Spolana

Annual report for the year

2016

SPOLANA a.s.

REPORT OF THE BOARD OF DIRECTORS ON THE BUSINESS ACTIVITIES AND ITS FINANCIAL POSITION FOR 2016

1. OWNERSHIP STRUCTURE

Since November 2006 to May 2016 the company was member of capital group ANWIL, where controlling entity is for the entire period ANWIL SPÓŁKA AKCYJNA with registered office at Toruńska 222, 87-805 Włocławek, Poland (hereinafter „ANWIL S.A.“). Capital group ANWIL is part of the capital group PKN ORLEN, at which the controlling entity is Polski Koncern Naftowy ORLEN Spólka Akcyjna with registered office at Chemików 7, 09-411 Płock, Poland (hereinafter „PKN ORLEN S.A.“).

On June 10, 2016 the company UNIPETROL RPA, s.r.o., with registered office Záluží 1, Litvínov, 436 70, ID No: 27597075, concluded an agreement with the company ANWIL S.A. on transfer of the shares, based on which the company UNIPETROL RPA, s.r.o. acquired 100% of shares of SPOLANA a.s. and became the sole shareholder of SPOLANA a.s.

SPOLANA a.s. has no organizational unit abroad.

2. EVENTS OF 2016

The greater part of the year 2016 the company faced the consequences of accident on ethylene production unit of UNIPETROL RPA, s.r.o. in Litvínov from August 2015, as a result of which supplies of ethylene, main raw material for PVC production, was interrupted. Market situation and limited capacity of suitable transport means did not enable to replace the ethylene supplies in full extent and therefore PVC production was operated on a limited scale till September 2016. Supplies of ethylene from Litvínow were restored in October and PVC production is gradually returning to original performance.

3. MARKET DEVELOPMENT

S-PVC (NERALIT)

Due to limited production of PVC the company´s revenues declined significantly compared to previous years. The demand for PVC the Company was able to cover only partially during the three quarters, only after restoration of ethylene supplies the Company gradually resumes deliveries to all customers. The return to the market is slowed down by seasonal influences, when at the end of each year the demand decreases due to decline in building industry, which is important user of PVC products.

CAPROLACTAM

Demand for caprolactam has stabilized during 2016 especially thanks to gradual restoration of the demand in Asia, which also influenced positively European market. The Company expects moderate recovery also in 2017.

SODIUM HYDROXIDE

In 2016 the production and sales of sodium hydroxide did not reach planned level due to the fact that it is not possible to produce sodium hydroxide without concurrent PVC production. In order to satisfy main customers the Company supplied its own production by import of sodium hydroxide from ANWIL S.A. Sodium hydroxide prices were relatively stable during the whole year 2016 despite the tense situation on the market which was caused by low stock of sodium hydroxide in Europe. Prices increased only during the 4th quarter 2016.

SPOLSAN AND SPOLSAN S

Sales of SPOLSAN in 2016 were influenced especially by slump on fertilizer market in first half of the year and also by still lower caprolactam production with which the Spolsan production is technologically linked.

SULPHURIC ACID AND OLEUM

Sales of sulphuric acid and oleum fell down by 21% compared to 2015 due to restart of production in PRECHEZA Přerov. In case of oleum sales were affected also by lack of railway tank cars due to repairs and revisions. In the coming year the Company will concentrate on increase of supplies to traditional customers and acquiring of new customers.

4. PROFIT / LOSS

Revenues of the Company reached CZK 3 740 290 thousand in 2016 which is only 73,4% of 2015 level. Revenues and profit/loss in 2016 were adversely influenced by lack of ethylene after the accident on ethylene unit of UNIPETROL RPA, s.r.o. in August 2015. In 2016 the Company suffered loss in the amount of CZK 472 656 thousand of which CZK 130 000 thousand constitute additional provision for liquidation of electrolysis plant, which will be shut down during 2017.

5. RESEARCH AND DEVELOPMENT

In 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 2016 were focused especially on folowing topics:

Ecologization and optimization of steam production through replacement of coal boilers by natural gas boilers – feasibility study has been prepared and tender for supplier will be launched.

Modernization of sulphuric acid production along with increase of heat production – conceptional study has been prepared, investment study preparation will follow.

Increase of storage capacity and quality of molten caprolactam including new loading station for road tank cars – investiment study and project for building permit have been prepared.

6. ENVIRONMENTAL PROTECTION

In 2012 new Air Protection Act was issued which tightens emission limits for energy boilers. The Company prepares project of new energy unit based on decentralization of heat sources and on replacement of coal boilers by natural gas boilers.

In June 2016 in EU Official Journal conclusions of BAT (Best Available Technology) were published for common wastewater treatment systems, waste gas treatment systems and for treatment with waste water and waste gases in chemical industry. As a consequence it will be necessary to introduce nitrification and denitrification processon water treatment plant til June 9 2020.

Existing amalgam electrolysis production unit will be shut down as per June 30, 2017 in accordance with binding conditions in valid Integrated permit. At present the Company implements the project of transfer to PVC production from alternative raw materials (EDC).

During 2016 no changes of integration permits were made. Based on binding condition in valid integrated permit submitted the Company to Regional Office of Central Bohemia Region in December 2016 project of operation shutdown of amalgam electrolysis.

In the liquidation of old environmental burdens in 2016 continued monitoring of groundwater and surface water and maintenace works on concrete surface in location of former dioxine contaminated buildings. On September 6 2016 Ministry of finance called for tender for remediation of groundwater contaminated by chlorinated hydrocarbons in the area of petrochemistry. Deadline for submission of tender offers was set to February 2, 2017. In 2016 Ministry of finance signed contract for completion of survey and preparation of project documentation for remediation in area between internal road and the bank of river Labe. Survey was completed during 2016, project works will continue in 2017.

7. EMPLOYMENT POLICY AND EMPLOYMENT RELATIONS

Goals of employment policy are as follows:

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

Remuneration system and personnel policy

Remuneration system continues according to settings from 2015. Main component is basic salary contractually agreed between employee and employer. Basic salary is based on wage policy set by payroll system HAY, where for majority of working positions isused 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.
- Quaterly bonuses based on evaluation of PKN ORLEN corporate values.
- Jubilee bonuses after 25 and 35 years of uninterrupted employment.
- Retirement benefits according to collective agreement.
- Extraordinary bonuses.

8. EXPECTED DEVELOPMENT OF THE COMPANY

Based on valid integrated permit the existing amalgam electrolysis can be operated only till June 2017. In December 2013 the Company applied for change integrated permit for PVC production so that after shut down of amalgam electrolysis the Company could produce the PVC from purchased EDC. The Regional Office of Central Bohemia Region issued the change on July 9, 2014. With respect to recovery on the market of the main products considers the Company also another possible scenarios including construction of the new membrane electrolysis. In the area of caprolactam and ammonium sulphate production, the Company at present builds up granulation unit for ammonium sulphate.

9. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

As per the date of preparation of this Annual Report the Company´s management is not aware of any important subsequent events that would have material impact on the financial statements as per 31 December 2016.

In Neratovice, 27 February 2017

....	....
Michał Krzysztof Kaliciak	Filip Mikołajczyk
Vice-chairman of the Board of Directors	Member of the Board of Directors

REPORT ON RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY

AND

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

for 2016

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

Financial period from 1.1.2016 to 31.12.2016 is the vesting period for this Report on relations between the controlling entity and the controlled entity and between the controlled entity and other entities controlled by the same controlling entity (hereinafter the „Report on Relations").

The structure of relations between the entities

Controlled entity

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

Controlling entities

Till 10 June 2016 the controlling entity was ANWIL SPÓŁKA AKCYJNA with registered office at Toruńska 222, 87-805 Włocławek, Poland (hereinafter „ANWIL S.A.").

Since 10 June 2016 the controlling entity is UNIPETROL RPA, s.r.o. with registered office at Záluží 1, 436 70 Litvínov, Czech republic, ID No.: 275 97 075, entered in the Commercial Register maintained by the Regional Court in Ústí nad Labem, Section C, Insert 24430 (hereinafter „UNIPETROL RPA, s.r.o.").

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

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

Other Controlled Entities

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

The entities controlled by UNIPETROL, a.s. are members of PKN ORLEN S.A. business group and are also members of „UNIPETROL" business group, whose scheme is shown in Appendix No. 2.

The role of the Controlled Entity

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

The method and means of controlling

Till 10 June 2016 the company ANWIL SPÓŁKA AKCYJNA was the sole shareholder of SPOLANA a.s. and had direct influence on SPOLANA a.s.

Since 10 June 2016 the company UNIPETROL RPA, s.r.o. is the sole shareholder of SPOLANA a.s. and has direct influence on SPOLANA a.s.

The company UNIPETROL, a.s. is the sole shareholder of UNIPETROL RPA, s.r.o. and since 10 June 2017 has indirect influence on SPOLANA a.s.

The company Polski Koncern Naftowy ORLEN S.A. is the majority shareholder of ANWIL S.A. and UNIPETROL, a.s. and has indirect influence on SPOLANA a.s. (till 10 June 2016 through ANWIL S.A., from 10 June 2016 through UNIPETROL, a.s. and UNIPETROL RPA, s.r.o.)

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

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

The list of mutual agreements between the Controlled Entity and the Controlling Entity or between the Controlled Entities

The mutual agreements between SPOLANA a.s. and the companies ANWIL S.A., UNIPETROL RPA, s.r.o., UNIPETROL a.s. and Polski Koncern Naftowy ORLEN S.A. as well as with other Controlled Entities were concluded on the standard terms, while agreed and provided performances or counter-performances were based on the standard terms of business relations.

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

The conclusion

The Board of Directors of SPOLANA a.s. based on available information declares that between above mentioned companies in the framework of the business group were not concluded any contracts, acts or measures that would incurred any detriment, special advantage or disadvantage in accordance with the arcticle 82 (4) of the Act of Business Corporations as a result of any contracts, acts or measures taken between entities in business group. No risks arise from the relations between entities in business group to SPOLANA a.s. except those arising from standard participation in international business group.

The company's Board of Directors prepared the Report on Relations based on information available on the date of the Report on Relations.

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

Neratovice, 27 February 2017

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

Michał Krzysztof Kaliciak
Vice-chairman of the Board of Directors

Filip Mikołajczyk
Member of the Board of Directors

Appendix No. 1

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

1 January 2016 - 31 December 2016

Company controlled by PKN ORLEN S.A.	Residence	Shares in directly and undirectly controlled companies in % of the capital		Note
		as at 1.1.2016	as at 31.12.2016	
1. Unipetrol a.s.	**Prague**	**62,99%**	**62,99%**	
2. AB ORLEN Lietuva	**Juodeikiai**	**100,00%**	**100,00%**	
2.1 UAB Mazeikiu Nafta Trading House	**Vilnius**	**100,00%**	**100.00%**	
2.1.1 SIA ORLEN Latvija	Riga, Latvia	100,00%	100,00%	
2.1.2 ORLEN Eesti OU	Tallin, Estonia	100,00%	100,00%	
2.2 UAB EMAS	Juodeikiai	100,00%	100,00%	
3. AB Ventus Nafta	**Vilnius**	**100,00%**	**100,00%**	
4. ANWIL S.A.	**Włocławek**	**100,00%**	**100,00%**	
4.2 Pro-Lab sp. z o.o. w likwidacji	Włocławek	99,99%	0,00%	Company liquidated on 18.4.2016
4.3 SPOLANA a.s.	Neratovice	100,00%	0,00%	Company disposed on 10.6.2016 to UNIPETROL RPA, s.r.o.
4.4 Przedsiebiorstwo Usług Technicznych WIRCOM Spółka z ograniczoną odpowiedzilanością	Włocławek	97,38%	0,00%	Company merged to ORLEN Serwis S.A. on 1.3.2016
5. Inowrocławskie Kopalnie Soli "SOLINO" S.A.	**Inowrocław**	**100,00%**	**100,00%**	
6. Kopalnia Soli Lubień sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
7. ORLEN Administracja Sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
8. ORLEN Asfalt sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
8.1 ORLEN Asfalt Ceska Republika s.r.o.	Pardubice	100,00%	100,00%	
9. ORLEN Serwis S.A.	**Płock**	**100,00%**	**100,00%**	
10. ORLEN Budonaft Sp. z o.o.	**Limanowa**	**100,00%**	**100,00%**	
11. ORLEN Centrum Serwisowe Sp. z o.o.	**Opole**	**99,33%**	**99,33%**	
12. ORLEN Deutschland GmbH	**Elmshorn**	**100,00%**	**100,00%**	
13. ORLEN EKO Sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
14. Orlen Holding Malta Limited	**St. Julians, Malta**	**99,50%**	**99,50%**	
14.1 Orlen Insurance Ltd.	St. Julians, Malta	99,99%	99,99%	
15. ORLEN KolTrans Sp. z o.o.	**Płock**	**99,85%**	**99,85%**	
16. ORLEN Centrum Usług Korporacyjnych sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
17. Orlen Laboratorium S.A.	**Płock**	**99,38%**	**99,38%**	Company transformed into joint stock company on 10.8.2016
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%**	
20. ORLEN Paliwa Sp. z o.o.	**Widełka**	**100,00%**	**100,00%**	
20.1 Petro-Mawi Sp. z o.o. w likwidacji	Sosnowiec	60,00%	60,00%	
21. ORLEN Projekt S.A.	**Płock**	**99,77%**	**99,77%**	
22. ORLEN Transport Kraków Sp. z o.o. w upadłości	**Kraków**	**98,41%**	**98,41%**	
23. ORLEN Transport S.A.	**Płock**	**100,00%**	**0,00%**	Company disposed on 29.2.2016
24. ORLEN Upstream Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
24.1 ORLEN Upstream International B.V.	Amsterdam	100,00%	0,00%	Company merged to ORLEN Upstream sp. z o.o. on 21.10.2016
24.1.1 Orlen Upstream Canada Ltd	Calgary	100,00%	100,00%	Company directly controlled by Orlen Upstream Sp. z o.o. as of 21.10.2016

24.1.1.1 Kicking Horse Energy Inc.	Calgary	100,00%	0,00%	Company merged to Orlen Upstream Canada Ltd. on 1.1.2016
24.1.1.1.1 KCK Operating Company Ltd.	Calgary	100,00%	0,00%	Company merged to Orlen Upstream Canada Ltd. on 1.1.2016
24.1.1.1.2 Columbia Natural Resources Canada Ltd.	Calgary	100,00%	0,00%	Company merged to Orlen Upstream Canada Ltd. on 1.1.2016
24.1.1.1.3 Kicking Horse International Exploration Ltd.	Calgary	100,00%	0,00%	Company merged to Orlen Upstream Canada Ltd. on 1.1.2016
24.1.1.1.4 Pierdiae Production GP Ltd.	Calgary	50,00%	50,00%	The remaining stake owned by Pierdiae Energy Limited. Pierdiae Energy Limited owned in 11% by KCK Atlantic Holdings Ltd. Company directly controlled by OUC Ltd. as of 1.1.2016
24.1.1.1.4.1 671519 N.B. Ltd. (New Brunswick)	Saint John	100,00%	100,00%	Company directly controlled by Pierdiae Production GP Ltd.
24.1.1.1.5 KCK Atlantic Holdings Ltd.	Calgary	100,00%	100,00%	Company directly controlled by OUC Ltd. as of 1.1.2016
24.1.1.1.5.1 Pierdiae Production LP	Calgary	80,00%	80,00%	The remaining stake owned by Pierdiae Energy Limited. Pierdiae Energy Limited owned in 11% by KCK Atlantic Holdings Ltd.
24.1.1.2 1426628 Alberta Ltd.	Calgary	100,00%	100,00%	Company directly controlled by OUC Ltd. as of 1.1.2016
24.1.1.3 OneEx Operations Partnership	Calgary	100,00%	100,00%	Company directly controlled by OUC Ltd. as of 1.1.2016
24.3 Kiwi Acquisition Corp.	Carson City	100,00%	0,00%	Company merged to FX Energy Inc on 1.1.2016
24.3.1 FX Energy Inc.	Salt Lake City	100,00%	100,00%	Company directly controlled by Orlen Upstream Sp. z o.o. as of 21.10.2016
24.3.1.1 FX Drilling Company, Inc.	Salt Lake City	100,00%	0,00%	Company disposed on 30.12.2016
24.3.1.2 FX Producing Company, Inc.	Salt Lake City	100,00%	0,00%	Company disposed on 30.12.2016
24.3.1.3 Frontier Exploration, Inc.	Salt Lake City	100,00%	100,00%	
24.3.1.4 FX Energy Netherlands Partnership C.V.	Utrecht	100,00%	100,00%	0,01% stake owned by FX Energy Inc. The remaining part (99,99%) owned by Frontier Exploration Inc.
24.3.1.4.1 FX Energy Netherlands B.V.	Utrecht	100,00%	100,00%	
24.3.1.4.1.1 FX Energy Polska Sp. z o.o.	Warszawa	100,00%	100,00%	
25. ORLEN Wir Sp. z o.o.	**Płock**	**76,59%**	**0,00%**	Company merged to ORLEN Serwis on 29.2.2016
26. Petrolot Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
27. ORLEN Południe S.A.	**Trzebinia**	**100,00%**	**100,00%**	
27.1 Energomedia Sp. z o.o.	Trzebinia	100,00%	100,00%	
27.2 Euronaft Trzebinia Sp. z o.o.	Trzebinia	100,00%	100,00%	
27.3 EkoNaft Sp. z o.o. w likwidacji	Trzebinia	100,00%	0,00%	Company liquidated on 17.5.2016
27.4 KONSORCJUM OLEJÓW PRZEPRACOWANYCH - ORGANIZACJA ODZYSKU OPAKOWAŃ I OLEJÓW S.A.	Jedlicze	89,00%	89,00%	
27.5 RAN-WATT Sp. z o.o. w likwidacji	Toruń	51,00%	51,00%	
28. Ship - Service S.A.	**Warszawa**	**60,86%**	**60,86%**	
29. ORLEN Finance AB	**Stokholm**	**100,00%**	**100,00%**	
30. ORLEN Capital AB	**Stokholm**	**100,00%**	**100,00%**	
31. Baltic Power Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
32. Basell Orlen Polyolefins Sp. z o.o.	**Płock**	**50,00%**	**50,00%**	
32.1 Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	Płock	100,00%	100,00%	
33. Płocki Park Przemysłowo-Technologiczny S.A.	**Płock**	**50,00%**	**50,00%**	
33.1 Centrum Edukacji Sp. z o.o.	Płock	69,43%	69,43%	

Appendix No. 2

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

1 January 2016 – 31 December 2016

Companies controlled by UNIPETROL, a.s. **Companies with direct share of UNIPETROL, a.s.** Companies with indirect share of UNIPETROL, a.s.	Residence	Shares in directly and indirectly controlled companies in % of the capital		Note
		1.1.2016	**31.12.2016**	
1. UNIPETROL RPA, s.r.o., ID 275 97 075	Litvínov, Záluží 1	**100,00**	**100,00**	
1.1 HC VERVA Litvínov, a.s., ID 640 48 098	Litvínov , S.K. Neumanna 1598	70,95	70,95	Other shareholders - Litvínov city owns 22,14% and HC Litvínov, o.s. owns 6,91%
1.2 CHEMOPETROL, a.s., ID 254 92 110	Litvínov, Záluží 1	100,00	-	Company merged to UNIPETROL RPA, s.r.o. on 2.8.2016
1.3 UNIPETROL DOPRAVA, s.r.o., ID 640 49 701	Litvínov, Růžodol 4	99,88	99,88	0,12% owned by UNIPETROL, a.s.
1.4 UNIPETROL DEUTSCHLAND GmbH, ID HRB 34346	Langen, Germany, Paul-Ehrlich-Strasse 1B	99,90	99,90	0,1% owned by UNIPETROL, a.s.
1.5 UNIPETROL SLOVENSKO, s.r.o., ID 357 77 087	Bratislava - mestská časť Ružinov, Jašíkova 2, Slovensko	86,96	86,96	13,04% owned by UNIPETROL, a.s.
1.6 UNIPETROL RPA Hungary Kft., ID 13-09-181774	2040 Budaörs, Puskás Tivadar utca 12, Hungary	100,00	100,00	
1.7 SPOLANA a.s., ID 451 47 787	Neratovice, ul. Práce 657	-	100,00	Company purchased on 10.6.2016
1.8 Nadace Unipetrol	Litvínov, Záluží 1	-	100,00	Foundation established on 27.12.2016
2. UNIPETROL SERVICES, s.r.o., ID 276 08 051	Litvínov, Záluží 1	**100,00**	-	Company merged to UNIPETROL RPA, s.r.o. on 2.8.2016
3. Unipetrol výzkumně vzdělávací centrum, a.s., ID 622 43 136	Ústí nad Labem, Revoluční 1521/ 84	**100,00**	**100,00**	
4. BENZINA, s.r.o., ID 601 93 328	Praha 4, Na Pankráci 127	**100,00**	-	Company merged to UNIPETROL RPA, s.r.o. on 1.1.2016
4.1 PETROTRANS, s.r.o., ID 251 23 041	Praha 8, Libeň, Střelničná 2221/50	99,37	99,37	0,63% owned by UNIPETROL, a.s.
5. UNIPETROL RAFINÉRIE, s.r.o. ID 278 85 429	Litvínov, Záluží 1	**100,00**	-	Company merged to UNIPETROL RPA, s.r.o. on 2.8.2016
6. ČESKÁ RAFINÉRSKÁ, a.s., ID 627 41 772	Litvínov, Záluží 2	**100,00**	**100,00**	
7. UNIPETROL AUSTRIA, GmbH, in liquidation, ID 43 551	Vienna, Apfelgasse 2, Austria	**100,00**	-	UNIPETROL AUSTRIA, GmbH liquidated on 9.9.2016.
8. PARAMO, a.s., ID 481 73 355	Pardubice, Svítkov, Přerovská 560	100,00	100,00	
8.1 MOGUL SLOVAKIA, s.r.o., ID 36 222 992	Hradiště pod Vrátnou, U ihriska 300, Slovakia	100,00	-	Company merged to UNIPETROL SLOVENSKO, s.r.o. on 1.1.2016
8.2 Paramo Oil s.r.o., ID 246 87 341	Pardubice, Přerovská 560	100,00	100,00	
9. Butadien Kralupy a.s., ID 278 93 995	Kralupy nad Vltavou, O. Wichterleho 810	51,00	51,00	49% shares owned by SYNTHOS Kralupy a.s.

Other companies with share of UNIPETROL, a.s.				
1. UNIVERSAL BANKA, a.s, in bankruptcy, ID 482 64 865	Praha 1, Senovážné náměstí 1588/4	16,45	16,45	12,24% shares owned by UNIPETROL RPA, s.r.o.
2. ORLEN HOLDING MALTA LIMITED, ID C 39945	Level 3, Triq ir-Rampa ta' San Giljan, Balluta Bay, St Julians, STJ1062 Malta	0,5	0,5	99,5% shares owned by PKN ORLEN S.A.

Appendix No. 3

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

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
95-2016	ANWIL S.A.	Creditor	Arrangement of repayment of liabilities from long-term contract (1200000375)	Determination of payment schedule	21.4.2016	15.5.2016	29.4.2016
118-2015 / 1200000375	ANWIL S.A.	Supplier	Long-term contract for supplies of ammonia (č.1200000375)	Supplies of ammonia	1.5.2015	31.12.2017	1.5.2015
358-2012	ANWIL S.A.	Supplier	Framework contract on cooperation in the field of purchase	Cooperation in the field of purchase	9.11.2012	indefinite	9.11.2012
211-2007	ANWIL S.A.	Supplier	Cooperation agreement + 2 amendments.	Providing of advisory and similar services	1.1.2007	indefinite	27.3.2007
180-2014	ANWIL S.A.	Supplier	IT services – hosting of SAP servers	Providing of server hosting for information system SAP	1.1.2014	indefinite	5.11.2014
40-2016 / 3/2016	ANWIL S.A.	Guarantor	Comission for guarantee 3/2016 – supplies of natural gas from WINGAS + 1 amendment.	Determination of comission for provided guarantee for natural gas supplies	1.1.2016	30.6.2016	24.2.2016
39-2016 / 2/2016	ANWIL S.A.	Guarantor	Comission for guarantee 2/2016 – supplies of natural gas from RWE Energie + 1 amendment.	Determination of comission for provided guarantee for natural gas supplies	1.1.2016	30.6.2016	24.2.2016
38-2016 / 3/2016	ANWIL S.A.	Guarantor	Comission for guarentee 1/2016 – supplies of ethylene from PKN + 1 amendment.	Determination of comission for provided guarantee for ethylene supplies	1.1.2016	30.6.2016	24.2.2016
228-2010	ANWIL S.A.	Creditor	Cash pool agreement + 3 amendments.	Financing of the Company through group cash-pool	24.7.2010	19.7.2016	18.6.2010

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
195-2009 / 4/2009	ANWIL S.A.	Guarantor	Comission for guarantee - credit from ING Bank (4/2009)+ bill arrangement + 6 amendments	Determination of comission for provided guarantee for credit from ING Bank	29.5.2016	30.6.2016	29.5.2009
179-2014	ANWIL S.A.	Customer	Agreement on sales (S-PVC all sorts) + 1 amendment	Sales of PVC for selected customers	1.4.2014	31.12.2016	7.7.2014
178-2014	ANWIL S.A.	Customer	Agreement on sales (S-PVC 581+601)	Sales of PVC for selected customers	1.4.2014	31.12.2016	7.7.2014
214-2013	ANWIL S.A.	Customer	Framework agreement on sales of S-PVC Neralit 581 a 601 + 2 amendments.	Sales of PVC	1.6.2013	indefinite	17.6.2013
261-2013	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod	Supplier	Framework agreement on supplies of fuel through payment cards BENZINA + 1 amendment	Purchase of fuel on gas stations	10.9.2013	indefinite	10.9.2013
66-2016	ORLEN SERWIS S.A., odštěpný závod	Supplier	Framework agreement for work – maintenace of operating assets	Maintenace of operating assets	1.1.2016	indefinite	29.3.2016
56-2016	ORLEN SERWIS S.A., odštěpný závod	Supplier	Agreement for work – maintenace and repairs of electrical equipment for facility management	Maintenace and repairs of electrical equipment for facility management	1.4.2016	31.3.2017	17.3.2016
55-2016	ORLEN SERWIS S.A., odštěpný závod	Supplier	Agreement for work – management and maintenace of heat exchanger stations	Management and maintenace of heat exchanger stations	1.4.2016	31.3.2017	17.3.2016
198-2015	ORLEN SERWIS S.A., odštěpný závod	Customer	Agreement on energy supplies . + 1 amendment	Supplies of electrical energy, heat and water	1.1.2015	indefinite	1.1.2015
84-2015	ORLEN SERWIS S.A., odštěpný závod	Supplier	Agreement on coaling	Coaling of coal boilers	1.5.2015	indefinite	1.5.2015

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
29-2014	ORLEN Centrum Uslug Korporacyjnych Spolka z o.o.	Supplier	Services in the field of payroll – accounting of social and health security	Calculation of mandatory contributions from payrolls for polish residents	1.1.2014	31.12.2016	1.1.2014
369-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Supplier	Supporting services (reception, post services, dispatching) + 3 amendments.	Providing of reception services, clearence of post packets, dispatching of vehicles for loading	1.12.2012	indefinite	1.12.2012
368-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Supplier	Guarding services + 3 amendments	Security guard of company area	1.12.2012	indefinite	1.12.2012
383-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Customer	Contract for lease of commercial space and movable assets + connected services (supplies of energies)	Lease of commercial space and connected services	1.12.2012	indefinite	26.11.2012
377-2012	ORLEN Ochrona Sp. z o.o., organizační složka v ČR	Customer	Providing of telecommunication and post services	Providing of telecommunication and post services	1.12.2012	indefinite	1.12.2012
53-2016	PKN ORLEN S.A.	Supplier	Agreement on purchase of emission allowances	Purchase of emission allowances missing for coverage of emissions 2015	13.4.2016	one-case	13.4.2016
126-2016	PKN ORLEN S.A.	Supplier I	Agreement on ethylene supplies 6/2016 - 22160347	Purchase of ethylene	1.6.2016	30.6.2016	1.6.2016
111-2016	PKN ORLEN S.A.	Supplier I	Agreement on ethylene supplies - 5/2016 - 22160312	Purchase of ethylene	1.5.2016	31.5.2016	1.5.2016
107-2016	PKN ORLEN S.A.	Supplier	Agreement on ethylene supplies - 4/2016 - 22160296	Purchase of ethylene	1.4.2016	30.4.2016	1.4.2016
103-2016	PKN ORLEN S.A.	Supplier	Agreement on ethylene supplies - 3/2016 - 22160196	Purchase of ethylene	1.3.2016	31.3.2016	1.3.2016

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
93-2016	PKN ORLEN S.A.	Supplier	Agreement on ethylene supplies - 3/2016 - 22160249 - additional amount	Purchase of ethylene	1.3.2016	31.3.2016	1.3.2016
83-2016	PKN ORLEN S.A.	Supplier	Agreement on ethylene supplies - 2/2016 - 22160173 - additional amount	Purchase of ethylene	1.2.2016	29.3.2016	1.2.2016
69-2016	PKN ORLEN S.A.	Supplier	Agreement on ethylene supplies - 2/2016 - 22160121	Purchase of ethylene	1.2.2016	29.3.2016	1.2.2016
68-2016	PKN ORLEN S.A.	Supplier	Agreement on ethylene supplies - 1/2016 - 22160036	Purchase of ethylene	1.1.2016	31.1.2016	1.1.2016
105-2016	PKN ORLEN S.A.	Supplier	Agreement on sulphur supplies in 2016 + 3 amendments	Purchase of sulphur	1.1.2016	31.12.2016	13.6.2016
190-2009	PKN ORLEN S.A.	Supplier	Comission for SAP licenses maintenace + 2 amendments	Maintenace of SAP licences	1.1.2008	indefinite	27.7.2009
177-2013	UNIPETROL DEUTSCHLAND GmbH	Customer	Agreement on exclusive distribution of S-PVC for Germany + 2 amendments.	Sales of PVC for customers in Germany	1.6.2013	31.3.2017	1.6.2013
16-2017 / 76-2016	UNIPETROL, a.s.	Creditor	Agreement on credit A – Cash Pool – ING Bank	Financing of the Company through group cash-pool	11.7.2016	indefinite	11.7.2016
17-2017 / 77-2016	UNIPETROL, a.s.	Creditor	Agreement on credit B – Cash Pool – Česká spořitelna.	Financing of the Company through group cash-pool	11.7.2016	indefinite	11.7.2016
132-2016 / 0086-2016	UNIPETROL, a.s.	Supplier	Administration of liability insurance 2. layer	Administration of liability insurance 2. layer	1.5.2016	30.4.2017	2.11.2015
131-2016 / 0071-2016	UNIPETROL, a.s.	Supplier	Administration of liability insurance 1. layer	Administration of liability insurance 1. layer	1.5.2016	30.4.2017	21.7.2015
10-2016.	UNIPETROL, a.s.	Creditor	Credit agreement 200 mln. CZK	Providing of operating credit	20.1.2016	indefinite	24.2.2016

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
9-2016.	UNIPETROL, a.s.	Creditor	Agreement on creating of pledge to real estate	Creation of pledge to real estate	20.1.2016	indefinite	20.1.2016
193-2015 / 0093-2015	UNIPETROL, a.s.	Supplier	Administration of liability insurance 2. layer	Administration of liability insurance 2. layer	1.5.2015	30.4.2016	27.10.2015
121-2015 / 0077-2015	UNIPETROL, a.s.	Supplier	Administration of liability insurance 1. layer	Administration of liability insurance 1. layer	1.5.2015	30.4.2016	14.9.2015
139-2016	UNIPETROL, a.s.	Supplier	Agreement on complex services (CLA) – internal audit	Providing of services in the area of internal audit	---	---	---
1119 - 2016 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Supplier	Puchase of ethylene 2016-2017	Purchase of ethylene after restart of ethylene unit	1.10.2016	31.12.2017	1.10.2016
203-2013 / 1071 - 2016 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Customer	Confidentiality agreement, information protection and prohibition of abuse	Confidentiality agreement in the area of IT	10.6.2013	indefinite	30.4.2013
8–2016 / 0159 - 2016 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Supplier	Agreement on ammonia purchase	Purchase of ammonia in 2016	1.1.2016	31.12.2016	29.3.2016
91-2016 / 0082 - 2016 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Customer	Service level agreement – services of shared services center	Agreement on services transferred from the company UNIPETROL SERVICES valid from 1 January 2016. Agreement partners are companies of UNIPETROL group	1.1.2016	indefinite	19.1.2016
53-2014 / 312-2014 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Supplier	Confidentiality agreement, information protection and prohibition of abuse	Unipetrol RPA will provide to SPOLANA a.s. confidential information from lifetime study for ethylene pipeline – Nátional ethylene pipeline - prepared in December 2012 by the company CEPS a.s.	25.2.2014	indefinite	25.2.2014

No. of agreement / amendment	Company	Partner role	Subject of the agreement	Reason for agreement/amendment	Valid from	Valid to	Agreement date
573-2011 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Customer	Confidentiality agreement	Evaluation of the project of shares purchase	19.10.20 11	indefinite	19.10.2011
54-2014 / 0122 - 2014 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Supplier	Framework purchase agreement No. 946/2014 - SPOLANA a.s.	Supplies of fuel by wholesale way	21.3.201 4	indefinite	21.3.2014
207-2012 / 313-2012 rev. 0 dod. 0	UNIPETROL RPA, s.r.o.	Supplier	SPOLANA a.s. liquid sulphur 2012	Purchase of sulphur	1.7.2012	indefinite	1.7.2012
SSN_2013_002_01	ČESKÁ RAFINÉRSKÁ, a.s.	Customer	Framework contract for supplies of sodium hydroxide for rafinery plant in Litvínov	Sales of sodium hydroxide	1.1.2013	31.12.2016	1.1.2013
362-2006 / 2008-579	UNIPETROL DOPRAVA, s.r.o.	Supplier	Agreement on providing of transprot services – transport, forwarding, leasing of railway freight cars	a) Transport on railway siding (Neratovice) b) Railway transport services outside of railway siding including forwarding c) leasing of railway freight cars	1.7.2002	indefinite	28.6.2002
2010-102	UNIPETROL DOPRAVA, s.r.o.	Supplier	Agency agreement on railway operation on siding Spolana	Providing of railway siding operation	1.7.2002	indefinite	1.1.2002
52-2015 / 2015-22	UNIPETROL DOPRAVA, s.r.o.	Supplier	Agreement for work – maintenance of railway siding in Neratovice	Maintenance management for railway siding	1.1.2015	indefinite	19.2.2015
121-2003 / 2008-397	UNIPETROL DOPRAVA, s.r.o.	Customer	Agreement on leaseing of information technologies	Leasing of IT means - computers, network etc.	1.7.2002	indefinite	30.6.2002
67-2004 / 2008-341	UNIPETROL DOPRAVA, s.r.o.	Customer	Contract for lease of commercial space and providing of connected services	Leasing of commercial space and connected services	1.1.2004	indefinite	31.12.2003
194-2005 / 2008-2	UNIPETROL DOPRAVA, s.r.o.	Customer	Contract for telecomunication and post services	Providing of telecommunication and post services	25.3.2005	indefinite	25.3.2005

SPOLANA a.s.

SEPARATE
FINANCIAL STATEMENTS
Translation from the Czech original

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

FOR THE YEAR 2016

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

Statement of profit or loss and other comprehensive income

	NOTE	2016	2015
Statement of profit or loss			
Revenues	4.	3 740 290	5 095 607
Cost of sales	5.1.	(3 806 992)	(4 841 605)
Gross profit/(loss) on sales		**(66 702)**	**254 002**
Distribution expenses	5.2.	(128 944)	(184 739)
Administrative expenses	5.2.	(171 831)	(151 993)
Other operating income	6.1.	54 493	135 097
Other operating expenses	6.2.	(155 188)	(134 615)
Loss from operations		**(468 172)**	**(82 248)**
Finance income	7.1.	7 033	14 995
Finance costs	7.2.	(11 517)	(52 424)
Net finance costs		**(4 484)**	**(37 429)**
Loss before tax		**(472 656)**	**(119 677)**
Tax expense	8.	-	-
Net loss		**(472 656)**	**(119 677)**
Other comprehensive income		**-**	**-**
Total net comprehensive income		**(472 656)**	**(119 677)**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-42.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

Statement of financial position

	NOTE	31/12/2016	31/12/2015	01/01/2015
ASSETS				
Non-current assets				
Property, plant and equipment	9.	218 146	179 403	129 715
Investment property	10.	30 049	70 371	137 404
Intangible assets	11.	-	-	20 103
Other non-current financial assets	12.	879	879	879
		249 074	**250 653**	**288 101**
Current assets				
Inventories	13.	538 524	546 697	517 394
Trade and other receivables	14.	436 959	365 953	497 361
Other financial assets	15.	3 585	-	-
Cash and cash equivalents	16.	9 798	63 898	19 258
		988 866	**976 548**	**1 034 013**
Total assets		**1 237 940**	**1 227 201**	**1 322 114**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	17.1.	3 455 229	3 455 229	2 055 229
Retained earnings	17.2.	(3 869 667)	(3 397 011)	(3 277 334)
Total equity		**(414 438)**	**58 218**	**(1 222 105)**
LIABILITIES				
Non-current liabilities				
Provisions	18.	295 207	161 557	131 584
Other non-current liabilites	19.	2 966	2 397	2 397
		298 173	**163 954**	**133 981**
Current liabilities				
Trade and other liabilities	20.	859 358	616 716	838 417
Loans and borrowings		-	-	1 177 471
Provisions	18.	38 697	50 579	50 154
Deferred income	21.	1 833	1 785	5 969
Other financial liabilities	19.	454 317	335 949	338 227
		1 354 205	**1 005 029**	**2 410 238**
Total liabilities		**1 652 378**	**1 168 983**	**2 544 219**
Total equity and liabilities		**1 237 940**	**1 227 201**	**1 322 114**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-42.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

Statement of changes in equity

	Share capital	Retained earnings	Total equity
NOTE	17.1.	17.2.	
01/01/2016	3 455 229	(3 397 011)	58 218
Net loss	-	(472 656)	(472 656)
Total net comprehensive income	-	**(472 656)**	**(472 656)**
31/12/2016	**3 455 229**	**(3 869 667)**	**(414 438)**
01/01/2015	2 055 229	(3 277 334)	(1 222 105)
Net loss	-	(119 677)	(119 677)
Total net comprehensive income	-	**(119 677)**	**(119 677)**
Increase of share capital	1 400 000	-	1 400 000
31/12/2015	**3 455 229**	**(3 397 011)**	**58 218**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-42.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

Statement of cash flows

	Note	2016	2015
Cash flows - operating activities			
Loss before tax		**(472 656)**	**(119 677)**
Adjustments for:			
Depreciation and amortisation	5.2.	96 474	86 052
Foreign exchange (gain)/loss		(490)	(159)
Interest and dividends, net		8 214	28 818
(Profit)/Loss on investing activities		(24 433)	46 831
Change in provisions		153 840	79 203
Other adjustments		-84	(74 517)
Change in working capital		189 205	(143 090)
inventories		8 173	(29 303)
receivables		(71 006)	129 970
liabilities		252 038	(243 757)
Net cash used in operating activities		**(49 762)**	**(96 539)**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(112 025)	(51 000)
Disposal of property, plant and equipment and intangible assets		629	2 575
Proceeds/(Outflows) from cash pool assets		(3 585)	-
Settlement of financial derivatives		(1)	(123)
Other		1	-
Net cash used in investing activities		**(114 981)**	**(48 548)**
Cash flows - financing activities			
Proceeds/Outflows) from loans and borrowings		-	(1 177 103)
Proceeds/(Outflows) from cash pool liabilities		118 909	(2 183)
Interest paid		(6 257)	(29 573)
Increase of share capital		-	1 400 000
Other		(2 498)	(1 254)
Net cash provided by financing activities		**110 154**	**189 887**
Net increase/(decrease) in cash and cash equivalents		**(54 589)**	**44 800**
Effect of exchange rate changes		489	(160)
Cash and cash equivalents, beginning of the year		63 898	19 258
Cash and cash equivalents, end of the year	**16.**	**9 798**	**63 898**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8-42.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

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

1. DESCRIPTION OF THE COMPANY

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

Identification number of the Company
451 47 787

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

Principal activities
The principal business activities 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 in particular ethylene-based products (PVC), sodium hydroxide, hydrochloric acid and sodium hypochlorite. The caprolactam plant produces caprolactam and ammonium sulphate, sulphuric acid and oleum. Furthermore, the Company operates a power and heating plant, water management and leases unused buildings.

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

Statutory and supervisory bodies
Members of the statutory and supervisory bodies of SPOLANA a.s. as at 31 December 2016 were as follows:

	Position	Name
Board of Directors	Chairman	Karel Pavlíček
	Vice-chairman	Michał Krzysztof Kaliciak
	Member	Filip Mikołajczyk
Supervisory Board	Chairman	Robert Dominik Małłek
	Vice-chairman	Artur Tomasz Frankiewicz
	Member	Pavel Sláma

Changes in the Board of Directors in 2016 were as follows:

Position	Name	Change	Date of change
Member	Marek Kuchta	Recalled from the office	26 July 2016
Member	Markéta Voglová	Elected to the office	27 July 2016
Member	Markéta Voglová	Recalled from the office	31 August 2016
Member	Miroslav Bas	Recalled from the office	26 July 2016
Member	Filip Mikołajczyk	Elected to the office	1 September 2016

Changes in the Supervisory Board in 2016 were as follows:

Position	Name	Change	Date of change
Chairman	Rafał Maciej Trzebiński	Recalled from the office	24 June 2016
Vice-chairman	Jacek Tomasz Podgórski	Recalled from the office	24 June 2016
Member	Waldemar Antoni Gabruś	Recalled from the office	24 June 2016
Member	Mirosław Józef Kwiatkowski	Recalled from the office	24 June 2016
Member	Rafał Dariusz Tarka	Recalled from the office	24 June 2016
Vice-chairman	Artur Tomasz Frankiewicz	Elected to the office	25 June 2016
Member	Pavel Sláma	Elected to the office	25 June 2016
Chairman	Robert Dominik Małłek	Elected to the office	25 June 2016

Group indetification and consolidation
The Company is part of the consolidation group of UNIPETROL, a.s. ("the Group"). Pursuant to section 62(2) of Decree No. 500/2002 Coll., the financial statements of the Company and of all entities consolidated by it have been included in the consolidated financial statements of UNIPETROL, a.s. with its registered office at Praha 4, Na Pankráci 127, 140 00, ID No. 616 72 190.

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 2016. 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 2016, results of its operations and cash flows for the year ended 31 December 2016.

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

The financial statements, except for the statement of cash flows, are prepared on the accrual basis of accounting. Applied accounting policies are listed in note 28.3.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

3. TRANSITION TO IFRS

3.1. Adoption of IFRS

The Company prepared the financial statements in accordance with IFRS in years 2005-2008, due to the fact that the shares of the Company were traded on the Prague Stock Exchange. The trading was terminated on January 2009 and Act on accounting as amended by former regulations did not allow usage of IFRS for consolidated companies. Therefore, the Company prepared the financial statements according to Czech accounting standards (CAS) from the year ended 31 December 2009.

On June 2016 the sole shareholder ANWIL S.A. sold the Company to UNIPETROL RPA, s.r.o. The new sole shareholder decided to apply IFRS for preparation of the financial statements for the year ended 31 December 2016 to unify the practices and to ensure comparability of data within the Group.

Therefore, the Company prepared the financial statements in accordance with IFRS, described in the accounting policies in note 28.3. and effective for accounting periods ended 31 December 2016 and later. The comparative accounting period is the year ended 31 December 2015. For the purposes of preparation of these financial statements, an opening statement of financial position was prepared as at 1 January 2015, i.e. at the transition date.

This note presents the main adjustments carried out by the Company in order to reconcile the statement of financial position as at 1 January 2015 prepared in accordance with CAS and under IFRS and the financial statements for the year ended 31 December 2015 previously presented in accordance with CAS and IFRS.

A Exemptions

IFRS 1 – First-time Adoption of International Financial Reporting Standards enables the Company to use certain exemptions from the full retrospective application of IFRSs. The Company did not use any of these exemptions.

B Estimates

The estimates made as at 1 January 2015 and 31 December 2015 are in accordance with the estimates calculated in accordance with Czech accounting standards at the same dates (appropriate adjustments were made due to different accounting policies), except for the following items, in respect of which CAS do not require any estimates:

Investment Property – measurement

The Company used the estimates in accordance with IFRSs, reflecting conditions and terms as at 1 January 2015 i.e. the date of transition to IFRSs, and as at 31 December 2015.

3.2. Reconciliation of the financial statements reported in accordance with CAS and with IFRSs

Reconciliation of the statement of financial position as at 1 January 2015 (transition date)

	NOTE	CAS	1 January 2015 ADJUSTMENTS	IFRS
ASSETS				
Non-current assets				
Property, plant and equipment		186 015	(56 300)	129 715
Investment property		-	137 404	137 404
Intangible assets		-	20 103	20 103
Other non-current financial assets		879	-	879
		186 894	**101 207**	**288 101**
Current assets				
Inventories		542 880	(25 486)	517 394
Trade and other receivables		497 361	-	497 361
Cash and cash equivalents		19 258	-	19 258
		1 059 499	**(25 486)**	**1 034 013**
Total assets		**1 246 393**	**75 721**	**1 322 114**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		2 055 229	-	2 055 229
Retained earnings		(3 318 334)	41 000	(3 277 334)
Total equity		**(1 263 105)**	**41 000**	**(1 222 105)**
LIABILITIES				
Non-current liabilities				
Provisions		126 240	5 344	131 584
Other non-current liabilities		-	2 397	2 397
		126 240	**7 741**	**133 981**
Current liabilities				
Trade and other liabilities		1 199 800	(361 383)	838 417
Loans and borrowings		1 177 471	-	1 177 471
Provisions		-	50 154	50 154
Deferred income		5 987	(18)	5 969
Other financial liabilities		-	338 227	338 227
		2 383 258	**26 980**	**2 410 238**
Total liabilities		**2 509 498**	**34 721**	**2 544 219**
Total equity and liabilities		**1 246 393**	**75 721**	**1 322 114**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

3.2. Reconciliation of the financial statements reported in accordance with CAS and with IFRSs (continued)

Reconciliation of the statement of financial position as at 31 December 2015

	NOTE	CAS	31 December 2015 ADJUSTMENTS	IFRS
ASSETS				
Non-current assets				
Property, plant and equipment		180 676	(1 273)	179 403
Investment property		-	70 371	70 371
Other non-current financial assets		879	-	879
		181 555	**69 098**	**250 653**
Current assets				
Inventories		565 512	(18 815)	546 697
Trade and other receivables		370 923	(4 970)	365 953
Cash and cash equivalents		63 898	-	63 898
		1 000 333	**(23 785)**	**976 548**
Total assets		**1 181 888**	**45 313**	**1 227 201**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		3 455 229	-	3 455 229
Retained earnings		(3 433 258)	36 247	(3 397 011)
Total equity		**21 971**	**36 247**	**58 218**
LIABILITIES				
Non-current liabilities				
Provisions		155 567	5 990	161 557
Other non-current liabilities		-	2 397	2 397
		155 567	**8 387**	**163 954**
Current liabilities				
Trade and other liabilities		1 002 565	(385 849)	616 716
Provisions		-	50 579	50 579
Deferred income		1 785	-	1 785
Other financial liabilities		-	335 949	335 949
		1 004 350	**679**	**1 005 029**
Total liabilities		**1 159 917**	**9 066**	**1 168 983**
Total equity and liabilities		**1 181 888**	**45 313**	**1 227 201**

Reconciliation of the statement of profit and loss and other comprehensive income as at 31 December 2015

	NOTE	CAS	2015 ADJUSTMENTS	IFRS
Statement of profit or loss				
Revenues		5 077 231	18 376	5 095 607
Cost of sales		(5 012 897)	171 292	(4 841 605)
Gross profit on sales		**64 334**	**189 668**	**254 002**
Distribution expenses		-	(184 739)	(184 739)
Administrative expenses		-	(151 993)	(151 993)
Other operating income		72 207	62 890	135 097
Other operating expenses		(267 622)	128 007	(134 615)
Profit/(loss) from operations		**(131 081)**	**48 833**	**(82 248)**
Finance income		75 178	(60 183)	14 995
Finance costs		(111 801)	59 377	(52 424)
Net finance income/(costs)		**(36 623)**	**(806)**	**(37 429)**
Extraordinary income		70 252	(70 252)	-
Extraordinary costs		(17 472)	17 472	-
Net extraordinary income/(costs)		**52 780**	**(52 780)**	**-**
Loss before tax		**(114 924)**	**(4 753)**	**(119 677)**
Tax expense		-	-	-
Net loss		**(114 924)**	**(4 753)**	**(119 677)**
Other comprehensive income		-	-	-
Total net comprehensive income		**(114 924)**	**(4 753)**	**(119 677)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

3.2. Reconciliation of the financial statements reported in accordance with CAS and with IFRSs (continued)

Reconciliation of the statement of cash flows for the year ended 31 December 2015

	CAS	2015 ADJUSTMENTS	IFRS
Net cash provided by/(used in) operating activities	**(140 572)**	**44 033**	**(96 539)**
Net cash used in investing activities	**(35 503)**	**(13 045)**	**(48 548)**
Net cash provided by/(used in) financing activities	**220 715**	**(30 828)**	**189 887**
Net increase in cash and cash equivalents	**44 640**	**160**	**44 800**
Effect of exchange rate changes	-	(160)	(160)
Cash and cash equivalents, beginning of the year	19 258	-	19 258
Cash and cash equivalents, end of the year	**63 898**	**-**	**63 898**

The reconciliation of the statement of cash flows for the year ended 31 December 2015 does not include adjustments resulting from the different structure of the statement in accordance with CAS and IRFSs (under CAS interest paid/received and dividends paid/received are included in cash flows from operating activities).

3.3. Notes to reconciliation of the financial statements reported in accordance with CAS and with IFRSs

a. Revaluation of non-current assets and impairment of non-current assets
The result of the valuation under IFRS is based on the fair value principle, which was performed at the date of the acquisition of Unipetrol Group by PKN Orlen S.A. Group (May 2005). Based on IAS 36, the presence of impairment indicators led to the impairment analysis and, based on this analysis, the value of non-current assets were decreased.The Company elected to apply the optional exemption to use this previous revaluation as deemed cost at the date of transition. The reclassification impact was recognized in retained earnings. The reclassification impact on profit as at 31 December 2015 was recognized in the statement of profit and loss and other comprehensive income.

b. Classification and revaluation of non-current assets as investment property in compliance with IAS 40
The adjustment took into consideration the basic difference between the classifications based on CAS and IFRSs-the different valuation model after the initial recognition of investment property. Under CAS, investment property was initally recognized at acqusition cost. Subsequently, the investment property items were recognized at the acquisition cost less accumulated depreciation and accumulated impairment losses. Under IFRS, the investment property items were, after initial recognition, recognized at fair value. The impact of this revaluation was recognized in retained earnings as at 1 January 2015. The revaluation impact on profit as at 31 December 2015 was recognized in the statement of profit and loss and other comprehensive income.

c. Review of provisions
Under CAS, the Company recognized a provision for land restoration in operating expenses. Under IFRSs, the Company discounts this provision and records a corresponding increase in the respective assets. Due to the different approach, the amount of the provision created under CAS and under IFRS is also different. The reclassification impact on profit as at 1 January 2015 was recognized in retained earnings. The reclassification impact on profit as at 31 December 2015 was recognized in the statement of profit and loss and other comprehensive income.

d. Recognition fo government grants related to assets
Under CAS, the Company recognized a government grant received in 2006 as asset and other capital contributions. Under IFRSs, the Company presents this grant in the net amount of the asset and recognizes decreased depreciation on a systematic basis over the useful life of the asset in profit or loss. The reclassification impact on profit as at 1 January 2015 was recognized in retained earnings. The reclassification impact on profit as at 31 December 2015 was recognized in the statement of profit and loss and other comprehensive income.

e. Reclassification of catalysts
Under CAS, the costs related to the gradual wear and tear of catalysts are presented on an accrual basis as prepaid expenses. Under IFRSs, catalysts are recognized as assets and depreciated over their useful life, which is identical to the period over which related expenses were deffered under CAS. This adjustment only affects the statement of financial position.

f. Capitalization of major spare parts, and related impairment allowances
Under CAS, the Company recognized all spare parts in inventories and creates impairment allowances. Under IFRSs, major spare parts are capitalized as fixed assets and depreciated over their estimated useful life. The reclassification impact on profit as at 1 January 2015 was recognized in retained earnings. The reclassification impact on profit as at 31 December 2015 was recognized in the statement of profit and loss and other comprehensive income.

g. Capitalization of borrowing costs
Under IFRSs, the borrowing costs that are directly attributable to the acquisition of an asset are capitalized and amortized. The reclassification impact on profit as at 1 January 2015 was recognized in retain earnings. The reclassification impact on profit as at 31 December 2015 was recognized in the statement of profit and loss and other comprehensive income.

h. Presentation of CO_2 allowances
Under CAS, the consumption of emission allowances is recognized as disposal of tangible assets. Under IFRSs, the amount of intangible assets approximates the amount of allowances registered in the account with the Czech electricity and gas market operator and consumption is recognized as a provision.

i. Reclassification and other differences

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

3.3. Notes to reconciliation of the financial statements reported in accordance with CAS and with IFRSs (continued)

The following reclassifications were performed in the statement of financial position as at 1 January 2015 and as at 31 December 2015 in order to reflect the differences in the nature of some accounting items under IFRSs vs CAS:

- Reclassification of accrual on customer's credit notes from trade liabilities to trade receivables
- Reclassification of provisions to current and non-current liabilities
- Reclassification of liabilities relating to accrued expenses and cash pool as individual items of current liabilities

Reclassifications were also performed in the statement of profit or loss and other comprehensive income for the year ended 31 December 2015 – the principal items are as follows:

- Reclassification of cost of sales to distribution and administrative expenses, as the statement of profit and loss under CAS is classified by nature while the statement of profit and loss and other comprehensive income under IFRS is classified by function
- Reclassification of other income and expenses (under CAS, changes in provisions and impairment allowances relating to operating activities are recorded on a net basis)
- Reclassification of extraordinary income and expenses under CAS to other operating income and expenses
- Reclassification of foreign exchange gains and losses (under IFRS are recognized on a net basis)

The effects of the above changes on three most significant items of the statement of financial position are as follows:

Property, plant and equipment

	NOTE	1 January 2015	31 December 2015
Fair value measurement and impairment of non-current assets	a	(231 479)	(145 762)
Recognition of governments grants	d	(548)	(434)
Provision for restoration	c	9 290	8 935
Reclass of catalysts	e	14 503	13 829
Reclass of major spare parts	f	124 246	92 927
Capitalization of borrowing costs	g	27 688	29 232
		(56 300)	**(1 273)**

Investment property

	NOTE	1 January 2015	31 December 2015
Reclass of investment property from fixed assets	b	137 404	70 371
		137 404	**70 371**

Trade and other liabilities

	NOTE	1 January 2015	31 December 2015
Reclass of cash pool liabilities to other financial liabilities	i	(338 227)	(335 949)
Reclass of CO_2 emission allowances	h	(26 570)	(47 440)
Reclass of grants for fixed assets to fixed assets	d	(548)	(434)
Reclass of accrual on customer's credit notes to trade and other receivables	i	-	(4 970)
Reclass of accrued expenses from accruals	i	18	0
Reclass of holiday accrual from current provisions	c	3 946	2 945
Other differences	i	(2)	(1)
		(361 383)	**(385 849)**

Equity

	NOTE	1 January 2015	31 December 2015
Reclass of CO_2 emission allowances	h	20 103	-
Investment property	b	137 404	70 371
Reclass of major spare parts	f	(18 154)	(10 694)
Reclass of catalysts	e	(7 332)	(8 121)
Revaluation and impairment of grounds	a	(45 175)	11 039
Revaluation and impairment of other fixed assets	a	(10 575)	(11 877)
Difference in provisions for recultivation	c	(9 290)	(8 935)
Difference in provision for emission rights	c	(23 584)	(3 139)
Social fund	i	(2 397)	(2 397)
		41 000	**36 247**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

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

4. REVENUES

	2016	2015
Sales of finished goods	3 688 093	5 018 228
Sales of services	29 091	36 467
Revenues from sales of finished goods and services, net	**3 717 184**	**5 054 695**
Sales of merchandise	20 539	22 537
Sales of raw materials	2 567	18 375
Revenues from sales of merchandise and raw materials, net	**23 106**	**40 912**
	3 740 290	**5 095 607**

4.1. Revenues by assortments

	2016	2015
Polyvinyl chloride	1 337 671	2 055 362
Caprolactam molten	1 234 490	1 356 503
Ammonium sulphate	542 463	716 767
Sodium hydrooxide	348 454	497 897
Caprolactam flake	124 868	241 011
Other chemical products	92 789	142 262
Raw material - ammonia	-	10 300
Other materials	2 567	8 075
Utilities	27 897	30 963
Services	29 091	36 467
	3 740 290	**5 095 607**

Revenues from 1 individual customer in the amount of CZK 530 513 thousand represented more than 10% of the Company's total revenues in 2016.

4.2. Revenues by geographical division

	2016	2015
Czech Republic	819 637	1 063 389
Germany	978 675	1 405 422
Italy	459 853	735 976
Poland	702 453	647 697
Slovakia	129 962	264 929
Turkey	147 112	191 284
Belgium	100 653	131 523
Austria	48 590	122 129
Hungary	89 353	121 909
Other countries	264 002	411 349
	3 740 290	**5 095 607**

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

5. OPERATING EXPENSES

5.1. Cost of sales

	2016	2015
Cost of finished goods and services sold	(3 786 923)	(4 804 323)
Cost of merchandise and raw materials sold	(20 069)	(37 282)
	(3 806 992)	**(4 841 605)**

5.2. Cost by nature

	2016	2015
Materials and energy	(3 093 631)	(4 275 102)
Cost of merchandise and raw materials sold	(20 069)	(37 282)
External services	(401 920)	(433 844)
Employee benefits	(326 051)	(295 474)
Depreciation and amortization	(96 474)	(86 052)
Taxes and charges	(39 617)	(41 104)
Other	(225 247)	(139 890)
	(4 203 309)	**(5 308 748)**
Change in inventories	(59 646)	(34 827)
Cost of products and services for own use	-	30 623
Operating expenses	**(4 262 955)**	**(5 312 952)**
Distribution expenses	128 944	184 739
Administrative expenses	171 831	151 993
Other operating expenses	155 188	134 615
Cost of sales	**(3 806 992)**	**(4 841 605)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

5.3. Employee benefits costs

	2016	2015
Payroll expenses	(236 198)	(214 302)
Future benefits expenses	807	(601)
Social security expenses	(81 212)	(75 844)
Other employee benefits expenses	(9 447)	(4 727)
	(326 051)	**(295 474)**

2016	Employees	Key Management	Board of Directors	Supervisory Board	Total
Wages and salaries	(228 021)	(3 448)	(4 691)	(38)	(236 198)
Social and health insurance	(79 426)	(983)	(794)	(10)	(81 213)
Social expense	(9 447)	-	-	-	(9 447)
Change of employee benefits provision	807	-	-	-	807
	(316 087)	**(4 431)**	**(5 485)**	**(48)**	**(326 051)**
Number of employees average per year	671.00	2.92	0.50		674.42
Number of employees as at balance sheet day	675	3	1		679

2015	Employees	Key Management	Board of Directors	Supervisory Board	Total
Wages and salaries	(205 522)	(3 900)	(4 880)	-	(214 302)
Social and health insurance	(73 385)	(1 284)	(1 175)	-	(75 844)
Social expense	(4 727)	-	-	-	(4 727)
Change of employee benefits provision	(601)	-	-	-	(601)
	(284 235)	**(5 184)**	**(6 055)**	**-**	**(295 474)**
Number of employees average per year	685.50	4.00	0.50		690.00
Number of employees as at balance sheet day	682	4	1		687

6. OTHER OPERATING INCOME AND EXPENSES

6.1. Other operating income

	2016	2015
Reversal of receivables impairment allowances	5 693	20 109
Penalties and compensations earned	1 983	108 454
Revaluation of investment properties	25 345	-
Other	21 472	6 534
	54 493	**135 097**

6.2. Other operating expenses

	2016	2015
Loss on sale of non-current non-financial assets	(1 084)	(4 627)
Recognition of provisions	(130 000)	-
Recognition of receivables impairment allowances	(20 248)	(43 200)
Costs and losses due to removing damages	(148)	(17 472)
Donations	(61)	(30)
Revaluation of investment properties	-	(67 033)
Other	(3 647)	(2 253)
	(155 188)	**(134 615)**

7. FINANCE INCOME AND COSTS

7.1. Finance income

	2016	2015
Interest	285	967
Net foreign exchange gain	6 747	13 948
Other	1	80
	7 033	**14 995**

7.2. Finance costs

	2016	2015
Interest	(6 591)	(28 824)
Settlement and valuation of financial instruments	-	(122)
Other	(4 926)	(23 478)
	(11 517)	**(52 424)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

8. TAX CREDIT/(EXPENSE)

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2016 (2015: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2017 and forward i.e. 19%.

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

	2016	2015
Loss for the year	(472 656)	(119 677)
Total tax credit/(expense)	-	-
Loss before tax	(472 656)	(119 677)
Income tax using domestic income tax rate	89 805	22 739
Non-deductible expenses	(127 908)	(128 295)
Tax exempt income	89 680	115 406
Change in not recognized deferred tax assets	(51 577)	(9 850)
Total tax credit/(expense)	-	-
Effective tax rate	-	-

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 2016 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.
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 2017 - 2021.
In the calculation of deferred tax assets as at 31 December 2016 the Company has not recognized unused tax losses in the amount of CZK 1 048 443 thousand due to the unpredictability of future taxable income (31 December 2015: CZK 762 169 thousand). These unrecognized tax losses will expire by the end of 2021.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

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
01/01/2016						
Net book value						
Gross book value	111 864	43 032	94 593	-	16 024	**265 513**
Accumulated depreciation	-	(41 477)	(44 633)	-	-	**(86 110)**
	111 864	**1 555**	**49 960**	**-**	**16 024**	**179 403**
increase/(decrease) net						
Investment expenditures	-	4 203	15 579	-	70 088	89 870
Depreciation	-	(64 672)	(37 289)	301	5 312	(96 348)
Reclassifications	-	66 682	36 114	-	(54 993)	47 803
Sale	-	-	-	(301)	-	(301)
Liquidation	-	(188)	(1 293)	-	-	(1 481)
Other increases/(decreases)	-	-	(800)	-	-	(800)
31/12/2016						
Net book value	**111 864**	**7 580**	**62 271**	**-**	**36 431**	**218 146**
Gross book value	111 864	113 729	144 193	-	31 119	**400 905**
Accumulated depreciation	-	(106 149)	(81 922)	-	5 312	**(182 759)**
	111 864	**7 580**	**62 271**	**-**	**36 431**	**218 146**
01/01/2015						
Net book value						
Gross book value	111 864	1 815	53 652	281	20 165	**187 777**
	111 864	**1 815**	**53 652**	**281**	**20 165**	**187 777**
increase/(decrease) net						
Investment expenditures	-	26 070	11 642	-	61 678	99 390
Depreciation	-	(41 477)	(44 633)	-	-	(86 110)
Reclassifications	-	15 147	50 672	-	(65 819)	-
Sale	-	-	(654)	269	-	(385)
Liquidation	-	-	(2 744)	(550)	-	(3 294)
Other increases/(decreases)	-	-	(17 975)	-	-	(17 975)
31/12/2015						
Net book value	**111 864**	**1 555**	**49 960**	**-**	**16 024**	**179 403**

Main investment expenditures in 2016 were spent for construction of ammonium sulphate granulation line (CZK 12 640 thousand), drum dryer for ammonium sulphate production (CZK 9 460 thousand), replacement of concrete structure through steel construction in ammonium sulphate production (CZK 3 820 thousand) and new graphite heat exchanger in sulphuric acid production (CZK 3 130 thousand).

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

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 2016 would be higher by CZK 14 898 thousand.

As at 31 December 2016 in accordance with International Accounting Standard 36 "Impairment of assets" the Company verified the existence of impairment indicators. The Company identified impairment indicators of both internal and external nature. The Company's operating profits for 2016 were below the forecasted level. Following the change in macro-economic conditions on petrochemical market comparing to previously approved mid-term plan, the new financial projections for the years 2017-2021 were prepared by the Company.
The existence of impairment indicators led to an analysis of impairment of the Company's tangible and intangible non-current assets (with the exception of CO2 allowances) based on the most recent available financial projections for the years 2017-2021 adjusted to exclude the impact of capital expenditures enhancing the assets' performance.
Based on the test results it was confirmed that there is no need to recognize further impairment charge to the tangible and intangible assets of Company as at 31 December 2016.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

9.1. Changes in property, plant and equipment (continued)

The structure of the discount rates applied in the testing for impairment of assets as at 31 December 2016 and as at 31 December 2015

	2016	2015
Cost of equity	8.56%	7.90%
Cost of debt after tax	1.56%	2.59%
Capital structure	83.08%	83.55%
Nominal discount rate	**7.37%**	**7.02%**
Long term inflation rate	1.98%	1.94%

Periods of analysis adopted for the analysis

The period of analysis was established on the basis of remaining useful life of the essential assets. Periods of analysis adopted for the analysis as at 31 December 2016 was 10 years (31 December 2015: 10 years).

Sensitivity analysis of the value in use

The effects of change +/(-)5% in operating profit plus depreciation and amortization (known as EBITDA) and change +/(-) 0.5 pp in the discount rate, do not result in recognition of impairment allowance in the Company as at 31 December 2016 and as at 31 December 2015.

9.2. Other information on property, plant and equipment

	31/12/2016	31/12/2015
The gross book value of all fully depreciated property, plant and equipment still in use	143 512	96 989

10. INVESTMENT PROPERTY

	2016	2015
At the beginning of the year	70 371	137 404
Reclassification to property, plant and equipment	(65 667)	-
Fair value measurement	25 345	(67 033)
increase	25 345	-
decrease	-	(67 033)
	30 049	**70 371**

Rental income amounted to CZK 12 010 thousand in 2016 (2015: CZK 17 168 thousand). Operating costs related to investment property amounted to CZK 4 210 thousand in 2016 (2015: CZK 10 299 thousand).

10.1. Fair value of investment property measurement

Investment property as at 31 December 2016 included the buildings owned by the Company and leased to third parties, which fair value was estimated depending on the characteristics based revenue approach.

In the revenue approach the calculation was based on the discounted cash flow method. 10 year period forecasts were applied in the analysis. The discount rate used reflects the relation, as expected by the buyer, between annual revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the property consider arrangements included in all rent agreements as well as external data, e.g. current market rent charges for similar property, in the same location, technical conditions, standard and designed for similar purposes (investment property valued under the revenue approach belong to Level 3 as defined by IFRS 7). The discount rate of 8.96% was used for the calculation of the investment property fair value.

		Fair value hierarchy		
	Carrying amount	Fair value	Level 2	Level 3
31/12/2016	30 049	30 049	-	30 049
31/12/2015	70 371	70 371	-	70 371

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	(1 156)	-1 pp	1 156

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

11. INTANGIBLE ASSETS

11.1. Changes in intangible assets

	Software	Licences, patents and trade marks	Assets under development	CO_2 emission allowance	Other intangible assets	Total
01/01/2016						
Net book value						
Gross book value	-	-	(58)	-	-	**(58)**
Accumulated amortization	-	-	58	-	-	**58**
	-	-	-	-	-	-
increase/(decrease) net						
Investment expenditures	-	-	126	14 175	-	**14 301**
Amortization	-	-	(126)	-	-	**(126)**
Reclassifications	-	-	-	-	-	-
Other increases/(decreases)	-	-	-	(14 175)	-	**(14 175)**
31/12/2016						
Net book value	-	-	-	-	-	-
Gross book value	-	-	68	-	-	**68**
Accumulated amortization	-	-	(68)	-	-	**(68)**
	-	-	-	-	-	-
01/01/2015						
Net book value						
Gross book value	-	-	-	20 103	-	**20 103**
	-	-	-	**20 103**	-	**20 103**
increase/(decrease) net						
Investment expenditures	-	-	(58)	1 281	-	**1 223**
Amortization	-	-	58	-	-	**58**
Other increases/(decreases)	-	-	-	(21 384)	-	**(21 384)**
31/12/2015						
Net book value	-	-	-	-	-	-

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 2016 would be higher by CZK 27 thousand.

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 2016 the Company obtained CO_2 emission allowances in the amount of 132 782 tons.

	Value	Quantity (in tonnes)
01/01/2016	-	-
Granted free of charge for 2016	17 897	132 782
Settlement for 2015	(32 072)	(239 568)
Purchase/(Sale), net	14 175	106 786
	-	-
Estimated annual consumption 2016	38 106	226 542

As at 31 December 2016 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 6.54 (31 December 2015: EUR 8.22).
CO_2 emission allowances acquired and sold by the Company are included in the statement of cash flows, under investing activities in Acquisition of property, plant and equipment and intangible assets and Proceeds from disposals of property, plant and equipment and intangible assets, respectively.

12. OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2016	31/12/2015
TIÚ-PLAST a.s.	879	879
	879	**879**

The Company had equity investments of CZK 879 thousand as at 31 December 2016 (31 December 2015: 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 2016 (in thousands of CZK)

13. INVENTORIES

	31/12/2016	31/12/2015
Raw materials	288 213	241 471
Work in progress	126 910	121 884
Finished goods	79 065	144 318
Merchandise	112	118
Spare parts	44 224	38 906
Inventories, net	**538 524**	**546 697**
Impairment allowances of inventories to net realizable value	89 086	87 245
Inventories, gross	**627 610**	**633 942**

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

	2016	2015
At the beginning of the year	87 245	150 374
Recognition / Reversal	(2 714)	(27 093)
Usage	(6 293)	(36 036)
Reclass from non-current to current	10 848	-
	89 086	**87 245**

14. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
Trade receivables	320 105	325 063
Other	113	293
Financial assets	**320 218**	**325 356**
Other taxation, duty, social security receivables	83 313	25 051
Prepaid inventories	14 027	8 895
Prepayments and deferred costs	19 401	6 651
Non-financial assets	**116 741**	**40 597**
Receivables, net	**436 959**	**365 953**
Receivables impairment allowance	59 292	42 422
Receivables, gross	**496 251**	**408 375**

Trade receivables result primarily from sales of finished goods. The management considers that the carrying amount of trade receivables approximates their fair value. The average credit period on sales of goods is 33 days. Trade receivables overdue bear an interest based on terms agreed in the selling contracts.The Company's exposure to credit and currency risk related to trade and other receivables is disclosed in note 22.4. and detailed information about receivables from related parties is presented in note 26.

15. OTHER FINANCIAL ASSETS

	31/12/2016	31/12/2015
Cash pool	3 585	-
	3 585	**-**

16. CASH AND CASH EQUIVALENTS

	31/12/2016	31/12/2015
Cash on hand and in bank	9 798	63 898
	9 798	**63 898**
incl. restricted cash	8 996	9 003

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

17. SHAREHOLDERS' EQUITY

17.1. Share capital

The issued capital of the Company as at 31 December 2016 amounted to CZK 3 455 229 thousand (31 December 2015: CZK 3 455 229 thousand). This represents 29 636 460 (31 December 2015: 29 636 460) bearer ordinary shares, each with a nominal value of CZK 116 and 1 500 bearer ordinary shares, each with nominal value of CZK 11 600. All issued shares have been fully paid and bear voting rights proportional to their nominal value.

Shareholders' structure

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

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

17.2. Retained earnings

The shareholder decided to allocate the loss for 2015 at the amount of CZK 119 677 thousand to retained earnings.

17.3. Equity management policy

Equity management is performed on the Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.
The Company monitors the equity debt ratio (net financial leverage). As at 31 December 2016 and as at 31 December 2015 Company´s financial leverage amounted to -107.3% and 467.3%, respectively.

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

17.3.1. Net debt

	31/12/2016	31/12/2015
Cash on hand and in bank	9 798	63 898
Cash pool liabilities	(454 317)	(335 949)
	(444 519)	**(272 051)**

17.3.2. Net working capital

	Inventories	Receivables	Liabilities	Working capital
31/12/2015	546 697	365 953	616 716	295 934
31/12/2016	538 524	436 959	859 358	116 125
Change from statement of financial position	**8 173**	**(71 006)**	**242 642**	**179 809**
Adjustments				
Movements in non-current liabilities	-	-	569	569
Movements in investing liabilities	-	-	8 827	8 827
Change from statement of cash flows	**8 173**	**(71 006)**	**252 038**	**189 205**

18. PROVISIONS

	Non-current		Current		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Environmental provision	291 395	156 348	—	-	291 395	156 348
Jubilee bonuses and retirement benefits provision	3 437	4 834	590	-	4 027	4 834
Provision for CO_2 emission allowances	-	-	38 107	50 579	38 107	50 579
Other provision	375	375	-	-	375	375
	295 207	**161 557**	**38 697**	**50 579**	**333 904**	**212 136**

Change in provisions in 2016

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

Change in provisions in 2015

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2015	126 976	4 233	50 153	375	181 737
Recognition	26 071	1 118	50 579	-	77 768
Discounting	3 301	-	-	-	3 301
Usage	-	(517)	(48 804)	-	(49 321)
Reversal	-	-	(1 349)	-	(1 349)
	156 348	**4 834**	**50 579**	**375**	**212 136**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

18.1. Environmental provision

Under the environmental provision the Company has the provision for land restoration created as a result of the legal obligation to restore the fly-ash deposits and toxic waste dump after it is discontinued, which is expected in 2019 in case of fly-ash deposits and in 2024 in case of toxic waste dump. The provision amounted to CZK 128 million as at 31 December 2016 (31 December 2015: CZK 124 million).
Additionally, the Company has the provision for liquidation and restoration of an electrolysis facility which is expected to occur after the termination of the operation of the current amalgam electrolysis facility in 2017 in the amount of CZK 163 million included as at 31 December 2016 (31 December 2015: CZK 33 million). Significant increase of the provision was recognized in 2016 based on change of preferred alternate solution and more detailed calculation prepared within the scope of change project at the end of 2016.

18.2. Provision for jubilee bonuses and retirement benefits

The Company realizes the program of paying out retirement benefits and jubilee bonuses in line with remuneration policies in force. The jubilee bonuses are paid to employees after the elapse of a defined number of years in service. Retirement benefits are paid as a one-time payment at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service. The base for the calculation of the provision for an employee is the expected benefit which the Company is obliged to pay in accordance with internal regulations.
The present value of these obligations is estimated at the end of each reporting year and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation.
Employment benefit provisions for retirement and anniversary benefits received by employees were created using discount rates in the range 0.56% in 2016 (2015: 0.54%), assumptions used were based on the Collective Agreement.

18.2.1. Change in employee benefits obligations

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
At the beginning of the year	3 647	2 934	1 187	1 299	4 834	4 233
Interest expenses	-	504	-	143	-	647
Actuarial gains and losses arising from changes	-	597	-	(126)	-	471
financial assumptions	*-*	*597*	*-*	*(126)*	*-*	*471*
Past employment costs	(446)	-	151	-	(295)	-
Payments under program	(380)	(388)	(132)	(129)	(512)	(517)
	2 821	**3 647**	**1 206**	**1 187**	**4 027**	**4 834**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2016 and as at 31 December 2015.

18.2.2. Division of employee benefits liabilities by employees

	Active employees		Pensioners		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Czech Republic	4 027	4 834	-	-	4 027	4 834
					4 027	**4 834**

18.2.3. Geographical division of employee benefits liabilities

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Czech Republic	2 821	4 834	1 206	-	4 027	4 834
					4 027	**4 834**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

18.2.4. Sensitivity analysis to changes in actuarial assumptions

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

Actuarial assumptions	Assumed variations as at 31/12/2015	Czech Republic: Influence on provision for jubilee bonuses 2015	Czech Republic: Influence on retirement benefits 2015
Demographic assumptions (+)	0.5pp	(144)	(42)
staff turnover rates, disability and early retirement	*0.5pp*	*(144)*	*(42)*
Financial assumptions (+)	0.5pp	(135)	(39)
discount rate	*0.5pp*	*(135)*	*(39)*
		(279)	**(81)**
Demographic assumptions (-)	-0.5pp	153	45
staff turnover rates, disability and early retirement	*-0.5pp*	*153*	*45*
Financial assumptions (-)	-0.5pp	145	42
discount rate	*-0.5pp*	*145*	*42*
		298	**87**

18.2.5. Employee benefits maturity and payments of liabilities analysis

18.2.5.1. Maturity of employee benefits analysis

	Provision for jubilee bonuses 31/12/2016	Provision for jubilee bonuses 31/12/2015	Retirement benefits 31/12/2016	Retirement benefits 31/12/2015	Total 31/12/2016	Total 31/12/2015
Less than one year	266	475	323	343	589	818
Between one and three years	504	620	149	178	653	798
Between three and five years	302	543	125	148	427	691
Later than five years	1 749	2 009	609	518	2 358	2 527
	2 821	**3 647**	**1 206**	**1 187**	**4 027**	**4 834**
Weighted average duration of liability					11	

18.2.5.2. Ageing of employee benefits payments analysis

	Provision for jubilee bonuses 31/12/2016	Provision for jubilee bonuses 31/12/2015	Retirement benefits 31/12/2016	Retirement benefits 31/12/2015	Total 31/12/2016	Total 31/12/2015
Less than one year	270	320	330	343	600	663
Between one and three years	590	635	192	204	782	839
Between three and five years	410	480	216	221	626	701
Later than five years	8 530	9 325	3 276	3 626	11 806	12 951
	9 800	**10 760**	**4 014**	**4 394**	**13 814**	**15 154**

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

	31/12/2016	31/12/2015
In profit and loss		
Interest expenses	-	(647)
Actuarial gains and losses arising from changes	-	(471)
financial assumption	-	*(471)*
Past employment costs	295	-
Payments under program	512	517
	807	**(601)**

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

	31/12/2016	31/12/2015
Cost of sales	-	(447)
Administrative expenses	807	(154)
	807	**(601)**

Based on current legislation, the Company is obliged to pay contributions to the national pension insurance. These costs are recognized as expenses on social security and health insurance. The Company does not have any other commitments in this respect. Additional information about the retirement benefits is in note 28.3.18.2.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

18.3. Provision for CO_2 emission allowances

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

19. OTHER FINANCIAL LIABILITIES

	Non-current		Current		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Cash pool	-	-	454 317	335 949	454 317	335 949
Other	2 966	2 397	-	-	2 966	2 397
	2 966	**2 397**	**454 317**	**335 949**	**457 283**	**338 346**

Based on a loan agreement with the company UNIPETROL, a.s. (with ANWIL S.A. in 2015), the Company may utilize current unsecured loans in the form of overdrafts (cash pool) or loans. Interest is paid on the first working day after the close of the reporting period. Its total amount, including accrued interest, was CZK 454 317 thousand as at 31 December 2016 (31 December 2015: CZK 335 949 thousand). The interest rates are based on appropriate inter-bank rates and the fair value of the loans approximated its carrying amount.

20. TRADE AND OTHER LIABILITIES

	31/12/2016	31/12/2015
Trade liabilities	800 239	550 636
Investment liabilities	17 088	25 915
Other	778	483
Financial liabilities	**818 105**	**577 034**
Prepayments for deliveries	1 740	653
Payroll liabilities	14 605	13 412
Other taxation, duties, social security and other benefits	12 811	10 495
Accruals	12 097	15 122
holiday pay accrual	3 664	2 946
wages accrual	8 433	12 176
Non-financial liabilities	**41 253**	**39 682**
	859 358	**616 716**

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

21. DEFERRED INCOME

	31/12/2016	31/12/2015
Other	1 833	1 785
	1 833	**1 785**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

22. FINANCIAL INSTRUMENTS

22.1. Financial instruments by category and class

Financial assets
31/12/2016

		Financial instruments by category		
Financial instruments by class	Note	Loans and receivables	Financial assets available for sale	Total
Unquoted shares	12.	-	879	879
Trade receivables	14.	320 105	-	320 105
Cash pool	15.	3 585	-	3 585
Cash and cash equivalents	16.	9 798	-	9 798
Other	14.	113	-	113
		333 601	**879**	**334 480**

31/12/2015

		Financial instruments by category		
Financial instruments by class	Note	Loans and receivables	Financial assets available for sale	Total
Unquoted shares	12.	-	879	879
Trade receivables	14.	325 063	-	325 063
Cash and cash equivalents	16.	63 898	-	63 898
Other	14.	293	-	293
		389 254	**879**	**390 133**

Financial liabilities
31/12/2016

		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortized cost	Total
Trade liabilities	20.	800 239	800 239
Investment liabilities	20.	17 068	17 068
Cash pool	19.	454 317	454 317
Other	19.,20.	3 744	3 744
		1 275 388	**1 275 388**

31/12/2015

		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortized cost	Total
Trade liabilities	20.	550 636	550 636
Investment liabilities	20.	25 915	25 915
Cash pool	19.	335 949	335 949
Other	19.,20.	2 880	2 880
		915 380	**915 380**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

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

2016

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

2015

	Financial instruments by category			
	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortized cost	Total
Interest income	-	967	-	967
Interest costs	-	-	(28 824)	(28 824)
Foreign exchange gain/(loss)	-	12 158	1 790	13 948
(Recognition)/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	-	(23 091)	-	(23 091)
Settlement and valuation of financial instruments	(122)	-	-	(122)
Other	-	80	(20 177)	(20 097)
	(122)	**(9 886)**	**(47 211)**	**(57 219)**
other, excluded from the scope of IFRS 7				
Provisions discounting				(3 301)
				(3 301)

22.3. Fair value measurement

		31/12/2016		31/12/2015	
	Note	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets					
Unquoted shares	12.	n/a	879	n/a	879
Trade receivables	14.	320 105	320 105	325 063	325 063
Cash pool	15.	3 585	3 585	-	-
Cash and cash equivalents	16.	9 798	9 798	63 898	63 898
Other	14.	113	113	293	293
		333 601	**334 480**	**389 254**	**390 133**
Financial liabilities					
Trade liabilities	20.	800 239	800 239	550 636	550 636
Investment liabilities	20.	17 088	17 088	25 915	25 915
Cash pool	19.	454 317	454 317	335 949	335 949
Other	19.,20.	3 744	3 744	2 880	2 880
		1 275 388	**1 275 388**	**915 380**	**915 380**

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2016 and as at 31 December 2015, the Comapny held unquoted shares in entity amounting to CZK 879 thousand, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities nor comparable transactions of the same type of instruments. The above mentioned shares were recognized as other non-current financial assets and measured at acquisition cost less impairment allowances. As at 31 December 2016 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 2016 (in thousands of CZK)

22.4. Risks identification

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

22.4.1. Commodity risk

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

22.4.2. Currency risk

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

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

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

Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2015

Financial instruments by class	PLN	EUR	USD	Total after translation to CZK
Financial assets				
Trade receivables	517	9 242	706	270 577
Cash and cash equivalents	5	1 580	10	42 997
	522	**10 822**	**716**	**313 574**
Financial liabilities				
Trade liabilities	684	2 524	650	88 688
Cash pool	52 989	-	-	335 949
Investment liabilities	-	4	-	106
	53 673	**2 528**	**650**	**424 743**

Sensitivity analysis for currency changes risk

The influence of potential changes in carrying amounts of financial instruments as at 31 December 2016 and as at 31 December 2015 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	
	2016	2015	2016	2015	2016	2015	2016	2015
	variation of exchange rates +15%							
Influence on profit before tax	1 068	(50 547)	21 827	33 624	3 946	247	26 841	(16 676)

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 2016 (in thousands of CZK)

22.4.3. Interest rate risk

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

Interest rate structure of financial instruments:

Financial instruments by class	PRIBOR 31/12/2016	PRIBOR 31/12/2015	WIBOR 31/12/2016	WIBOR 31/12/2015	Total 31/12/2016	Total 31/12/2015
Financial assets						
Cash pool	3 585	-	-	-	3 585	-
	3 585	**-**	**-**	**-**	**3 585**	**-**
Financial liabilities						
Cash pool	454 317	-	-	335 949	454 317	335 949
	454 317	**-**	**-**	**335 949**	**454 317**	**335 949**

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 31/12/2016	Assumed variation 31/12/2015	Influence on profit before tax 2016	Influence on profit before tax 2015
PRIBOR	+0.5 pp	+0.5 pp	(2 254)	-
WIBOR	+0.5 pp	+0.5 pp	-	(1 680)
			(2 254)	**(1 680)**

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 2016 and as at 31 December 2015. The influence of interest rates changes was presented on annual basis.

22.4.4. Liquidity and credit risk

Liquidity risk

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

Maturity analysis of financial liabilities

31/12/2016	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	19.	454 317	-	454 317	454 317
Trade liabilities	20.	800 239	-	800 239	800 239
Investment liabilities	20.	17 088	-	17 088	17 088
Other	19.,20.	779	2 965	3 744	3 744
		1 272 423	**2 965**	**1 275 388**	**1 275 388**

31/12/2015	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	19.	335 949	-	335 949	335 949
Trade liabilities	20.	550 636	-	550 636	550 636
Investment liabilities	20.	25 915	-	25 915	25 915
Other	19.,20.	483	2 397	2 880	2 880
		912 983	**2 397**	**915 380**	**915 380**

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

Credit risk

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

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

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

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management. Before accepting any new customer, the Company uses its own or an external credit scoring system to assess a potential customer's credit quality and defines credit limits by customer. As at 31 December 2016, none of the customers represented more than 15% of the total balance of the trade receivables.

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22.4.4. Liquidity and credit risk (continued)

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and, where appropriate, credit guarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.
The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.
Based on the analysis of receivables the counterparties were divided into two groups:
- Group I – counterparties with a good or very good history of cooperation in the current year,
- Group II – other counterparties.

22.4.4. Liquidity and credit risk risk (continued)

Division of not past due receivables

	31/12/2016	31/12/2015
Group I	297 342	292 130
Group II	-	6 700
	297 342	**298 830**

Ageing analysis of receivables past due, but not impaired

	31/12/2016	31/12/2015
Up to 1 month	22 861	9 726
From 1 to 3 months	5	(434)
From 3 to 6 months	10	10 373
From 6 to 12 months	-	6 861
	22 876	**26 526**

Change in impairment allowances of trade and other receivables

	31/12/2016	31/12/2015
At the beginning of the year	42 422	178 350
Recognition	20 248	43 200
Reversal	(5 693)	(20 109)
Usage	(464)	(157 993)
Foreign exchange differences	2 779	(1 026)
	59 292	**42 422**

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

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

22.4.5. Emission allowances risk

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

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OTHER EXPLANATORY NOTES

23. LEASE

23.1. The Company as a lessee

Operating lease

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

	31/12/2016	31/12/2015
Less than one year	3 895	8 124
Between one and five years	6 178	10 073
	10 073	**18 197**

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

	2016	2015
Non-cancellable operating lease	39 829	40 852

23.2. The Company as a lessor

As at 31 December 2016 and as at 31 December 2015 the Company did not possess any financial or operating lease agreements as a lessor.

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

The total value of investment expenditures including borrowing costs amounted to CZK 86 902 thousand as at 31 December 2016 and CZK 99 332 thousand as at 31 December 2015, including environmental expenditures in amount of CZK 9 300 thousand and CZK 7 271 thousand, respectively.
As at 31 December 2016 the value of future commitments resulting from contracts signed to this date amounted to CZK 219 445 thousand (31 December 2015: CZK 54 587 thousand).

25. GUARANTEES AND SECURITIES

Past environmental liabilities

The responsibility for environmental impacts occurring before the establishment of the joint-stock company was originally assumed by the state through the National Property Fund and later on after the cancellation of the National Property Fund, by the Ministry of Finance. The state issued a guarantee totalling CZK 8 159 000 thousand for the performance of redevelopment work. The guarantee is meant to cover expenses associated with the removal of pollution arising before the Company's privatisation (i.e. before 1 May 1992). The guarantee relates to environmenat projects explicitly stated in the appropriate contract. Funds amounting to CZK 5 594 931 thousand were invested within the guarantee as at 31 December 2016.

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

26. RELATED PARTY TRANSACTIONS

26.1. Material transactions concluded by the Company with related parties

In 2016 and in 2015 there were no transactions concluded by the Company with related parties on other than arm's length terms.

26.2. Transactions with key management personnel

In 2016 and in 2015 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 2016 and in 2015 there were no significant transactions concluded with members of the Board of Directors, the Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

26.3. Transactions with related parties concluded by key management personnel

In 2016 and in 2015 members of the key management personnel submitted statements that they have not concluded any transaction with related parties.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

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

The ultimate controlling party is Polski Koncern Naftowy ORLEN S.A., which held 62.99% of shares in the parent company UNIPETROL, a.s. in 2016 and 2015.

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

31/12/2016	UNIPETROL, a.s.	ANWIL S.A.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Current financial assets	3 585	-	-	-
Trade and other receivables	-	6 399	384	16 596
Trade and other liabilities, including loans	454 325	5 303	23 209	423 409

2015	ANWIL S.A.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Sales	246 894	4 088	516 455
Purchases	316 095	176 687	1 563 346
Finance costs	32 591	-	-

31/12/2015	ANWIL S.A.	Entities under control or significant influence of PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.
Trade and other receivables	5 396	391	13 490
Trade and other liabilities, including loans	347 729	20 882	269 509

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

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

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

	2016		2015	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current year	(9 964)	-	(10 592)	(647)
Paid for previous year	(3 987)	-	(2 418)	-
Potentially due to be paid in the following year	(4 037)	-	(3 987)	-

Further detailed information regarding remuneration of key management personnel is included in note 5.3.

27.2. Bonus system for key executive personnel

In 2016 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The regulations applicable to the Management Board (members of Board of Directors and Executives), directors directly reporting to the Management Boards of entities and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Company. The goals so-said are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to the achieved results generated by the Company.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

28. ACCOUNTING PRINCIPLES

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

28.1.1. Binding amendments to IFRSs and interpretations

The amendments to the standards and IFRS interpretations, in force from 1 January 2016 until the date of publication of these separate financial statements had no impact on the foregoing separate financial statements.

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

Standards and interpretations adopted by the EU	Possible impact on financial statements
New standard IFRS 9 Financial Instruments	impact*
New standard IFRS 15 Revenue from Contracts with Customers	impact**

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

Standards and interpretations waiting for approval of the EU	Possible impact on financial statements
New standard IFRS 14 Regulatory Deferral Accounts	no impact expected
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate of Joint Venture	no impact expected
IFRS 16 – Leasing	impact***
Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses	no impact expected
Amendments to IAS 7 Statement of Cash Flows: Disclosure initiative	no impact expected
Amendments to IFRS 15 Revenue from Contracts with Customers	no impact expected
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	no impact expected
Amendments to IFRS 4 Applying IFRS 9 Finance instruments with IFRS 4 Insurance contracts	no impact expected
Improvements to IFRS (2014-2016)	no impact expected
IFRIC 22 Foreign Currency Transactions and Advance Consideration	no impact expected
Amendments to IAS 40 Transfers of Investment Property	no impact expected

*At the time of the implementation of the new IFRS 9, allocation of the appropriate financial assets to the new categories of financial instruments will be made.
**At the time of the implementation, i.e. on 1 January 2017, the impact of the new IFRS 15 will depend on the specific facts and conditions of the contracts with customers, to which the Company will be a party.
***At the time of implementation, the impact of the new IFRS 16 will depend on the specific facts and circumstances relating to the lease contracts, to which the Company will be a party.

28.2. Functional currency and presentation currency of financial statements

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

28.3. Applied accounting policies

28.3.1. Transactions in foreign currency

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

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

28.3.2. Revenues

Revenues from sales (from operating activity) include revenues that relate to core activities, i.e. activities for which the Company was founded, revenues are recurring and are not of incidental character.
Revenues from sales are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from the sale of goods and services are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods and services decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges.

28.3.2. Revenues (continued)

Revenues are measured at the fair value of the received or due payments. Revenues from sale are adjusted for profit or loss from settlement of cash flows hedging instruments related to the above mentioned revenues.
Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Company and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognized up to the cost incurred, but not greater than the cost which is expected to be recovered by the Company.

28.3.3. Costs

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

28.3.4. Other operating income and expenses

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

28.3.5. Finance income and costs

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

28.3.6. Tax expense

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

28.3.7. Profit/(loss) per share

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

28.3.8. Property, plant and equipment

Property, plant and equipment are assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period (one year or the operating cycle, if longer than one year).
Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).
Property, plant and equipment are initially stated at cost, including grants related to assets (IAS20). The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use.
The cost of an item of property, plant and equipment also includes estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment and capitalized borrowing costs.

28.3.8. Property, plant and equipment (continued)

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

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

28.3.9. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both.
Investment property shall be recognized as an asset when, and only when:

- it is probable that the future economic benefits that are associated with the investment property will flow to the Company, and
- the cost of the investment property can be measured reliably.

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

28.3.10. Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance. An asset is identifiable if it is either separable, i.e. is capable of being separated or divided from the Company and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Company intends to do so, or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Company or from other rights and obligations.
Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Company and the cost of the asset can be measured reliably.
An intangible asset arising from development (or from development phase of an internal project) shall be recognised if, and only if, the Company can demonstrate all of the following: the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it, its ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, among other things, the Company can demonstrate the existence of a market for the output of the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset, the availability of adequate technical, financial and other resources to 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

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28.3.10. Intangible assets (continued)

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

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

28.3.10.1. Carbon dioxide emission allowances

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.e. carbon dioxide (CO_2).

In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in an emissions trading system. All mentioned entities are allowed to emit CO_2 or they are partially granted free of charge in a specified quantity under the derogations provided in article 10a and 10c of the EU Directive 2009/29/EC and are obliged to redeem them in a number corresponding to the size of emission realized in a given year.

CO_2 emission rights are initially recognised as intangible assets, which are not amortized (assuming the high residual value), but tested for impairment.

Granted emission allowances should be presented separately as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.

For the estimated CO_2 emission during the reporting period, a provision should be created (taxes and charges).

Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate.

Consumption of allowances is recognised using FIFO method (First In, First Out) within the individual types of rights (EUA - European Union Allowances, ERU – Emission Reductions Units, CER – Certified Emission Reduction).

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

At the end of the reporting period the Company assesses whether there are any indicators that an asset or cash generating unit (CGU) may be impaired. If any such indicator exists, the entity shall estimate the recoverable amount of the asset (CGU).

The recoverable amount of other assets is the higher of the fair value less costs to sell and value in use.

Fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs to sell.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Assets that do not generate the independent cash flows are grouped at the lowest level at which cash flows, independent from cash flows from other assets, are generated (cash generating units).

To the cash generating unit the following assets are allocated:

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

If there are external or internal indicators that the carrying amount of an asset as at the end of the reporting period may not be recoverable, the impairment tests are carried out. The tests are also carried out annually for intangible assets with indefinite useful life and for goodwill.

When the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

The impairment loss shall be allocated to the carrying amount of the assets of the unit in the following order:

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

At the end of each reporting period an assessment shall be made whether an impairment loss recognized in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.

A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard.

28.3.12. Inventories

Inventories are assets held for sale in the ordinary course of business, or in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Inventories comprise products, semi-finished products and work in progress, merchandise and materials.
Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period. Costs of production also include a systematic allocation of fixed and variable production overheads estimated for normal production level.
Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost or net realisable value, after deducting any impairment losses.
Disposals of finished goods, semi-finished products and work in progress are determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.
Merchandise and materials are measured initially at acquisition cost.
As at the end of the reporting period merchandise and raw materials are measured at the lower of cost or net realizable value, considering any impairment allowances. Disposals of merchandise and raw materials are determined based on the weighted average acquisition cost or production cost formula. Impairment tests for specific items of inventories are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.
Raw materials held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.
Expenses and revenues connected with inventory write-offs or establishment and release of allowances are included in cost of sales.

28.3.13. Trade and other receivables

Trade and other receivables are recognized initially at a fair value increased by transaction costs and subsequently at amortized cost using the effective interest method less impairment allowances.
Impairment allowances of receivables are based on an individual analysis of the value of held collaterals, and based on possible compensations of debts, allowances.
Recognition and reversal of impairment losses of receivables are recognized in other operating activity in relation to the principal amount and in financial activities in relation to interest for delayed payments.

28.3.14. Cash and cash equivalents

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

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

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

The classification of assets into this category is made in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, an entity shall not classify a non-current asset as held for sale in those financial statements when issued.
Immediately, before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets (excluding financial assets) are measured at the lower of their carrying amount or fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or investment property, which continue to be measured in accordance 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.

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

If the Company ceases to classify a discontinued operations, the results of operations previously presented in discontinued operations shall be reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

28.3.16. Equity

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

28.3.16.1. Share capital

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

28.3.16.2. Revaluation reserve

The revaluation reserve includes revaluation of items, which, according to the Company's regulations, relates to the revaluation reserve, including particularly:

- change in the fair value of the available-for-sale financial assets;
- differences between the net book value and the fair value of a investment property at the date of reclassification from the property occupied by the Company to a investment property.

28.3.16.3. Retained earnings

Retained earnings include:

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

28.3.17. Trade and other liabilities

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

28.3.18. Provisions

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

28.3.18.1. Environmental provision

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

28.3.18.2. Jubilee bonuses and retirement benefits

Under the Company's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. Jubilee bonuses are paid to employees after an elapse of a defined number of years in service. Retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service.
The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as retirement defined benefit plans.
The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

28.3.18.2. Jubilee bonuses and retirement benefits (continued)

The present value of those liabilities is estimated at the end of each reporting period by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering the demographic and financial assumptions including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year. Actuarial gains and losses from:

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

28.3.18.3. Shield programs

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

28.3.18.4. CO_2 emissions costs

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

28.3.18.5. Other provisions

Other provisions include mainly provisions for legal proceedings and are recognized after consideration of all available information, including opinions of independent experts. If on the basis of such information it is more likely than not that a present obligation exists at the end of the reporting period, the Company recognizes a provision (if the recognition criteria are met).

If it is more probable that no present obligation exists at the end of the reporting period, the Company discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

28.3.19. Government grants

Government grants are transfers of resources to the Company by the government, government agencies and similar bodies whether local, national or international, in return for past or future compliance with certain conditions relating to the activities of the entity.

Government grants are recognized in the statement of financial position as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it.

Grants related to costs are presented as compensation to the given cost in the period they are incurred. Surplus of the received grant over the value of the given cost is presented as other operating income.

If the government grant relates to assets, it is presented net with the related asset and is recognized in the statement of profit or loss on a systematic basis over the useful life of the related asset through decreased depreciation charges. The treatment regarding Carbon dioxide emission allowances granted is described in note 28.3.10.1.

28.3.20. Statement of cash flows

The separate statement of cash flows is prepared using the indirect method.

Cash and cash equivalents presented in the separate statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Company's cash management.

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

Interest received from finance leases, loans granted, short-term securities and cash pooling system are presented in cash flows from investing activities. Other interests received are presented in cash flows from operating activities.

Interest paid and provisions on bank loans and borrowings received, cash pool facility, debt securities issued and finance leases are presented in cash flows from financing activities. Other interests paid are presented in cash flows from operating activities.

28.3.21. Financial instruments

28.3.21.1. Measurement of financial assets and liabilities

At initial recognition, the Company measures financial assets and liabilities at their fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of the reporting period the Company measures loans and receivables including trade receivables at amortized cost using the effective interest rate method. The effective interest is the rate which discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and for shorter period in justified situations, up to the net book value of financial asset or liability.

At the end of the reporting period, the Company measures its financial liabilities at amortized cost using the effective interest rate method.

28.3.21.2. Transfers

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

28.3.22. Fair value management

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

28.3.23. Lease

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

28.3.24. Contingent assets and liabilities

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

28.3.25. Subsequent events after the reporting date

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

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

29. APPLICATION OF PROFESSIONAL JUDGEMENT AND ASSUMPTION

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

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

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

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 8. Tax credit/(expense), 9. Property, plant and equipment, 10. Investment property, 11. Intangible assets, 13.1. Changes in impairment allowances of inventories to net realizable value, 22. Financial instruments and 30. Contingent assets and liabilities.

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

30. CONTINGENT ASSETS AND LIABILITIES

Mercury electrolysis termination

SPOLANA a.s. currently produces chlorine using a mercury electrolysis. In the event that production is terminated, the Company is required to present a reclamation program after it stops using its fixed assets. On 9 September 2013, as a result of administrative proceedings, SPOLANA a.s. received a consent of the Regional Office of Central Bohemian Region to extend the integrated pollution prevention and control license from the end of 2014 until 30 June 2017. At the same time, the Company was obliged to submit an action plan aiming to cease production of chlorine using mercury electrolysis by 31 December 2016. The Company prepared the program and measures related to it, delivered it to the relevant authorities according to the agreed schedule and awaits authorities' comments. The proposed program assumes continuation of PVC production with usage of an externally bought semi-product (EDC-ethylene dichloride) and the closure of mercury electrolysis unit. As a result the closure of mercury electrolysis will have no adverse effect on production of PVC. The new approach to production of PVC at the Company still requires supplies of ethylene to its plant in Neratovice.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2016 (in thousands of CZK)

31. 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 2016).

Name and place of business	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment	Website
Parent company				
UNIPETROL, a.s. Na Pankráci 127, 140 00 Praha 4, Czech Republic			Corporate Functions	www.unipetrol.cz
Subsidiaries consolidated in full method				
ČESKÁ RAFINÉRSKÁ, a.s. Záluží 2, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream	www.ceskarafinerska.cz
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	
PARAMO, a.s. Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	100.00%	--	Downstream	www.paramo.cz
Paramo Oil s.r.o. (dormant entity) Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	--	100.00%	Downstream	
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Downstream	www.petrotrans.cz
SPOLANA a.s. ul. Práce 657, 277 11 Neratovice, Czech Republic	--	100.00%	Downstream	www.spolana.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B, 63225 Langen/Hessen, Germany	0.10%	99.90%	Downstream	www.unipetrol.de
UNIPETROL DOPRAVA s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12%	99.88%	Downstream	www.unipetroldoprava.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream Corporate Functions Retail	www.unipetrolrpa.cz
UNIPETROL RPA Hungary Kft. 2040 Budaörs, Puskás Tivadar utca 12, Hungary	--	100.00%	Downstream	
UNIPETROL SLOVENSKO s.r.o. Jašíkova 2, Ružinov, 821 03 Bratislava, Slovak Republic	13.04%	86.96%	Downstream	www.unipetrol.sk
Unipetrol výzkumně vzdělávací centrum, a.s. Revoluční 84/č.p. 1521,Ústí nad Labem, Czech Republic	100.00%	--	Corporate functions	www.vuanch.cz
Joint operations consolidated based on shares in assets and liabilities				
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic	51.00%	--	Downstream	www.butadien.cz

32. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

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 2016.

33. 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 2016 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 2016 statutory financial statements issuance.
Based on these facts, the financial statements have been prepared on a going concern basis.

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

The Board of Directors of SPOLANA a.s. hereby declares that to the best of its knowledge the separate financial statements and comparative data were prepared in compliance with the applicable accounting principles adopted by in the Company (disclosed in note 28.3.) and that they reflect true and fair view on the financial position and financial result of the Company, including basic risks and exposures.

The separate financial statements were authorized by the Board of Directors meeting held on 27 February 2017.

Signature of statutory representatives

Michał Krzysztof Kaliciak	Filip Mikołajczyk
Vice-chairman of the Board of Directors	Member of the Board of Directors

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholder of SPOLANA a.s.

Opinion

We have audited the accompanying financial statements of SPOLANA a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, 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 European Union.

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, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations 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 accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those 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 matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body and Supervisory Board for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations 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 regulations, 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 body.
- Conclude on the appropriateness of the statutory body's 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 those charged with governance 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.

Statutory Auditor Responsible for the Engagement

Karel Růžička is the statutory auditor responsible for the audit of the financial statements of SPOLANA a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
27 February 2017

KPMG Česká republika Audit, s.r.o.
Registration number 71

Karel Růžička
Partner
Registration number 1895