



UNIPETROL, a.s.
CONSOLIDATED QUARTERLY REPORT

FOR THE 4TH QUARTER

2017

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



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UNAUDITED QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 12 AND 3 MONTHS ENDED 31 DECEMBER

2017

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

Consolidated statement of profit or loss and other comprehensive income

	Note	12 MONTHS ENDED 31/12/2017 (unaudited)	3 MONTHS ENDED 31/12/2017 (unaudited)	12 MONTHS ENDED 31/12/2016 (audited)	3 MONTHS ENDED 31/12/2016 (unaudited)
Statement of profit or loss					
Revenues	4.1.	122 478	30 543	87 813	26 466
Cost of sales	4.2.	(110 252)	(28 303)	(83 226)	(23 654)
Gross profit on sales		12 226	2 240	4 587	2 812
Distribution expenses		(2 752)	(677)	(2 563)	(655)
Administrative expenses		(1 613)	(449)	(1 468)	(408)
Other operating income	4.5.	4 544	223	10 331	3 910
Other operating expenses	4.5.	(360)	(204)	(990)	(531)
Profit from operations		12 045	1 133	9 897	5 128
Finance income	4.6.	493	200	685	413
Finance costs	4.6.	(1 914)	(474)	(554)	(385)
Net finance income/(costs)		(1 421)	(274)	131	28
Profit before tax		10 624	859	10 028	5 156
Tax expense	4.7.	(1 965)	(122)	(2 053)	(984)
Net profit		8 659	737	7 975	4 172
Other comprehensive income					
Items which will not be reclassified into profit or loss		1	1	(2)	(2)
Actuarial gains and losses		1	1	(2)	(2)
Items which will be reclassified into profit or loss under certain conditions		1 088	219	(807)	(193)
Hedging instruments		1 349	273	(998)	(238)
Exchange differences on translating foreign operations		(5)	(2)	1	-
Deferred tax		(256)	(52)	190	45
		1 089	220	(809)	(195)
Total net comprehensive income		9 748	957	7 166	3 977
Net profit attributable to		8 659	737	7 975	4 172
equity owners of the parent		8 659	734	7 975	4 169
non-controlling interests		-	3	-	3
Total net comprehensive income attributable to		9 748	957	7 166	3 977
equity owners of the parent		9 748	954	7 166	3 974
non-controlling interests		-	3	-	3
Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share)		47.75	4.05	43.98	22.99

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-17.

Consolidated statement of financial position

	Note	31/12/2017 (unaudited)	31/12/2016 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	4.8.	34 583	30 080
Investment property		448	432
Intangible assets		1 626	1 492
Financial assets available for sale		1	2
Deferred tax assets		48	143
Other non-current assets		796	121
		37 502	32 270
Current assets			
Inventories		14 983	13 725
Trade and other receivables		14 432	16 175
Other financial assets	4.9.	6 352	3 416
Current tax assets		117	133
Cash and cash equivalents		2 459	2 933
		38 343	36 382
Total assets		75 845	68 652
EQUITY AND LIABILITIES			
EQUITY			
Share capital		18 133	18 133
Statutory reserves		33	33
Hedging reserve		830	(263)
Revaluation reserve		10	10
Exchange differences on translating foreign operations		11	16
Retained earnings		30 856	23 701
Equity attributable to equity owners of the parent		49 873	41 630
Non-controlling interests		(9)	(9)
Total equity		49 864	41 621
LIABILITIES			
Non-current liabilities			
Provisions	4.10.	798	997
Deferred tax liabilities		1 383	859
Other non-current liabilities		238	170
		2 419	2 026
Current liabilities			
Trade and other liabilities		20 733	22 984
Loans, borrowings		1	1
Current tax liabilities		1 072	445
Provisions	4.10.	942	652
Deferred income		16	8
Other financial liabilities	4.11.	798	915
		23 562	25 005
Total liabilities		25 981	27 031
Total equity and liabilities		75 845	68 652

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-17.

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							Non-controlling interests	Total equity
	Share capital	Statutory reserves	Hedging reserve	Exchange differences on translating foreign operations	Revaluation reserve	Retained earnings	Total		
(unaudited)									
01/01/2017	18 133	33	(263)	16	10	23 701	41 630	(9)	41 621
Net profit	-	-	-	-	-	8 659	8 659	-	8 659
Items of other comprehensive income	-	-	1 093	(5)	-	1	1 089	-	1 089
Total net comprehensive income	-	-	1 093	(5)	-	8 660	9 748	-	9 748
Dividends	-	-	-	-	-	(1 505)	(1 505)	-	(1 505)
31/12/2017	18 133	33	830	11	10	30 856	49 873	(9)	49 864
(audited)									
01/01/2016	18 133	34	545	15	10	16 781	35 518	(9)	35 509
Net profit	-	-	-	-	-	7 975	7 975	-	7 975
Items of other comprehensive income	-	-	(808)	1	-	(2)	(809)	-	(809)
Total net comprehensive income	-	-	(808)	1	-	7 973	7 166	-	7 166
Dividends	-	-	-	-	-	(1 001)	(1 001)	-	(1 001)
Equity resulting from acquisition under common control transaction	-	-	-	-	-	(53)	(53)	-	(53)
Transfer of statutory reserves to retained earnings	-	(1)	-	-	-	1	-	-	-
31/12/2016	18 133	33	(263)	16	10	23 701	41 630	(9)	41 621

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-17.

Consolidated statement of cash flows

	12 MONTHS ENDED 31/12/2017 (unaudited)	3 MONTHS ENDED 31/12/2017 (unaudited)	12 MONTHS ENDED 31/12/2016 (audited)	3 MONTHS ENDED 31/12/2016 (unaudited)
Cash flows from operating activities				
Profit before tax	10 624	859	10 028	5 156
Adjustments for:				
Depreciation and amortisation	2 909	863	2 031	590
Foreign exchange (gain)/loss	48	10	(1)	(3)
Interest and dividends, net	(56)	(23)	2	1
(Profit)/Loss on investing activities	1 076	185	(2 294)	(2 277)
Change in provisions	592	220	457	394
Change in receivables and liabilities from insurance	1 355	21	(1 345)	(1 345)
Other adjustments including change in financial instruments and deferred income	(272)	(139)	234	907
Change in working capital	(3 525)	(3 389)	(183)	264
<i>inventories</i>	(1 191)	(1 979)	(2 843)	(1 217)
<i>receivables</i>	(1 724)	559	(1 755)	(1 038)
<i>liabilities</i>	(610)	(1 969)	4 415	2 519
Income tax (paid)	(960)	(500)	(933)	(165)
Net cash from/used in operating activities	11 791	(1 893)	7 996	3 522
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangible assets	(7 303)	(2 054)	(10 133)	(1 765)
Disposal of property, plant and equipment and intangible assets	25	5	97	79
Acquisition of Spolana	-	-	(28)	-
Cash and cash equivalents acquired in acquisition of Spolana	-	-	84	-
Settlement of financial derivatives	(969)	(26)	436	414
Outflows from loans granted	-	-	(200)	-
Proceeds/(Outflows) from cash pool assets	(2 529)	3 503	(49)	(3 103)
Other	37	16	4	-
Net cash from/used in investing activities	(10 739)	1 444	(9 789)	(4 375)
Cash flows from financing activities				
Proceeds from loans and borrowings	-	-	1	1
Proceeds/(Outflows) from cash pool liabilities	50	(215)	(171)	(20)
Interest paid	(1)	-	(2)	-
Dividends paid	(1 525)	(57)	(986)	(17)
Other	(4)	(1)	(7)	(3)
Net cash used in financing activities	(1 480)	(273)	(1 165)	(39)
Net decrease in cash and cash equivalents	(428)	(722)	(2 958)	(892)
Effect of exchange rate changes on cash and cash equivalents	(46)	(12)	3	6
Cash and cash equivalents, beginning of the period	2 933	3 193	5 888	3 819
Cash and cash equivalents, end of the period	2 459	2 459	2 933	2 933

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-17.

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Establishment of the parent company

UNIPETROL, a.s. (the "Company", "parent", "parent company") is a joint stock company established by the National Property Fund of the Czech Republic by a foundation agreement dated 27 December 1994. The Company was registered in the Register of Companies at the Regional Commercial Court in Prague on 17 February 1995. The Company is listed and registered on the Prague Stock Exchange.

Identification number of the Company

616 72 190

Registered office of the Company

UNIPETROL, a.s.
Na Pankráci 127
140 00 Praha 4
Czech Republic

Principal activities

The Company operates as a holding company covering and administering a group of companies (the "Group"). The principal business activities of the Group include oil and petroleum products processing, production of commodity chemicals, polymer materials, mineral lubricants, plastic lubricants, road and insulation bitumen, special refinery and petrochemical products. Furthermore, the Group is engaged in the distribution of fuels and operation of gas stations.

In addition to these principal activities, the Group is engaged in other activities that are necessary to support the principal activities, such as production, distribution and sale of heat and electricity, operation of railway tracks and railway transportation, advisory services relating to research and development, environmental protection, software and hardware advisory services and other services.

Ownership structure

The shareholders as at 31 December 2017 are as follows:

	Number of shares	Nominal value of shares (in CZK)	Share in share capital
POLSKI KONCERN NAFTOWY ORLEN S.A.	114 226 499	11 422 649 900	62.99%
PAULININO LIMITED*	36 313 562	3 631 356 200	20.02%
Investment funds and other minority shareholders	30 794 703	3 079 470 300	16.99%
	181 334 764	18 133 476 400	100%

* According to the excerpt from the records of the book-entered shares of the Company as of 31 May 2017.

A voluntary tender offer to acquire UNIPETROL, a.s. shares was announced by PKN ORLEN S.A. on 12 December 2017. According to the published bid document, the offer is made for all UNIPETROL, a.s. shares except for the shares already owned by PKN ORLEN S.A. The bid price is CZK 380 per share and the acceptance period is from 28 December 2017 to 30 January 2018. The transaction settlement is planned for 23 February 2018.

The offer is announced under the condition that PKN ORLEN S.A. reaches a threshold of at least 90% of the shares in UNIPETROL, a.s. However, PKN ORLEN S.A. reserves its right to waive fulfilment of this condition.

Consolidated group structure

The subsidiaries and jointly controlled entities forming the consolidated group of UNIPETROL, a.s., and the parent company's interest in the capital of subsidiaries and jointly controlled entities held either directly by the parent company or indirectly by the consolidated subsidiaries are presented in the consolidated financial statements of the Group as at and for the year ended 31 December 2016. Changes in the Group structure which occurred during the 12 months ended 31 December 2017 are described in Note 4.20.

Statutory and supervisory bodies

Members of the statutory and supervisory bodies as at 31 December 2017 were as follows:

	Position	Name
Board of Directors	Chairman	Andrzej Mikołaj Modrzejewski
	Vice-chairman	Mirosław Kastelik
	Vice-chairman	Krzysztof Zdziarski
	Member	Tomáš Herink
	Member	Robert Dominik Maltek
Supervisory Board	Chairman	Wojciech Jasiński
	Vice-chairman	Ivan Kočárník
	Vice-chairman	Krystian Pater
	Member	Jacek Marek Kosuniak
	Member	Zdeněk Černý
	Member	Grażyna Baka
	Member	Zbigniew Leszczyński
	Member	Rafał Maciej Pasieka
	Member	Rafał Warpechowski

1. DESCRIPTION OF THE COMPANY (CONTINUED)

Changes in the Board of Directors during the 12 months ended 31 December 2017 were as follows:

Position	Name	Change	Date of change
Member	Tomáš Herink	Elected to the office	14 March 2017
Member	Lukasz Piotrowski	The office expired	11 June 2017
Member	Andrzej Kozłowski	Resigned from the office	24 November 2017

Changes in the Supervisory Board during the 12 months ended 31 December 2017 were as follows:

Position	Name	Change	Date of change
Member	Bogdan Dzudzewicz	Resigned from the office	with effect as of 18 January 2017
Member	Piotr Kearney	Resigned from the office	with effect as of 30 June 2017
Member	Rafał Maciej Pasieka	Elected to the office	with effect as of 7 June 2017
Vice-chairman	Sławomir Jędrzejczyk	Reelected to the office as a member	with effect as of 2 July 2017
Member	Jacek Marek Kosuniak	Elected to the office	with effect as of 2 July 2017
Member	Sławomir Jędrzejczyk	Resigned from the office	with effect as of 29 July 2017
Member	Rafał Warpechowski	Appointed to the office as a member	with effect as of 8 November 2017
Vice-chairman	Krzysztof Pater	Elected as Vice-chairman	with effect as of 8 November 2017

2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1. Statement of compliance and general principles of preparation

The consolidated financial statements of the Company as at and for the period ended 31 December 2017 include the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

These condensed consolidated interim financial statements have been prepared on a going concern basis. As at the date of the statements approval, there is no indication that the Group will not be able to continue as a going concern in the foreseeable future.

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

2.2. Information concerning the seasonal or cyclical character of the Group's operations in the period presented

The Group does not experience any material seasonal or cyclical character of its operations.

3. OPERATING SEGMENTS

The operating activities of the Group are divided into the following segments:

- the Downstream segment, which includes integrated refining, petrochemical, sales and energy production activities,
- the Retail segment, which includes sales at petrol stations,

and Corporate Functions, which are reconciling items and include activities related to management, administration and other support functions as well as remaining activities not allocated to separate operating segments.

Allocation of subsidiaries into the operating activities is presented in the consolidated financial statements of the Group as at and for the year ended 31 December 2016. There were no changes in allocation of subsidiaries into the operating segments during the 12 months ended 31 December 2017.

Financial results and investment expenditures by operating segments

For the 12 months ended 31 December 2017

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
External revenues	109 679	12 653	146	-	122 478
Inter-segment revenues	10 291	65	929	(11 285)	-
Segment revenues	119 970	12 718	1 075	(11 285)	122 478
Operating expenses	(113 033)	(11 670)	(1 199)	11 285	(114 617)
Other operating income	4 337	136	71	-	4 544
Other operating expenses	(132)	(143)	(85)	-	(360)
Profit/(Loss) from operations	11 142	1 041	(138)	-	12 045
Net finance costs					(1 421)
Profit before tax					10 624
Tax expense					(1 965)
Net profit					8 659
Depreciation and amortisation	(2 483)	(352)	(74)	-	(2 909)
EBITDA*	13 625	1 393	(64)	-	14 954
CAPEX**	6 419	913	209	-	7 541

3. OPERATING SEGMENTS (CONTINUED)

For the 3 months ended 31 December 2017

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
External revenues	27 108	3 389	46	-	30 543
Inter-segment revenues	2 805	17	259	(3 081)	-
Segment revenues	29 913	3 406	305	(3 081)	30 543
Operating expenses	(29 023)	(3 148)	(339)	3 081	(29 429)
Other operating income	113	57	53	-	223
Other operating expenses	(78)	(71)	(55)	-	(204)
Profit/(Loss) from operations	925	244	(36)	-	1 133
Net finance costs					(274)
Profit before tax					859
Tax expense					(122)
Net profit					737
Depreciation and amortisation	(741)	(99)	(23)	-	(863)
EBITDA*	1 666	343	(13)	-	1 996
CAPEX**	2 397	344	62	-	2 803

For the 12 months ended 31 December 2016

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
External revenues	78 543	9 105	165	-	87 813
Inter-segment revenues	7 392	61	688	(8 141)	-
Segment revenues	85 935	9 166	853	(8 141)	87 813
Operating expenses	(85 961)	(8 526)	(911)	8 141	(87 257)
Other operating income	10 291	23	25	(8)	10 331
Other operating expenses	(901)	(24)	(73)	8	(990)
Profit/(Loss) from operations	9 364	639	(106)	-	9 897
Net finance income					131
Profit before tax					10 028
Tax expense					(2 053)
Net profit					7 975
Depreciation and amortisation	(1 662)	(318)	(51)	-	(2 031)
EBITDA*	11 026	957	(55)	-	11 928
CAPEX**	10 247	472	69	-	10 788

For the 3 months ended 31 December 2016

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
External revenues	23 821	2 593	52	-	26 466
Inter-segment revenues	2 205	16	139	(2 360)	-
Segment revenues	26 026	2 609	191	(2 360)	26 466
Operating expenses	(24 368)	(2 441)	(268)	2 360	(24 717)
Other operating income	3 887	12	18	(7)	3 910
Other operating expenses	(487)	(18)	(33)	7	(531)
Profit/(Loss) from operations	5 058	162	(92)	-	5 128
Net finance income					28
Profit before tax					5 156
Tax expense					(984)
Net profit					4 172
Depreciation and amortisation	(494)	(83)	(13)	-	(590)
EBITDA*	5 552	245	(79)	-	5 718
CAPEX**	1 859	170	34	-	2 063

* Profit/(Loss) from operations + depreciation and amortization.

** Additions to non-current assets (investment expenditures in property, plant and equipment + investment expenditures in intangible assets - investment expenditures in CO₂ emission allowances).

Assets by operating segments

	31/12/2017	31/12/2016
Downstream Segment	58 788	54 841
Retail Segment	6 924	6 043
Segment assets	65 712	60 884
Corporate Functions	10 231	8 026
Adjustments	(98)	(258)
	75 845	68 652

4. OTHER NOTES

4.1. Revenues

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Revenues from sales of finished goods and services, net	114 979	27 360	70 867	24 208
Revenues from sales of merchandise and raw materials, net	7 499	3 183	16 946	2 258
	122 478	30 543	87 813	26 466

4.2. Operating expenses

Cost of sales

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Cost of finished goods and services sold	(102 890)	(25 134)	(66 412)	(21 556)
Cost of merchandise and raw materials sold	(7 362)	(3 169)	(16 814)	(2 098)
	(110 252)	(28 303)	(83 226)	(23 654)

Cost by nature

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Materials and energy	(93 110)	(22 707)	(60 257)	(22 060)
Cost of merchandise and raw materials sold	(7 362)	(3 169)	(16 814)	(2 098)
External services	(6 220)	(1 637)	(5 686)	(1 530)
Employee benefits	(3 479)	(921)	(3 019)	(842)
Depreciation and amortisation	(2 909)	(863)	(2 031)	(590)
Taxes and charges	(578)	(232)	(344)	(158)
Other	(1 161)	(394)	(1 695)	(735)
	(114 819)	(29 923)	(89 846)	(28 013)
Change in inventories	(172)	285	1 410	2 765
Cost of products and services for own use	14	5	189	-
Operating expenses	(114 977)	(29 633)	(88 247)	(25 248)
Distribution expenses	2 752	677	2 563	655
Administrative expenses	1 613	449	1 468	408
Other operating expenses	360	204	990	531
Cost of sales	(110 252)	(28 303)	(83 226)	(23 654)

4.3. Impairment allowances of inventories to net realisable value

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Increase	(403)	(36)	(559)	(19)
Decrease	479	44	1 053	61

4.4. Impairment allowances of assets

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Property, plant and equipment				
Recognition	(160)	(91)	(101)	(79)
Reversal	124	53	1 928	1 920
Receivables				
Recognition	(47)	(35)	(15)	(12)
Reversal	39	38	1	-

Recognitions and reversals of the impairment allowances were recorded in relation to overdue receivables, uncollectable receivables or receivables in court.

4.5. Other operating income and expenses

Other operating income

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Penalties and compensations	4 147	22	7 965	1 815
Profit on sale of non-current non-financial assets	47	5	91	73
Reversal of provisions	55	53	27	10
Reversal of receivables impairment allowances	39	38	1	-
Reversal of impairment allowances of property, plant and equipment and intangible assets	124	53	1 928	1 920
Revaluation of investment properties	10	10	48	48
Revaluation of provision to CO ₂ consumption	49	-	207	-
Other	73	42	64	44
	4 544	223	10 331	3 910

During the 12 months ended 31 December 2017 the Group recognized insurance compensation in the amount of CZK 2 754 million in connection with the Steam cracker unit accident. There was no compensation from insurance recognized in 4Q 2017. During the corresponding periods of 2016, the Group recognized compensation in the amount of CZK 7 922 million and CZK 1 809 million, respectively. Further information regarding the Steam cracker unit accident, insurance claim and recoveries is presented in note 4.17 and note 35.1 of the consolidated financial statements for the year 2016.

In 2Q 2017 the Group agreed the final settlement amount of the claim with the insurer relating to the Fluid Catalytic Cracking unit accident concerning property and mechanical damage as well as loss of business profits (business interruption) in the amount of CZK 1 320 million. This amount was recognized in Other operating income for the 12 months ended 31 December 2017. The information regarding the Fluid Catalytic Cracking unit accident, insurance claim and recoveries is presented in note 35.1 of the consolidated financial statements for the year 2016.

Other operating expenses

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Penalties, damages and compensations	(28)	(4)	(617)	(225)
Loss on sale of non-current non-financial assets	(49)	(20)	(31)	(29)
Recognition of provisions	(21)	(15)	(159)	(151)
Recognition of receivables impairment allowances	(47)	(35)	(15)	(12)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(160)	(91)	(101)	(79)
Revaluation of investment properties	(1)	(1)	(34)	(34)
Donations	(44)	(37)	(7)	(1)
Other	(10)	(1)	(26)	-
	(360)	(204)	(990)	(531)

The other operating expenses included under Penalties, damages and compensations incurred in connection with the accident of the steam cracker unit which took place at the Chempark Záluží in Litvínov on 13 August 2015, amounted to CZK 26 million and CZK 3 million during the 12 and 3 months ended 31 December 2017 respectively (CZK 490 million and CZK 149 million during the 12 and 3 months ended 31 December 2016).

4.6. Finance income and finance costs

Finance income

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Interest	78	29	17	5
Settlement and valuation of financial instruments	415	171	667	407
Other	-	-	1	1
	493	200	685	413

Finance costs

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Interest	(1)	(1)	(2)	(1)
Net foreign exchange loss	(426)	(151)	(294)	(366)
Settlement and valuation of financial instruments	(1 464)	(318)	(231)	(17)
Other	(23)	(4)	(27)	(1)
	(1 914)	(474)	(554)	(385)

4.7. Tax expense

	12 MONTHS ENDED 31/12/2017	3 MONTHS ENDED 31/12/2017	12 MONTHS ENDED 31/12/2016	3 MONTHS ENDED 31/12/2016
Current income tax	(1 603)	(157)	(752)	(397)
Deferred income tax	(362)	35	(1 301)	(587)
	(1 965)	(122)	(2 053)	(984)

4.8. Property, plant and equipment

Material additions

In the 12 months ended 31 December 2017 the major additions to non-current assets were partial construction of the new PE3 unit in the amount of CZK 3 687 million, revamp of T700 in the amount of CZK 118 million, acquisition of filling stations and its remodeling in the amount of CZK 428 million, locomotives in the amount of CZK 178 million and investment to granulation technology of ammonium sulphate in the amount of CZK 124 million. The amounts of other investment projects have not exceeded CZK 100 million.

In 2016 the major additions to non-current assets were the capitalized repairs of the steam cracker unit following the accident in 2015 in the amount of CZK 3 164 million, partial construction of the new PE3 unit with a value of CZK 2 863 million and capitalized spendings connected with periodic turnaround in Litvínov premises in the amount of CZK 1 250 million.

4.9. Other financial assets

	31/12/2017	31/12/2016
Cash flow hedging instruments		
<i>currency forwards</i>	599	2
<i>commodity swaps</i>	61	144
Derivatives not designated as hedge accounting		
<i>currency forwards</i>	-	33
<i>commodity swaps</i>	6	-
Cash pool	5 671	3 135
Receivables on settled cash flow hedging instruments	15	102
	6 352	3 416

4.10. Provisions

	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Environmental provision	695	877	163	4	858	881
Jubilee bonuses and retirement benefits provision	94	97	10	7	104	104
Provision for CO ₂ emission allowances	-	-	729	553	729	553
Other provision	9	23	40	88	49	111
	798	997	942	652	1 740	1 649

A provision for CO₂ allowances was created for estimated CO₂ emissions in the periods ended 31 December 2017 and 31 December 2016.

4.11. Other financial liabilities

	31/12/2017	31/12/2016
Cash flow hedging instruments		
<i>commodity swaps</i>	321	470
Derivatives not designated as hedge accounting		
<i>currency forwards</i>	66	24
<i>commodity swaps</i>	11	-
Cash pool	225	175
Liabilities on settled cash flow hedging instruments	175	246
	798	915

4.12. Methods applied in determining fair values (fair value hierarchy)

Methods applied in determining fair value have been described in the consolidated financial statements as at and for the year ended 31 December 2016 in note 27.3. As compared to the previous reporting period, the Group has not changed the valuation methodology concerning derivative instruments and investment property.

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data, which are directly or indirectly observable (so called Level 2) or unobservable market data (so called Level 3).

	31/12/2017		31/12/2016	
	Level 2	Level 3	Level 2	Level 3
Financial assets				
Hedging instruments at fair value	1 366	-	179	-
Investment property	134	314	116	316
	1 500	314	295	316
Financial liabilities				
Hedging instruments at fair value	398	-	494	-
	398	-	494	-

During the 12 months ended 31 December 2017 and year 2016 there were no transfers in the Group between Levels 1, 2 and 3 of the fair value hierarchy.

4.13. Future commitments resulting from signed investment contracts

As at 31 December 2017 and as at 31 December 2016 the value of future commitments of the Group resulting from signed investment contracts amounted to CZK 4 497 million and CZK 5 799 million.

4.14. Retained earnings and dividends

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profits of the parent company.

On 7 June 2017 the Annual General Meeting of Unipetrol decided to allocate the amount of CZK 1 505 million for dividend payment (representing CZK 8.30 per each Company's share). The dividends were payable on 7 September 2017.

4.15. Guarantees

At the Group's request, the bank guarantees relating to the security of customs debt, excise tax at customs offices and other purposes were issued. The total amount of guarantees related to excise tax amounted to CZK 1 948 million as at 31 December 2017 (31 December 2016: CZK 2 988 million) and for other purposes amounted to CZK 106 million (31 December 2016: CZK 105 million).

The Group was the beneficiary of guarantees in the amount of CZK 531 million as at 31 December 2017 (31 December 2016: CZK 770 million).

4.16. Related party transactions

Material transactions concluded by the Group companies with related parties

In the 12 months ended 31 December 2017 and 2016 there were no transactions concluded by the Group with related parties on other than arm's length terms.

Transactions with key management personnel

In the 12 months ended 31 December 2017 and 2016 the Group companies 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 Group companies and related parties.

In the 12 months ended 31 December 2017 and 2016 there were no significant transactions concluded with members of the Board of Directors, the Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

Transactions with related parties concluded by key management personnel of the Group companies

In the 12 months ended 31 December 2017 and 2016 members of the key management personnel of the Group submitted statements that they have not concluded any transactions with related parties.

Parent and ultimate controlling party

During 2017 and 2016 a majority (62.99%) of the Company's shares were held by POLSKI KONCERN NAFTOWY ORLEN S.A. (PKN Orlen).

for 12 months ended	PKN Orlen		Joint operations		Entities under control or significant influence of PKN Orlen	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Sales	5 551	1 650	912	179	9 197	4 731
Purchases	73 999	45 743	640	147	2 865	2 618
Finance income	23	-	45	13	40	3
Finance costs	-	-	-	-	3	11

for 3 months ended	PKN Orlen		Joint operations		Entities under control or significant influence of PKN Orlen	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Sales	1 004	452	247	178	2 234	1 871
Purchases	18 665	16 517	146	124	1 203	241
Finance income	-	-	-	-	3	-
Finance costs	-	-	-	-	-	9

	PKN Orlen		Joint operations		Entities under control or significant influence of PKN Orlen	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Other financial assets	5 672	-	-	-	-	3 135
Trade and other receivables	290	439	132	94	594	519
Trade and other liabilities	4 946	6 086	51	77	266	57
Other financial liabilities	-	-	-	-	225	175

4.17. Contingent assets

Contingent assets

Steam cracker unit accident

As a consequence of the steam cracker unit accident which took place at the Chempark Záluží in Litvínov on 13 August 2015, the Group recognized in 3Q 2015 an impairment charge of CZK 597 million in relation to damaged assets. During 4Q 2016 the unit was restored to normal modes of operation.

The Group is insured against property and mechanical damage as well as loss of business profits (business interruption) and is in the process of seeking recourse from the insurer. The Group expects that, based on the insurance policies and the internal estimates made at the end of December 2017, it should be in a position to recover repair costs as well as recoverable lost business profits estimated at CZK 13.3 billion. Out of these amounts, the Group has already recognized CZK 7.9 billion in Other operating income of 2016 and CZK 2.8 billion in Other operating income of 2017.

The Group estimates the value of the contingent asset from an insurance claim in the amount of CZK 2.6 billion as at 31 December 2017. The final amount of compensation will depend on the final agreement with insurers.

Tax proceeding

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

During the 12 months ended 31 December 2017 there were no material changes in relation to this issue.

Claim for unjustified enrichment against ČEZ Distribuce, a.s.

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2016. On 18 July 2017 the District Court in Děčín resolved to dismiss the Group's petition against ČEZ Distribuce, a.s. On 2 November 2017 UNIPETROL RPA, s.r.o. filed an appeal against the district court's decision. The case is pending, currently being reviewed by Ústí nad Labem Regional court.

4.18. Contingent liabilities

Contingent liabilities and commitments related to Squeeze-out of PARAMO, a.s are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

UNIPETROL, a.s. submitted two independent expert reports to the court – one expert report reviewed conclusions made by the Expert Group s.r.o. report and the other expert report provided valuation of PARAMO, a.s. and comments on methodology applied by Expert Group s.r.o. and reliability of their conclusions. The court expert determined value of PARAMO, a.s. share at CZK 909/share as at 6 January 2009 and CZK 905/share as at 4 March 2009.

The matter is now with Regional Court in Hradec Králové pending a decision by the court.

Claims regarding award for employees' intellectual work

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

In 2001 two UNIPETROL RPA, s.r.o. employees commenced a litigation claiming an award for the employees' intellectual work from UNIPETROL RPA, s.r.o. of approximately CZK 1.8 million. In 2005 the claimants increased their claim to approximately CZK 82 million.

An experts' valuation ordered by the court confirmed the amount of the reward payable to the employees in the amount of CZK 1.6 million. Both employees were paid their share of the award confirmed by the expert in the expert opinion ordered by the court, however the employees did not withdraw their claim.

The claimants have decreased the amount of the claim through several filings. Following the last decrease based on a filing made on 26 October 2017, the current claim amount is CZK 29 million with appurtenances.

The matter is now with Regional Court in Ústí nad Labem pending a decision of the court.

Claims on compensation of damages filed by "I.P. - 95, s.r.o." against UNIPETROL RPA, s.r.o.

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

Following "I.P. - 95, s.r.o." appealing the decision of the District Court in Ostrava, on 27 April 2016, the Regional Court in Ostrava resolved to confirm the decision of the District Court in Ostrava. "I.P. - 95, s.r.o." filed a cassation appeal against the decision of the Regional Court in Ostrava. On 27 July 2017 the Czech Supreme Court rejected "I.P. - 95, s.r.o." cassation appeal against the decision of the Regional Court in Ostrava. The matter is now pending before the District Court in Ostrava.

4.19. Accounting principles

Applied accounting principles and IFRS amendments

These interim condensed consolidated financial statements were prepared according to accounting principles described in note 33 in the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and main uncertainties were the same as those presented in note 34 in the consolidated financial statements as at and for the year ended 31 December 2016.

The Group intends to adopt new standards, amendments and interpretations to existing standards that have been published but are not effective as at the date of preparation of these interim condensed consolidated financial statements after their acceptance by the European Commission in accordance with their effective date. The possible impact of new standards, amendments and interpretations on the Group's future consolidated financial statements was described in note 33.1 of the consolidated financial statements of the Group as at and for the year ended 31 December 2016. The Group is performing the analysis of potential impacts of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments implementation and expects to disclose the results of the analysis in the consolidated financial statements as at and for the year ended 31 December 2017.

Functional and presentation currency

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

Methods applied to translation of financial data for consolidation purposes

Financial statements of foreign entities, for consolidation purposes, are translated into CZK using the following methods:

- assets and liabilities of each presented statement of financial position are translated at the closing rate published by the Czech National Bank (CNB) at the end of the reporting period;
- respective items in the statement of profit or loss and other comprehensive income and statement of cash flows are translated at average exchange rates published by the CNB.

Foreign exchange differences resulting from the above calculations are recognized in equity as foreign exchange differences in subsidiaries from consolidation.

Currency	Average exchange rate for the reporting period		Exchange rate as at the end of reporting period	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
CZK/EUR	26.330	27.030	25.540	27.020
CZK/USD	23.382	25.641	21.291	25.639

4.20. Changes in the Group structure

Merger between UNIPETROL RPA, s.r.o. and ČESKÁ RAFINÉRSKÁ, a.s.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and ČESKÁ RAFINÉRSKÁ, a.s. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 21 September 2016. The legal effects of the merger came into force as at 1 January 2017.



In 12 months ended 31 December 2017 there were no other changes in Group structure.

4.21. Subsequent events after the reporting date

The Group's management is not aware of any events that have occurred since the end of the reporting period that would have any material impact on the financial statements as at 31 December 2017.

4.22. Approval of the financial statements

The foregoing financial report for the period ended 31 December 2017 was authorized for issue by the Board of Directors on 24 January 2018.

Signature of statutory representatives	
	
Andrzej Mikołaj Modrzejewski Chairman of the Board of Directors	Mirosław Kastelik Vice-chairman of the Board of Directors