 the company was incorporated by ORLEN Południe S.A.
24.3 KONSORCJUM OLEJÓW PRZEPRACOWANYCH - ORGANIZACJA ODZ	Jedlicze	89,00%	89,00%	
25. Ship - Service S.A.	**Warszawa**	**60,86%**	**60,86%**	
27. ORLEN Capital AB	**Stockholm**	**100,00%**	**100,00%**	
28. Baltic Power Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
29. Basell Orlen Polyolefins Sp. z o.o.	**Płock**	**50,00%**	**50,00%**	
29.1 Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	Płock	100,00%	100,00%	
30. Płocki Park Przemysłowo-Technologiczny S.A.	**Płock**	**50,00%**	**50,00%**	
30.1 Centrum Edukacji Sp. z o.o.	Płock	69,43%	69,43%	
31. ORLEN Usługi Finansowe	Warszawa	n.d.	100,00%	On 9.5.2019 establisment of the company with 100% ownership of PKN ORLEN S.A.
32. Sigma BIS S.A.	Warszawa	n.d.	66,00%	On 3.10.2019 PKN ORLEN purchased 66% shares of Sigma BIS S.A.

SPOLANA - Report on relations 2019

Contract / amendment number	Company	Partner role	Subject matter of the document	Valid from	Valid to	Date of entering into the contract
139-2016	UNIPETROL, a.s.	Supplier	Comprehensive Services Agreement (CLA) - Internal Audit	23.2.2016	indefinite	23.2.2016
16-2017	UNIPETROL, a.s.	Supplier	Credit agreement A	11.7.2016	indefinite	11.7.2016
17-2017	UNIPETROL, a.s.	Supplier	Credit agreement B	11.7.2016	indefinite	11.7.2016
53-2017	UNIPETROL, a.s.	Supplier	Agreement on information and access IT systems, as ammended	1.1.2017	indefinite	8.8.2017
103-2018	UNIPETROL, a.s.	Supplier	Contract No. 0023-2018 on insurance and its management - Liability insurance - 1st category	1.5.2018	30.4.2019	10.9.2018
145-2018	UNIPETROL, a.s.	Supplier	Framework agreement on provision of certain information and access to information systems, as amended (2 Annex)	1.11.2018	indefinite	19.11.2018
98-2019	UNIPETROL, a.s.	Supplier	Contract No. 0023-2019 on insurance and its management - Liability insurance of members of statutory authorities	1.11.2018	10/31/2019	7.5.2019
111-2019	UNIPETROL, a.s.	Supplier	Contract No. 0050-2019 on insurance and its management - Liability insurance - 1st category	1.5.2019	04/30/2020	5.8.2019
207-2012	UNIPETROL RPA, s.r.o.	Supplier	Framework agreement for the supply of sulfur	2.8.2012	indefinite	2.8.2012
53-2014	UNIPETROL RPA, s.r.o.	Supplier	Agreement on Confidentiality, Protection of Information and Prohibition of Abuse in respect of Ethylene Oxide Pipeline	25.2.2014	indefinite	12.3.2014
91-2016	UNIPETROL RPA, s.r.o.	Supplier	CLA Contract, as amended (5 Annexes)	1.11.2016	indefinite	1.11.2016
146-2016	UNIPETROL RPA, s.r.o.	Cooperation	Agreement No. 0007/2017 on initiation of activities of Active Energy Trading Group Model - GAHE	1.1.2017	12/31/2020	22.11.2016
150-2016	UNIPETROL RPA, s.r.o.	Supplier	Electricity supply contract, as amended (3 Annexes)	1.1.2017	12/31/2021	9.12.2016
156-2016	UNIPETROL RPA, s.r.o.	Supplier	Agreement on provision and re-invoicing of gas supplies	1.1.2017	indefinite	29.12.2016
98-2017	UNIPETROL RPA, s.r.o.	Supplier	Contract on the use of BENZINA Tank Cards, as amended (1 Annex)	28.7.2017	indefinite	28.7.2017
91-2017	UNIPETROL RPA, s.r.o.	Lessor	Contract on the lease of railway wagons, as amended (3 Annexes)	1.1.2017	12/31/2022	13.9.2017
15-2018	UNIPETROL RPA, s.r.o.	Supplier	Long-term declaration of quantity and price No. 8/2018 (supply of fuel in a wholesale manner)	1.2.2018	1/31/2023	31.1.2018
104-2018	UNIPETROL RPA, s.r.o.	Supplier	Contract No. 0651-2018 on insurance and its management - Liability insurance - 2nd category	1.5.2018	4/30/2019	26.9.2018
27-2019	UNIPETROL RPA, s.r.o.	Supplier	Settlement agreement (TTO delivery)		till payment	21.11.2019
45-2019	UNIPETROL RPA, s.r.o.	Supplier	Consent to debt recognition and repayment, as amended (1 Annex)	10.5.2016	indefinite	10.5.2016
50-2019	UNIPETROL RPA, s.r.o.	Supplier	Ammonia supply contract	1.1.2019	31.12.2019	18.7.2019
92-2019	UNIPETROL RPA, s.r.o.	Cooperation	Confidentiality Agreement (for NEC-TAURON)			12.3.2019
141-2019	UNIPETROL RPA, s.r.o.	Supplier	Contract No. 0602-2019 on insurance and its management - Liability insurance - 2nd category	1.5.2019	4/30/2020	13.9.2019

203-2013	UNIPETROL RPA, s.r.o. (původně UNIPETROL SERVICES, s.r.o.)	Supplier	IT Confidentiality Agreement (1071-2016)	10.6.2013	indefinite	10.6.2013
165-2019	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO, odštěpný závod	Supplier	Agreement on Confidentiality, Protection of Information and Prohibition of Abuse			22.10.2019
160-2019	Unipetrol výzkumně vzdělávací centrum, a.s.	Customer	Contract for work - Technical-research support	1.1.2020	12/31/2020	12.11.2019
177-2013	UNIPETROL DEUTSCHLAND GmbH	Customer	Exclusive sale contract for S-PVC to Germany, as amended (3 Annexes) (without notice of withdrawal automatic 1-year extension)	1.6.2013	31.3.2019	1.6.2013
164-2019	UNIPETROL DEUTSCHLAND GmbH	Customer	Sales contract for S-PVC	1.11.2019	12/31/2020	17.10.2019
8-2018	UNIPETROL DOPRAVA, s.r.o. (previously CHEMOPETROL-DOPRAVA a.s.)	Customer	Mandate contract on operation of railway on the Spolana siding (2010-102)	1.7.2002	indefinite	1.1.2002
121-2003	UNIPETROL DOPRAVA, s.r.o.	Customer	Contract on the provision of services and lease of IT equipment, as amended (1 Annex)	1.7.2002	indefinite	30.6.2002
194-2005	UNIPETROL DOPRAVA, s.r.o.	Customer	Contract for the provision of services in the field of telecommunications and postal services, as amended (2 Annexes)	25.3.2005	indefinite	25.3.2005
362-2005	UNIPETROL DOPRAVA, s.r.o.	Supplier	Contract on the provision of transport services, as amended (43 Annexes)	1.7.2002	indefinite	28.6.2002
52-2015	UNIPETROL DOPRAVA, s.r.o.	Supplier	Contract for Work - Maintenance of Siding in Neratovice, as amended (5 Annexes)	1.1.2015	indefinite	19.2.2015
34-2017	UNIPETROL DOPRAVA, s.r.o.	Customer	Lease agreement and rental-related services	1.4.2017	indefinite	10.1.2018
39-2017	UNIPETROL DOPRAVA, s.r.o.	Customer	Energy Agreement, as amended (4 Annexes)	1.4.2017	indefinite	7.11.2017
155-2016	PARAMO, a.s.	Supplier	Framework Agreement for the Supply of Oils and Lubricants, as amended (1 Annex)	1.1.2017	indefinite	31.3.2017
90-2016	PKN ORLEN + ANWIL S.A. + UNIPETROL RPA, s.r.o.	Cooperation	Cooperation agreement on key customer issues (PSH/01/2016)	24.3.2016	indefinite	24.3.2016
64-2017	PKN ORLEN S.A., UNIPETROL RPA, s.r.o. a Synthos S.A.	Supplier	Agreement on Confidentiality, Information Protection and Prohibition of Abuse - styrene	19.7.2017	07/18/2025	19.7.2017
430-2007	Polski Koncern Naftowy ORLEN S.A.	Supplier	Accession agreement to SAP Poland (DNM-01-07)	31.10.2007	indefinite	9.11.2007
190-2009	Polski Koncern Naftowy ORLEN S.A.	Supplier	Maintenance Fee for SAP, as amended (2 Annexes)	1.1.2008	indefinite	27.7.2009
83-2019	Polski Koncern Naftowy ORLEN S.A.	Supplier	Contract for one-off purchase of emission allowances			30.4.2019
84-2019	Polski Koncern Naftowy ORLEN S.A.	Supplier	Liquid sulfur supply contract, as amended (2 Annexes)	1.1.2019	12/31/2019	30.4.2019
128-2018	PKN ORLEN S.A. + TAURON Polska Energia S.A.	Cooperation	Agreement on a possible construction of a cogeneration power plant	10.10.2018	10/09/2020	10.10.2018
377-2012	ORLEN Ochrona Sp. z o.o., division in v ČR	Customer	Contract for the provision of services in the field of telecommunications and postal services	1.12.2012	indefinite	1.12.2012
383-2012	ORLEN Ochrona Sp. z o.o., division in v ČR	Customer	Rental agreement	1.12.2012	indefinite	26.11.2012
17-2018	ORLEN Ochrona Sp. z o.o., division in v ČR	Supplier	Agreement on Terms for the Provision of Security Services and Ancillary Services within the Complex (2 Annexes)	1.1.2018	indefinite	23.4.2018
79-2018	ORLEN Ochrona Sp. z o.o., division in v ČR	Customer	Rental agreement	1.1.2018	indefinite	16.7.2018
100-2018	ORLEN Ochrona Sp. z o.o., division in v ČR	Customer	Energy supply contract, as amended (2 Annexes)	1.1.2018	indefinite	28.8.2018
153-2014	ORLEN SERWIS S.A., spin-off enterprise (previously RemWil Sp. Z o.o.)	Customer	Contract on the provision of services in the area of OSH and PO	1.7.2014	indefinite	17.7.2014

68-2015	ORLEN SERWIS S.A., spin-off enterprise (previously RemWil Sp. Z o.o.)	Customer	Rental agreement	1.1.2015 indefinite	25.3.2015
76-2015	ORLEN SERWIS S.A., spin-off enterprise (previously RemWil Sp. Z o.o.)	Cooperation	Agreement on Provision of Synergy	26.3.2015 12/31/2019	26.3.2015
84-2015	ORLEN SERWIS S.A., spin-off enterprise	Supplier	Agreement on provision of coal supply, as amended (7 Annexes)	1.5.2015 12/31/2019	1.5.2015
198-2015	ORLEN SERWIS S.A., spin-off enterprise	Customer	Energy Agreement, as amended (5 Annexes)	1.1.2015 indefinite	10.12.2015
55-2016	ORLEN SERWIS S.A., spin-off enterprise	Supplier	Contract on Work - maintenance and management of heat exchanger stations, as amended (2 Annexes), 3rd Annex before signature	1.4.2016 12/31/2019	17.3.2016
56-2016	ORLEN SERWIS S.A., spin-off enterprise	Supplier	Contract on Work - Repair and Maintenance of Electrical Equipment for SAR, as amended (2 Annexes), 3rd Annex before signature	1.4.2016 12/31/2019	17.3.2016
66-2016	ORLEN SERWIS S.A., spin-off enterprise	Supplier	Framework Contract for Work - Maintenance of Operational Property, as amended (5 Annexes)	1.1.2016 12/31/2019	29.3.2016
42-2018	ORLEN SERWIS S.A., spin-off enterprise	Cooperation	Agreement on terms of mutual cooperation	1.2.2018 indefinite	4.4.2018
211-2007	ANWIL S.A.	Supplier	Cooperation Agreement (DW/1/2007), as amended (5 Annexes)	1.1.2007 indefinite	27.3.2007
358-2012	ANWIL S.A.	Supplier	Framework Purchase Cooperation Agreement, as amended (2 Annexes)	9.11.2012 indefinite	9.11.2012
214-2013	ANWIL S.A.	Customer	Sale of S-PVC Neralit 581 and 601, as amended (4 Annexes)	1.6.2013 indefinite	17.6.2013
180-2014	ANWIL S.A.	Supplier	IT Cooperation Agreement (GRU 9100000136) - Hosting of SAP Servers	1.1.2014 indefinite	5.11.2014
118-2015	ANWIL S.A.	Supplier	Long-term contract for the supply of ammonia, as amended (3 Annexes) (without notice of withdrawal automatic 1-year extension)	1.5.2015 12/31/2020	1.5.2015
225-2015	ANWIL S.A.	Supplier	Confidentiality agreement in case of a need to provide a loan	1.12.2015 11/30/2025	1.12.2015

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INDEPENDENT AUDITOR'S REPORT
To the Partner of SPOLANA s.r.o.

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

Opinion

We have audited the accompanying financial statements of SPOLANA s.r.o.(hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of SPOLANA s.r.o. as at 31 December 2019, 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 Statutory Executives are responsible for the other information.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

In Prague on 3 March 2020

Audit firm:

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

Statutory auditor:

Martin Tesař
registration no. 2030