annual report 2016

Unipetrol
ORLEN GROUP

our success is our people

Thanks to our employees we are the biggest oil refiner, a leading producer of polymers and an owner of the largest network of filling stations in the Czech Republic.

As a major player in the Central and Eastern Europe, we are building a new polyethylene unit at Chempark Záluží. It is the biggest investment in the history of Czech petrochemistry and the most complex petrochemical unit in the EU.

Behind our success stand our 4,500 employees whom we are proud of. We support them in their personal and professional development, whether they are operators, production managers, technologists, researchers, laboratory assistants, managers, or other dedicated professionals.

Each of them has a story to tell and a unique mission within our Group. Each merits our admiration and our thanks. We cannot name everyone here, but we want to feature a few who represent all areas of our business.

Here are five stars who make our success possible.

Content

Profile of Unipetrol Group

Profile

Unipetrol, the refinery and petrochemical group (henceforward "Unipetrol Group", "UNIPETROL Group" or "Group"), constitutes an important part of Czech industry. It is the only crude oil processor in the Czech Republic, one of the most important producers of plastics and the owner of the largest network of filling stations Benzina. In the field of refinery and petrochemical production, it is also a major player in Central and Eastern Europe. It has been part of the PKN ORLEN refinery and petrochemical group since 2005.

UNIPETROL, a.s. is the parent company of Unipetrol Group.

Mission

We process natural resources to fuel the future.

Values

The values of Unipetrol Group support strict ethical principles. Their goal is to ensure long-term and permanent growth for the shareholders, to provide the best possible products and services to customers and to exercise best solutions for management and motivation. The values also support responsibility towards the environment.

Responsibility: We respect our customers, shareholders, employees, the natural environment and the local communities.

Progress: We are going forward with motivated and competent people in generating innovative ideas.

People: We strive for leadership and openness, respecting people's values in generating value for the company.

Energy: Our energy powers success and necessary change.

Dependability: We safely create valuable products and reliable services.

ORLEN Group. Fueling the future.

Unipetrol Group operates

- 2 refineries with an annual conversion capacity of 8.7 million tons of crude oil,
- 3 polyolefin units with an annual capacity of 595,000 tons,
- a steam cracker unit with an annual capacity of 544,000 tons,
- 363 fuel filling stations (number as of 31 December 2016),
- a broad range of transport services.

Two core business segments

- downstream (combining refining and petrochemicals),
- retail distribution of fuels.

Main companies of Unipetrol Group

As of 13 March 2017:

UNIPETROL RPA, s.r.o. – production and sales of refining and petrochemical products

PARAMO, a.s. – manufacturer of bitumen, lubricants and other refining products

SPOLANA a.s. – production and sales of chemical products (PVC, caprolactam), fertilizers, inorganic compounds and other chemicals

Historical milestones

1994

The formation of UNIPETROL, a.s. fulfilled one of the conceptual objectives of the privatization of the Czech petrochemical industry. Unipetrol was intended to combine selected Czech petrochemical firms in a group capable of competing with strong international groups. With 63% of the shares, the Czech State was the company's majority shareholder, represented by the National Property Fund. Investment funds and minority shareholders owned the rest of the shares. Under the original concept, the State's interest in the company was to be privatized.

Unipetrol gradually integrated Kaučuk, Chemopetrol, Benzina, Paramo, Koramo, Česká rafinérská, Unipetrol Trade, Spolana and Unipetrol Rafinérie public companies.

2003

Česká rafinérská started to be operated as a processing refinery, or cost center of its processors.

2004

An agreement on the sale of 63% of Unipetrol shares was executed between PKN ORLEN and the National Property Fund.

2005

The privatization process of Unipetrol was completed. The company consequently became a crucial part of one of the largest refinery and petrochemical groups in Central Europe, ORLEN Group.

2012

Decision on the permanent shutdown of the urea production unit at Chempark Záluží in Litvínov as of 1 January 2013. The urea production unit was a part of the agro division of UNIPETROL RPA, s.r.o. subsidiary, and its impact on the profitability of the whole Unipetrol Group was negative over the last couple of years while no reversion of this trend was expected.

Decision on the permanent discontinuation of crude oil processing in Pardubice refinery Paramo. The decision was reached based on a comprehensive analysis of macroeconomic situation, including low refining margins compared with the period before the outbreak of the financial and economic crisis in 2008, weak demand for diesel and refining overcapacity in Europe. Another key factor was very low conversion capacity below 1 million tons of crude oil per year and the low complexity of Paramo refinery, which had impacted the profitability of this Group's asset negatively with no significant improvement expected in the various medium-term scenarios analyzed.

2013

Conclusion of the 3-year contract for Russian crude oil (REBCO) deliveries with Rosneft. It is the first long-term contract signed on Unipetrol's behalf by its majority shareholder PKN ORLEN in June.

The acquisition of a 16.335% stake in Česká rafinérská from Shell Overseas Investments B.V. was signed on 7 November 2013 and successfully completed on 31 January 2014. Unipetrol's stake in Česká rafinérská increased from 51.22% to 67.555% and Unipetrol secured the Qualified Majority (QM) of votes with the 67.5% threshold.

2014

On 31 January 2014, the transaction of acquisition of 16.335% stake in Česká rafinérská from Shell Overseas Investments B.V. was successfully completed resulting in increase of Unipetrol's stake in Česká rafinérská to 67.555%.

Also during this year the company executed its pre-emptive right to purchase the remaining 32.445% stake in Česká rafinérská from Eni International B.V. The acceptance of the offer was announced on 3 July 2014, and the acquisition was approved by the Czech Antimonopoly Office (ÚOHS) on 19 December 2014. The decision became effective as of 6 January 2015.

An agreement strengthening of long-term strategic cooperation with the University of Chemistry and Technology in Prague (Vysoká škola chemicko-technologická – VŠCHT) was signed on 12 November 2014 and it resulted in the formation of the new Educational and Learning Centre VŠCHT – Unipetrol. The cooperation represents a unique connection of the industrial sector and educational sector at the college level. Such intense cooperation will allow students to use the scientific and research facilities in the UniCRE research and education center in Chempark Záluží center with maximum possible interconnection between research and educational activities.

2015

On 30 April 2015, the transaction of acquisition of a 32.445% stake in Česká rafinérská from Eni International B.V. was successfully completed. Following the completion of the transaction Unipetrol's stake in the Česká rafinérská's share capital increased from 67.555% to 100.00%. Unipetrol thus became the sole shareholder of Česká rafinérská.

On 10 September 2015, an EPC (engineering, procurement and construction) contract was signed with Technip Italy S.p.A. on construction of the new polyethylene unit (PE3) at the Litvínov plant. The production process and technology for the PE3 unit will be based on the licence agreement signed with INEOS in October 2013. The PE3 unit will be among the most advanced units of this type in Europe.

On 30 December 2015, Unipetrol RPA represented on the retail market via Benzina brand concluded an agreement with OMV to acquire 68 of its filling stations in the Czech Republic. The entire filling stations acquisition and rebranding project is expected to be completed during 2017.

2016

On 1 January 2016 a new agreement concluded between Česká rafinérská and MERO ČR determining the conditions for storage and transportation of crude oil came into force. On 7 April 2016 the companies signed an annex to the signed agreement which determined a new transportation tariff for the crude oil transportation via IKL and Druzhba pipelines effective from 1 April 2016 for an indefinite period. On the same day the companies also signed an agreement on arrangement of crude oil transportation via the TAL pipeline. The agreement was concluded for an indefinite period.

On 10 June 2016 Unipetrol RPA signed a share purchase agreement with Anwil based on which Unipetrol RPA acquired from Anwil 100% share capital of Spolana. Spolana is a chemical company located in the Czech Republic the main business of which is manufacturing and sale of chemical products such as PVC, caprolactam, fertilizers, inorganic compounds and other chemicals. The takeover of Spolana will allow Unipetrol Group to be more flexible and resilient in terms of production optimization, production and sales of ethylene and it will also allow better coordination and integration of the value chain.

On 30 June 2016 Unipetrol RPA and PKN ORLEN signed an agreement for Russian crude oil deliveries from the resources of Rosneft Oil Company for a minimum of 2.9 million tons and maximum of 5 million tons per year. The agreement is valid till 30 June 2019. On the same day the companies signed an agreement for Russian crude oil deliveries from the resources of Tatneft Oil Company of 600 thousand tons for Unipetrol RPA, and on 13 December 2016 the companies signed an annex to this agreement based on which Tatneft will deliver to Unipetrol RPA crude oil in a quantity from 1.620 m tons to 3.960 m tons in the period between 1 January 2017 and 31 December 2019, depending on the Unipetrol RPA's offtake possibilities.

Corporate Governance

Application of corporate governance rules

UNIPETROL Group continuously strives to maintain long-term and transparent relationships with its shareholders and investors as part of its strategic objectives. The UNIPETROL Group management follows the Corporate Governance Code.

The corporate governance of UNIPETROL Group is based on the Corporate Governance Codex, which was published by the Czech Securities Section and is based on the OECD principles in the revised version from 2004 (henceforward "**Codex**"), the provisions of which UNIPETROL Group voluntarily satisfies in all material respects:

https://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf

The Czech version of the Codex can be found on the website of the Ministry of Finance of the Czech Republic on the following link:

http://www.mfcr.cz/cs/archiv/transformacni-instituce/agenda-byvaleho-fnm/sprava-majetku/kodex-spravy-a-rizeni-spolecnosti-corpor/kodex-spravy-a-rizeni-spolecnosti-zaloze-14620

The company's management respects and follows the principles stated in the Codex and incorporates them in its internal regulations and procedures. In 2016 there were no major changes in UNIPETROL Group which would have a negative impact on the corporate governance standards of UNIPETROL Group. UNIPETROL Group continues to observe and respect the principles of corporate governance which comply with the interests of the company's shareholders and the company's conduct of business.

The matters which are not regulated by the Codex are dealt with according to the relevant legislation, namely the Act on Business Corporations, the Civil Code and the Act on Business on the Capital Market.

The company emphasizes compliance with the shareholders' rights regulated by the law and equal treatment of the shareholders.

The company also respects the shareholders' right to information. All important information regarding business plans, financial results and relations to related entities is published accurately and in time and it is made accessible to all shareholders.

The members of the management, Supervisory Board and Audit Committee act in due diligence and comply with the relevant legislation. The Company's Articles of Association define specifically the responsibility and authority of the individual bodies and their members.

The company has not adopted any diversity policy in relation to the members of the Board of Directors, Supervisory Board and Audit Committee. However, the company strictly forbids any direct or indirect discrimination on the grounds of age, gender, education, nationality, religion, belief, sexual orientation, etc.

When selecting candidates, UNIPETROL Group takes into account a candidate's education, experience, qualification and expert knowledge.

Code of Ethics

The members of UNIPETROL Group are aware of their responsibility to all their stakeholders – their employees, customers, shareholders, business and social partners, and society. By means of this Code of Ethics they undertake to comply with clear principles forming a basic framework for the business and social conduct, and for the creation of the corporate culture in the companies of UNIPETROL Group.

In all spheres of activity UNIPETROL Group abides by the applicable law, legal decrees, internal regulations and ethical values. The Group respects international, national and local regulations which are directly binding as well as those to which it commits voluntarily, such as the principles of corporate governance. These are primarily provisions that set out safety and environmental standards for facilities and their operation, describe the requirements for the quality of products and services, define conduct on markets, and regulate conduct and practices. UNIPETROL Group regards respecting these standards and operating exclusively within their limits as its priority.

UNIPETROL Group employees' conduct is always, and under all circumstances, legal, ethical, transparent, and compliant with the laws and UNIPETROL's corporate values. All procedures and activities are based on the best practices of corporate governance and operational excellence, with emphasis on safety and environmental protection. All customers (external and internal) of UNIPETROL Group have the right to receive the best quality products and services. The Code of Ethics is linked to the applicable laws of the Czech Republic and the company's internal policies, and it defines the basic rules of conduct for the employees of UNIPETROL Group.

The Code of Ethics of UNIPETROL Group can be found on the website of UNIPETROL, a.s., in the section CSR/Corporate Values and Code of Ethics:

http://www.unipetrol.cz/en/CSR/Corporate-Values-and-Code-of-Ethics/Documents/Eticky_kodex_2014_ENG%20fin.pdf

Introduction by the Chairman of the Supervisory Board

Ladies and Gentlemen,

2016 proved to be a very interesting year from the Unipetrol Group's perspective. Positive macro development in terms of general economic growth and decline in the crude oil price prevailed during the year and supported the downstream macro environment. It was another record year in terms of petrochemical margins.

The company managed to overcome difficulties arising from the unplanned shutdowns of the production units. Thanks to the immense efforts of all the involved parties, the standard level of operation of all production units was resumed in October 2016. The processes of the insurance claim settlement will continue in the course of 2017. Income of CZK 7.9 bn related to the steam cracker unit accident was already recognized in the 2016 financial statements.

The Group kept developing synergies and new opportunities both internally and externally. In the downstream segment after the full takeover of Česká rafinérská in 2015, the main project for 2016 was to finalize the integration of the company into the Group's structures. The process was completed as at 1 January 2017 when Česká rafinérská was merged with Unipetrol RPA, creating the integrated operational core of Unipetrol Group. Unipetrol Group continued to develop domestic production capacities. In the course of the year, the construction of the new polyethylene unit began. It will open up new possibilities to reach new industrial segments. The Group also acquired Spolana, the chemical production company based in the Czech Republic, which will extend the position of Unipetrol in the value chain as well as it will contribute to optimalization of the current production.

The retail segment continued to grow in terms of both the financial results and market share. At the beginning of 2016, Benzina was merged with Unipetrol RPA enabling a better coordination of the Group's activities. In addition, the takeover of the OMV filling stations project was launched successfully with continuation in 2017. In line with the strategic plan, the non-fuel segment offer was further enhanced to meet the customers' requirements.

By the beginning of the 2017, the major project of consolidation of Unipetrol Group's structure was completed, which will bring positive effects in terms of easier administrative procedures and intragroup processes, increased competitiveness and operational excellence of the whole Unipetrol Group.

Thanks to the stable financial situation and continual improvement of the financial results, the company was able to pay the dividend for 2015 to the shareholders in the total amount of CZK 1 billion after several years without a dividend payment.

The Supervisory Board continued to maintain its close cooperation with and support for the Board of Directors during the course of 2016, with a clear goal to resume the operation of the production units, secure further business development of Unipetrol Group, improve its competitive position in the Czech Republic and the whole Central European region, retain its sound financial profile, and maintain good strategic relations with business partners and other stakeholders.

I would like to thank the Board of Directors for their tremendous efforts in the operational and strategic management of the company on a daily basis and preserving integrity among all stakeholders – shareholders, managers, employees, customers, suppliers, civic associations, inhabitants of the regions where the company has its operations, and governmental bodies.

Sincerely

Wojciech Jasiński
Chairman of the Supervisory Board
UNIPETROL, a.s.

Letter to Shareholders from the Chairman of the Board of Directors and Chief Executive Officer

"Petrochemical industry is a challenging business and it was also in the year passed, when I undertook the role as your Chairman of the Board at the beginning of July, convicted that we could not only return the Group back to prosperity, but make it bigger and stronger."

Dear Shareholders,

This is the first time I have the honor to greet you in this introductory part of Annual Report as Chairman of the Board and CEO of Unipetrol Group. I greet this occasion by looking back at the year passed and evaluate its key events. Due to ongoing reconstruction of the steam cracker unit in Litvínov after the extraordinary event in August 2015 as well as the reconstruction of the fluid catalytic cracking (FCC) unit at the Kralupy refinery, we found ourselves in the midst of what is one of the greater challenges in the history of our Company. We have done our very best to deliver the key tasks and therefore to fully satisfy the demands of the market as well as of you, our shareholders.

The overall macroeconomic situation in the Czech economy was very supportive last year for our business in spite of the GDP's moderate growth. We experienced another drop in prices of crude oil, leaving us with record-high petrochemical margins and positive refining margins. From the production perspective our situation changed during the year. Both the steam cracker unit in Litvínov and the FCC unit at the Kralupy refinery were restarted in October 2016, reaching the standard level of utilization. We managed to successfully complete these two complicated projects by adding the extra hard work of all teams involved and the effort and ability to find new, non-standard solutions.

Events which happened in the last two years had a very distinguished impact on the Group. This is mirrored among other things by the financial key performance indicators for the past year. However these events proved that our operational business continues to be in a strong shape and our portfolio of our powerful brands is helping us to go through this challenging phase. The Group recorded better financial results compared with the previous year, with operating profit of CZK 12 bn based on EBITDA LIFO indicator. The Company recognized in the financial statements income from insurers related to the extraordinary event on the steam cracker unit in the amount of CZK 7.9 bn. The second important factor was the reversal of impairment allowance of the downstream segment assets worth of CZK 1.9 bn, which we recognized in 2014. The remaining CZK 2.2 bn resulted from standard operations, worth mentioning is another increase in positive results of the retail segment.

I am trully pleased with our retail segment. Benzina's market share increased by 1.5 percentage point in 2016, to 17.6% (as at the end of October 2016) and the financial result reached almost CZK 1 bn based on EBITDA LIFO. We continued in taking over filling stations from OMV and by the end of the past year there were 20 filling stations included in Benzina network. The project continues also in 2017. Within the non-fuel segment the Company answered customers' demands by building new Stop Cafes, improving refreshment offer and introducing a prepaid discount card.

In the downstream segment, in addition to the successful restart of production units, several important CAPEX projects were carried out. The first one was the turnaround of the Litvínov chemical complex realized in March and April. We have started a construction of a new polyethylene unit. The work on this important project has the highest priority and it will carry on throughout of 2017.

We managed to set up a long-term collaboration with the Czech crude oil pipeline operator MERO ČR and together with contract signed with ČEPRO, a pipeline logistics provider for refinery products, the Company secured the necessary logistics. We have also signed a contract for crude oil transportation with Croatian operator JANAF, providing new potential options in the future in the terms of crude oil deliveries.

In June 2016 we completed an acquisition of Spolana, a chemical production company. This acquisition grants the Group the flexibility and stability in terms of production optimization, manufacture and sales of ethylene and it also provides better coordination and integration of the value chain.

At the beginning of 2017 Česká rafinérská was merged with Unipetrol RPA creating the new operational center of the Group. The main focus of this year will be on increasing of the synergies already existing within the Group as well as utilizing new opportunities beneficial for the whole Unipetrol. We will certainly face challenges again. I can assure you, that regardless of the complexity of the tasks, as usual, we will learn from them and from solving them we will come out even stronger and experienced. Unipetrol is a good company and I am convicted we will succeed in making it even better thanks to the right decisions and hard work. A company that grows produces a positive outlook for its customers, employees, partners, society and, for you, our shareholders. We are proud that in 2016 we were able to share more than CZK 1 billion with our shareholders in the form of dividend which was approved for the first time since 2008.

Safety is continuously included among the top priorities. Implementing of the Safety Process Management program aims to further improve safety and health – both at the process, production and technology level. The recent extraordinary events are clear evidence of the fact that the measures in human lives and investments protection are crucial for sustainable development of our business. The Company will continue to ensure consistent adherence to the safety measures by every employee, regardless of his or her positions in the company.

Unipetrol Group considers human resources to be one of the key driving forces. Motivated and skilled employees are the value that brings to life the production technologies and determines the success of the entire Company. Motivation and skills are closely related to employee training. We constantly strive to expand the possibilities for employee training with the aim to meet their wishes and requirements the workload places on them. We will continue in our efforts in the current year. We also work on improvement of training center program, which is one of the best ways to get qualified production workers.

On behalf of Unipetrol Group, I would like to thank you, our shareholders, for the trust you have put in Unipetrol.

Sincerely

Andrzej Modrzejewski
Chairman of the Board of Directors and Chief Executive Officer
UNIPETROL, a.s.

Expected development and strategy for 2017

Relatively low prices of crude oil, although higher than at the end of 2015, continued to positively support the refinery and especially the petrochemical industry. The overall positive situation in 2016 does not however change Unipetrol's view on the refinery business in general. The structural setup remains very challenging. The competition in the value chain is fierce. Central Europe remains a region saturated with refining capacities. The crude oil prices environment may easily become negative for refineries after OPEC's deal on production cuts concluded in December 2016. Such a situation requires work toward increasing the efficiency of operations and implementation of carefully selected investments.

The main investment of Unipetrol is in the area of production. The new polyethylene unit (PE3) will be the one of the most important task of the company. The construction was commenced in 2016. It is the largest investment in the history of the Czech petrochemical industry and amounts to over CZK 8 billion. In the future the unit will help to optimize the use of the steam cracker and will contribute to the greater coherence of petrochemical and refining production of Unipetrol Group. It will also enable to react to the growing global demand for high-density polyethylene. Thanks to the new technology the company will be able to reach other industrial segments, such as the cosmetics and packing industry. The PE3 will be one of the most modern installations of its kind in Europe.

Thanks to significant investment efforts Unipetrol entered into the year 2017 with full production capacity available. The reconstructions of the steam cracker unit in Litvínov and the FCC unit in Kralupy after their unplanned shutdowns were completed. The restart of the Kralupy refinery operations took place in the first half of October, and the steam cracker operations resumed in the second half of October. Unipetrol's team cooperated closely with the insurers' representatives in order to prepare appropriate information allowing for the payment of compensation to Unipetrol Group for reimbursement of the costs of repairing and lost business profit. As a result, an amount of CZK 7.9 bn was already recognized in the books in the financial year 2016.

One of the key declared directions was the optimization of the Unipetrol Group structure which continued in 2016. Unipetrol RPA became a new operational center of the Group, covering the core business activities. Last year was the first full year when Benzina and the Polymer Institute Brno, previously two separate entities, operated within Unipetrol RPA. In the course of the year, Unipetrol Services, Chemopetrol and Unipetrol Rafinérie were also merged into Unipetrol RPA. At the beginning of 2017, Česká rafinérská was integrated into Unipetrol RPA. The production activities of Unipetrol in Litvínov now operate under one company. It will improve the usage of synergies triggered after the acquisition of the full control over production assets back in 2015. The Czech Republic maintained its rights towards the refinery assets after the merger to the extent it had possessed before the merger.

The improved situation in the production sphere establishes a firm foundation for development in other areas. In terms of the wholesale activities, the Group further strengthens its position on the domestic and export markets. Unipetrol has started offering to its customers in the Czech Republic its own fuel price reference index. This approach will improve the market transparency for all the participants. Direct presence via trading companies in Hungary and Slovakia as well as in Germany is planned to continue. These entities allow for closer contact and cooperation with local customers.

Unipetrol's management considers the logistics area and its optimization to have a key influence on value creation in the company's value chain. For the first time in many years the Group has its relations with the main logistic partners, ČEPRO, a state-owned pipeline logistics provider for refinery products, and MERO ČR, a state-owned crude oil pipelines operator, governed by comprehensive contracts that were negotiated in 2015 and 2016.

Unipetrol continues in increasing of security of crude oil supplies. In 2016 it accomplished the first formal step - a framework agreement for transportation with Croatian operator JANAF to make crude oil deliveries via the Adria pipeline possible. Following the performed tests of Arab crude oil last year, the diversification of feedstock sources will be pursued as well.

The company's operations are naturally influenced by the Czech and European legislative environment. Unipetrol supports the continuation of legislative changes that improve the quality of competition on the market. Unipetrol is also an important partner in regulatory discussions related to the development of bio and emission norms for fuels, supporting the achievement of environment, consumer and market friendly solutions.

In retail, Unipetrol's Benzina network strengthens its position as the largest network in the Czech Republic, which is a good basis for further expansion on domestic market. The project of acquisition of a part of the OMV station network will continue in 2017. This will increase the number of Benzina stations to over 400. The larger sales network will help improve the distribution of premium fuels and expansion of the improved Stop Cafe & Bistro fast food concept. On the top of that Benzina wants to remain the strongest fuel retail brand in modern communication channels. The stations of Benzina will be subject to further improvement in the standards of the services and non-fuel offer to best serve client requirements. The retail segment of Unipetrol closely monitors the market development related to alternative fuels for cars and develops its presence accordingly to the trends.

The area of energy is considered to be one of the key interest for the operational and financial performance of the company in the coming years. It is an indispensable lever for the company's development and growth. Initiatives in this area will focus on ensuring of energy security for the production plants with the lowest possible costs and highest energy efficiency in operations. It will carefully monitor and response to the situation on the energy market. The year 2017 will bring the revamp of the main power station in Litvínov.

Unipetrol is increasing its engagement in research and development activities supporting its refining and petrochemical production. UniCRE, one of the most modern research centers in the country, links research capacities with top educational activities and industrial application, focusing on research, development, innovation and education in the area of refining and petrochemical technologies, environmental technology and processes for efficient use of renewable sources. Unipetrol is developing activities stemming from the signed close cooperation agreement with the University of Chemistry and Technology in Prague (UCT). The University Center UCT – Unipetrol, opened in April 2015 in the production facility in Litvínov, continues its operations successfully. Students of Bachelor, Master and PhD levels will be using the facilities of the Center with support from Unipetrol Group.

Unipetrol will be intensifying its engagement in social responsibility, for example through the new Unipetrol Foundation (Nadace Unipetrol) established at the end of 2016. This project will offer scientific grants, scholarships, exchange programs and internships. Unipetrol believes it will be a significant support for development in the science areas related to its business and it will also be beneficial for the long-term progress of its operations and the industry in general in the Czech Republic and the Central Europe region.

Highlights of 2016 and 2017 up to the Annual Report approval date

Highlights of 2016

January

- New agreement between Česká rafinérská and MERO ČR which determines conditions for storage and transportation of crude oil via IKL and Druzhba pipelines came into force.
- The Supervisory Board of Unipetrol re-elected Mr. Mirosław Kastelik to office of Member of the Board of Directors with effect as of 6 February 2016.

February

- Mr. Rafał Sekuła submitted a letter of resignation from his office of Member of the Supervisory Board of Unipetrol. In accordance with the Commercial Corporations Act, Mr. Sekuła's office terminated one month after the announcement of his resignation to Unipetrol, i.e. on 11 March 2016.
- In the fifth annual charity fundraiser "Fulfilled Wishes", Unipetrol's employees collected a total of CZK 163,155 for charity. Unipetrol then doubled this sum, and the total donation thus amounted to CZK 326,310. The money was provided to nonprofit organizations in Most, Pardubice and Kralupy nad Vltavou.

April

- Česká rafinérská and MERO ČR signed an amendment to the contract on storage and transportation of crude oil. The amendment introduced a new tariff for the crude oil transportation via the IKL and Druzhba pipelines applicable starting from 1 April 2016 for an indefinite period. On the same day the companies also signed a contract on arrangement of crude oil transportation via the TAL pipeline for the indefinite period.
- The Supervisory Board of Unipetrol re-elected Mr. Andrzej Kozłowski to office of Member of the Board of Directors with effect as of 9 April 2016.

May

- The Supervisory Board of Unipetrol recalled Mr. Piotr Wielowieyski from the office of Member of the Board of Directors and appointed to the office of Member of the Board of Directors Mr. Robert Małłek with effect as of 11 May 2016, and Mr. Andrzej Mikołaj Modrzejewski with effect as of 12 May 2016.
- Due to the extraordinary event at the fluid catalytic cracking (FCC) unit at the Kralupy refinery, crude oil processing was suspended in the whole Kralupy refinery. The refinery was put back into operation in early October 2016.

June

- Unipetrol inaugurated construction of the new polyethylene unit (PE3) in Záluží. It is the largest investment in the history of the Czech petrochemical industry in the amount of CZK 8.8 bn. Once put into operation, the unit will be among the most advanced production facilities of its kind in Europe. Launch of production is planned in the second half of 2018.
- Unipetrol RPA signed a share purchase agreement with Anwil based on which Unipetrol RPA acquired from Anwil 100% share capital of Spolana. Spolana is a chemical company located in the Czech Republic. The main business of the company is manufacturing and sale of chemical products such as PVC, caprolactam, fertilizers, inorganic compounds and other

chemicals. The takeover Spolana will allow Unipetrol Group to be more flexible and resilient in terms of production optimization, production and sales of ethylene and it will also allow a better coordination and integration of the value chain.

- The Ordinary General Meeting of Unipetrol decided on payment of a dividend to the shareholders in the amount of CZK 5.52 before taxation per one company share. The dividend payment is processed by Česká spořitelna. The General Meeting of the company elected to the position of Members of the Supervisory Board of Unipetrol Mr. Wojciech Jasiński and Mr. Zbigniew Leszczyński with effect as of 21 June 2016, Mrs. Grażyna Baka with effect as of 25 June 2016, and Mr. Zdeněk Černý and Mr. Krystian Pater with effect as of 1 July 2016. Last but not least, the General Meeting appointed to the position of Members of the Audit Committee of Unipetrol Mr. Rafal Warpechowski and Mr. Iain Haggis with effect as of 25 June 2016.
- Unipetrol RPA and PKN ORLEN signed an agreement for Russian crude oil deliveries from the resources of Rosneft Oil Company of minimum of 2.9 million tons and maximum of 5 million tons per year for the period from 1 July 2016 till 30 June 2019. The companies also signed an agreement for Russian crude oil deliveries from the resources of Tatneft Oil Company of 600 thousand tons for Unipetrol RPA. The agreement is valid from 1 July 2016 till 30 June 2017.

July

- The Supervisory Board of Unipetrol recalled Mr. Marek Świtajewski from the office of Member of the Board of Directors with effect as of 1 July 2016 and elected Mr. Krzysztof Zdziarski to the office of Member of the Board of Directors with effect as of 2 July 2016.
- Mr. Andrzej Modrzejewski was elected by the Board of Directors of Unipetrol to the office of Chairman of the Board of Directors with effect as of 2 July 2016, Mr. Mirosław Kastelik was elected to the office of Vice-Chairman of the Board of Directors with effect as of 1 July 2016 and Mr. Krzysztof Zdziarski was elected to the office of Vice-Chairman of the Board of Directors with effect as of 2 July 2016.
- Unipetrol announced further changes in the structure of its subsidiaries. With effect from 2 August 2016, the mergers by amalgamation of UNIPETROL SERVICES, s.r.o, UNIPETROL RAFINÉRIE, s.r.o., and CHEMOPETROL, a.s., with UNIPETROL RPA, s.r.o., were approved with a legal succession of Unipetrol RPA.

August

- Repair works on the steam cracker in Chempark Záluží, which has been out of operation since last year's extraordinary event on August 13, were completed. The steam cracker restoration lasted more than ten months and related costs amounted to four billion crowns. Based on the internal investigation, measures were taken to minimize the risk of similar incidents in the future. Standard production mode of the steam cracker was restored at the end of October.

September

- With effect from 1 January 2017, the merger by amalgamation of ČESKÁ RAFINÉRSKÁ, a.s., and UNIPETROL RPA, s.r.o was approved with a legal succession of Unipetrol RPA. The merger is part of the process of streamlining of Unipetrol Group's structure which began in the year 2015.

November

- Mr. Martin Durčák resigned from his office of the Member of the Board of Directors of Unipetrol. The Supervisory Board at its meeting discussed the resignation and following on Mr. Durčák´s request approved the termination date of his office as of 31 December 2016.
- Representatives of Unipetrol RPA and Jadranski Naftovod signed a framework contract on transportation of crude oil via the Adria pipeline. This pipeline might in the future become an alternative transportation route to the current pipelines Druzhba and IKL.

December

- Unipetrol RPA and PKN ORLEN signed an annex to the agreement for Russian REBCO crude oil deliveries from the resources of Tatneft signed on 30 June 2016 which extending the contractual period and increasing the possible maximum volume of the crude oil delivered. Based on the signed annex, Tatneft will deliver to Unipetrol RPA crude oil in a quantity from 1.620 m tons to 3.960 m tons in the period between 1 January 2017 and 31 December 2019, depending on Unipetrol RPA's offtake possibilities.

Selected data of Unipetrol Group

	2011	2012 reclassified	2013	2014 reclassified	2015	2016
Structure of assets and liabilities (in CZK million)						
Total assets	57,176	50,948	49,999	48,517	54,499	68,652
Non-current assets	31,918	26,171	25,665	22,173	22,575	32,270
Current assets	25,258	24,777	24,334	26,344	31,924	36,382
Equity	32,854	29,844	28,300	28,462	35,509	41,621
Liabilities	24,322	21,104	21,699	20,055	18,990	27,031
Structure of profit / loss (in CZK million)						
Revenues	97,428	107,160	99,415	123,938	108,907	87,813
Gross profit	1,876	3,116	2,303	5,735	12,763	4,587
EBITDA[1]	(2,263)	(1,012)	1,522	1,022	10,643	11,928
Depreciation and amortization	(3,107)	(2,807)	(2,415)	(2,270)	(1,927)	(2,031)
EBIT[1]	(5,370)	(3,819)	(893)	(1,248)	8,716	9,897
Net finance income/costs	(574)	(553)	(450)	(114)	(47)	131
Profit/loss before tax	(5,944)	(4,372)	(1,343)	(1,362)	8,669	10,028
Net profit/loss	(5,914)	(3,098)	(1,396)	(556)	7,036	7,975
Earnings/loss per share (CZK)	(32.61)	(17.08)	(7.70)	(3.07)	38.80	43.98
Structure of cash flows (in CZK million)						
Operating cash flow	413	1,975	300	737	14,931	7,996
Investing cash flow	(3,024)	(921)	(1,688)	(1,918)	(6,340)	(9,789)
Financing cash flow	327	(447)	(583)	1,728	(4,385)	(1,165)
Total cash flow	(2,284)	607	(1,971)	547	4,206	(2,958)
Operating indicators (in thousand tons)						
Crude oil throughput[2]	3,942	3,927	3,607	5,130	6,496	5,422
Sales of refining products, including retail sales (Benzina filling stations network)[3]	3,438	3,283	3,151	4,268	5,800	6,280
Sales of petrochemical products[4]	1,668	1,771	1,578	1,773	1,445	1,069

[1] See definitions on the page 67-68.

[2] Crude oil throughput represents total volumes of crude oil processed in Unipetrol's refineries.

[3] Sales of refining products, including retail distribution of fuels (Benzina filling stations network), represent total external sales volumes of refining products outside Unipetrol Group. These are primarily motors fuels (gasoline and diesel).

[4] Sales of petrochemical products represent total external sales volumes of refining products outside Unipetrol Group.

Corporate social responsibility and sport sponsorship

Corporate social responsibility

As a socially responsible company, Unipetrol feels inextricably linked with the regions in which it operates. Therefore it supports activities that improve the environment and have a positive impact on the villages and towns around its plants. In addition, it uses its leading position in the chemical industry to educate and support young talents in areas that foster the development of chemistry in the Czech Republic. Unipetrol's activities in the field of social responsibility can be divided into four main pillars:

- Education
- Volunteering
- Donation
- Environmental protection.

Education

UCT Prague

Unipetrol considers the fields of science, research and education important, and therefore has been supporting their development for the past several years. It is continuing in a sixteen-year-old strategic partnership with the University of Chemistry and Technology, Prague (UCT) with the main objective of popularizing chemistry and supporting education in this field. In 2016 Unipetrol supported selected school projects with the amount of CZK 800,000, concentrating on proven and popular projects that students and teachers enjoyed in the past. In particular these have included The Summer and Autumn School for teachers of primary and secondary schools, a project called A Lesson of Modern Chemistry in the Ústí Region and awards for quality theses of the UCT students. The company is also a traditional partner of the Chemistry Olympics. In addition, Unipetrol offers internships to young talents to give them an opportunity to gain much needed experience and expertise.

University Centre UCT Prague – Unipetrol

The University of Chemistry and Technology, Prague opened its branch in Most as early as in 2004. The aim of the cooperation between the school and Unipetrol is not only to train new students, but also to deepen the knowledge of specialists and employees through tailor-made programs. In February 2015, the branch moved into refurbished premises in Záluží in Litvínov, where the students can get hands on experience in an industrial complex and participate directly in the newly built research and education centre UniCRE. This is the first and only project of its kind that offers a unique interconnection of top bachelor's, master's and doctoral studies with projects, tasks and challenges of manufacturing operations of a refinery and petrochemical complex.
The centre allows students to perform professional practice and obtain industrial experience, and it also organizes activities referred to as third role, e.g. a lifelong learning.

Zlatý Ámos

Unipetrol continued supporting the national project Zlatý Ámos last year, under which the most popular Czech teachers selected by students receive awards. Last year saw the twenty fourth annual poll, announced by the Domino Club, a Children's Press Agency, and whose prime mission is the popularization of teachers who in the opinion of pupils and students contribute notably in shaping a good relationship between teachers and their charges. Unipetrol supported it as a silver partner for the fourth time. Unipetrol also participates in the nationwide event Učitel chemie roku (Chemistry Teacher of the Year).

Donations

Collection Fulfilled Dreams

Unipetrol organized another year of the Fulfilled Dreams collection, which this time collected over CZK 326,000. Half of the amount was donated by the employees, the other half as usual by the company. Some of the money was given to the Early Care Centre in Pardubice, which cares for children from birth to the age of seven with physical, mental and multiple disabilities and also provides support for the families of the children. The center has bought a new car, which is necessary to guarantee an early care field service. Another amount supported the children's home in Most. Thanks to this support the children could go on a trip and visit interesting cultural events. A family type children's home in Kralupy nad Vltavou restored its dining room, bought new furniture and replaced the floors. Our employees could for the first time donate money to the Endowment Fund Kociánka in Brno. This fund collects money for and spends it on the improvement of care for children and youth in the Kociánka Centre. This center encourages the complex development of youth and helps with successful inclusion in everyday life.

Blood donation

In 2016 almost 200 Unipetrol employees donated blood voluntarily as part of the internal project "Donate fuel for life" (Daruj palivo pro život). A total of 60 litres of blood were collected, which can save over 500 lives. The event was very popular among Unipetrol employees and so it took place twice.

Project Marrow 4 Tomorrow (Jedu na dřeň)

In 2016, Paramo continued its partnership with the project "Marrow 4 Tomorrow", whose aim is to find new bone marrow donors. One of the places where the new potential donors could register was the square in Zlín and the service zone during the Barum Rally, where a total of 430 people registered in the course of four days.

MDA Ride

In 2016 Paramo became a partner of a charity event organized by motorcyclists to help children with muscular dystrophy.
The proceeds from the event were given to organizations for patients with this disease – the Association of Muscular Dystrophy Sufferers in the Czech Republic and the Parent Project.

Financial support for municipalities in the Ústí and Střední Čechy Regions

Direct financial support for selected villages and towns in the Ústí and Střední Čechy Region, where most of the company activities are concentrated, is a matter of principle for Unipetrol. 16 municipalities received a total amount of CZK 2,260,000 and they decided for which public projects they would use the money. It was used mainly for the reconstruction of local infrastructure, organization of cultural events and sport activities for youth.

Environmental protection

Stocking fish in Bílina river

Unipetrol has been cooperating with the Czech Fishing Union on a long term basis in stocking fish in selected sections of the Bílina River. Hundreds of fish with a total weight of tens of kilograms were released into the river. The effort is bearing fruit; not only do the fish in the river, whose purity has greatly improved, survive, but some species also naturally reproduce. Unipetrol contributes the amount of CZK 50,000 every year. Thanks to stocking, which takes place every spring and autumn, almost 4,500 kilograms of fish were introduced to the river.

Other activities

Fair trade

In the past year, Benzina also supported cultural events that are very popular in the Czech Republic. A pop-up stall specially created for such purposes, offering tasty fair trade coffee, was installed during the Karlovy Vary film festival, the Benátská noc music festival, the Red Bull 400 running race, Spartan Races and Barum Rally.

Project Live life to the fullest

In 2016 Benzina focused on drivers' emotions, dreams and active lifestyle, which has been supported for a long time. Avid fans of the brand went to the Nürburgring race track, where they had a go in a racing car. Benzina made it possible for two drivers to drive along the race track to experience the feelings of F3000 drivers or to try driving a car on snow on a tailor-made drift-school course.

Sport

Benzina prepared an adrenaline experience for keen athletes in the extreme running race Red Bull 400 at the ski jump-ramp in Harrachov, in which the team lead by the coach Jakub Bína participated. The team was dressed in Benzina colors. In 2016 Benzina also participated in the unique outdoor Spartan Race series.

Benzina also supported the Color Run, an amazingly colorful race which celebrates health, well-being, individuality and joy with friends. The run is not only about performance, but also about entertainment. It is a 5-kilometre run, during which the time is not recorded and thousands of participants are covered in different colors from head to foot.

Sport sponsorship

Unipetrol continues to support the Litvínov hockey club; the Benzina brand, which belongs to the Unipetrol Group, is its main partner. Unipetrol Group goes beyond looking after the HC Litvínov professional team; it also takes care of the young sport talents - it supports the youth hockey categories and the development of children in Litvínov and surroundings.

Unipetrol also has a long tradition of partnership with car races, mainly through its subsidiary Paramo - Rally Šumava Klatovy, Rally Bohemia, Rally Český Krumlov, Barum Czech Rally Zlín and Rally Tatry. Paramo is a long-term partner of the teams which use Mogul oils in their racing machines, thus demonstrating the quality of the oils. Rally drivers Jan Černý, a young successful driver, and Roman Častoral, a multiple European champion in rally cross, are the key figures of the project. Benzina provides a long-term support for the racing driver Jan Černý and it is also involved in the same sport in the traditional motor competition Barum Czech Rally Zlín. Another sport in which Benzina was significantly involved was cycling. The cycling team Verva Activejet was successful mainly in the Czech Cycling Tour series.

MOGUL oils were used in racing vehicles of Czech drivers in the world-famous Dakar Rally, for instance in Martin Macík's LIAZ race vehicle or in the Barth Racing team's motorcycles and quad-bikes.

Unipetrol's governing bodies and management

Board of Directors

The Board of Directors is the company's governing body, managing its activity and representing it. Pursuant to the Articles of Association in force as of 1 January 2017, the Board of Directors has seven members, and the members are elected for a three-year term of office. The Board of Directors elects the Chairman and two Vice-Chairmen from its ranks, who each represents the Chairman severally and fully in the execution of his competences.

Members of the Board of Directors as of 13 March 2017

ANDRZEJ MIKOŁAJ MODRZEJEWSKI

Born on 16 December 1950;

Member of the Board of Directors since 12 May 2016 (current term of office will expire on 12 May 2019); Chairman of the Board of Directors since 2 July 2016;

University education, 38 years of experience;

He is currently authorized to exercise the office of the company's Chief Executive Officer (CEO) as well.

Mr. Andrzej Modrzejewski is Authorized Executive of UNIPETROL RPA, s.r.o.

Career overview:

Over the preceding years he worked as an Investment director and subsequently as a Chief Executive Officer for the IX. National Investment Fund E. Kwiatkowski (1995–1999). Between the years 1999–2002 he was the Chairman and Chief Executive Officer in the company Polski Koncern Naftowy ORLEN S.A. From 2003 to 2016 he worked in the advisory and investment business (Management Consulting). He no longer holds any of these positions.

Education:

United States Agency for International Development, University of Wisconsin in La Crosse, USA, major in corporate and investment finance

University of Warsaw and International Business School in Warsaw – Master of Business Administration (MBA)

University of Mikołaj Kopernik in Toruń – Physics

MIROSŁAW KASTELIK

Born on 23 February 1968;

Member of the Board of Directors since 6 February 2013; re-elected to office with effect as of 6 February 2016 (current term of office will expire on 6 February 2019); Vice-Chairman of the Board of Directors since 1 July 2016;

University education, 24 years of experience;

He is currently authorized to exercise the office of the company's Chief Financial Officer (CFO) as well.

Mr. Mirosław Kastelik is Executive in Charge of Financial Affairs of UNIPETROL RPA, s.r.o.

Career overview:

Over the preceding years he worked as the Chief Financial Officer and Chief Accountant at Isuzu Motors Polska Sp. z o.o. (1998–2009), as the Chief Financial Officer and Vice-President at Tele-Fonika Kable Sp. z o.o. (2009–2010) and as the Chief Financial Officer at Boryszew S.A., Maflow Branch (2011–2013). He no longer holds any of these positions.

Education:

University of Illinois at Urbana-Champaign – Warsaw University, Executive MBA

Katowice University of Economics, Post-Graduate Studies in Accounting

Cracow University of Economics, Master Degree in Economics of Real Estate and Investments

KRZYSZTOF ZDZIARSKI

Born on 26 August 1961;

Member of the Board of Directors since 2 July 2016 (current term of office will expire on 2 July 2019); Vice-Chairman of the Board of Directors since 2 July 2016;

University education, 29 years of experience;

He is currently authorized to exercise the office of the company's Chief Operations Officer as well.

Mr. Krzysztof Zdziarski is Executive in Charge of Production and Maintenance, Energy, Environmental Protection and Waste Water Management of UNIPETROL RPA, s.r.o.

Career overview:
Over the preceding years he worked as Operations Manager at CAN-USA EMI in Canada (1995–1996), Chief Executive Officer at EMI Music /DDD sp. z o.o. – JV EMI, Sony, Universal (1996–1999), Chief Executive Officer at UPS POLSKA (1999–2006), Chairman of Management Board at PEKAES S.A. (2006–2010), Chairman of Management Board at ORLEN POŁUDNIE (2010–2015) and Executive director responsible for refinery production at Polski Koncern Naftowy ORLEN S.A. (2014–2016). He no longer holds any of these positions.

Education:
Management Leadership School – Boston, USA

Humber Colleague, Ryerson Polytechnic University – Toronto, Canada

The University of Warsaw – Faculty of Economic Sciences

ANDRZEJ JERZY KOZŁOWSKI

Born on 13 January 1975;

Member of the Board of Directors since 9 April 2013; re-elected to office with effect as of 9 April 2016 (current term of office will expire on 9 April 2019);

University education, 20 years of experience;

He is currently entrusted with responsibilities in the area of strategy; investments/divestments (M&A) and project management development; purchase and management of supply of crude oil and natural gas.

Mr. Andrzej Kozłowski is Executive in Charge of Strategy; Investments/Divestments (M&A) and Project Management Development; Purchase and Management of Supply of Crude Oil and Natural Gas of UNIPETROL RPA, s.r.o.

Since February 2009, Mr. Kozlowski has served as Executive Director for Strategy and Project Portfolio Management at PKN ORLEN. He is also a Chairman of the Supervisory Board of ORLEN Upstream Sp. z o.o. (since February 2010) and Member of the Board of Directors of ORLEN Upstream Canada Ltd. in Canada.

Career overview:
Prior to his current role, he worked as Director for Strategy, Project Management and Regulatory Relations at TP Emitel, Director at Prokom S.A., Manager in charge of strategic projects for the Board of Directors at Telekomunikacja Polska S.A., and consultant and project manager for Avantis Consulting Group in Poland and American Management Systems in Portugal, Germany and the USA.

Between 2009 and 2010, he was a Member of the Supervisory Board of AB ORLEN Lietuva.

Education:
Maastricht School of Management, MBA program

WSB National-Louis University, Bachelor's Program graduate

ROBERT DOMINIK MAŁŁEK

Born on 15 April 1969;

Member of the Board of Directors since 11 May 2016 (current term of office will expire on 11 May 2019);

University education, 18 years of experience;

He is currently entrusted with responsibilities in the area of sales and transport of fuels and products, retail and logistics.

Mr. Robert Małłek is Executive in Charge of Sales and Transport of Fuels and Products; Retail and Logistics of UNIPETROL RPA, s.r.o.

Career overview:
Over the preceding years he worked as Organizational Director at Niezależny Operator Międzystrefowy Sp. z o.o. (2001–2002), Chief Specialist at Municipal Office, Capital City of Warsaw (2002–2006) and Member of the Management Board of Stołeczne Przedsiębiorstwo Energetyki Cieplnej S.A. (2006-–2007). Between years 2007–2008 he served as Strategy Director and Member of the Management Board of SPOLANA a.s. (ORLEN Group). Later he held the position of Vice-president of the Management Board at STOMIL Poznań (2009–2012) and between years 2012–2016 he served as President of the Management Board at Grupa Hoteli WAM Sp. z o.o. He no longer holds any of these positions.

Education
Canadian International Management Institute accredited by Harvard Business School – Postgraduate studies

The University of Warsaw – Faculty of Law and Administration – Master's program

ŁUKASZ PIOTROWSKI

Born on 11 May 1978;

Member of the Board of Directors since 11 June 2014 (current term of office will expire on 11 June 2017);

University education, 13 years of experience;

He is currently entrusted with responsibilities in the area of research and development; investments projects; quality of production and process safety management and safety and health protection (including company's fire brigade).

Mr. Łukasz Piotrowski is Executive in Charge of Research and Development; Investments Projects; Quality of Production and Process Safety Management and Safety and Health Protection (including company's fire brigade) of UNIPETROL RPA, s.r.o.

Career overview:
Over the preceding years he held the position of Chief Operation Officer and Member of the Board of Directors at Axtone Sp. z o.o. (2009–2011), General Affairs Director and Member of the Board of Directors at ČESKÁ RAFINÉRSKÁ, a.s. (2011–2012), Production and Maintenance Director and Vice-Chairman of the Board of Directors at ČESKÁ RAFINÉRSKÁ, a.s. (2013–2014), Vice-Chairman of the Board of Directors and Chief Operations Officer at ČESKÁ RAFINÉRSKÁ, a.s. (2014). He no longer holds any of these positions.

Education:
Poznań University of Management and Banking – Logistics and Finance Management

Harvard Business School – Program Management, ICMI

Warsaw Polytechnic – Chemical and Process Engineering

Board of Directors – Changes in 2016 and in 2017 up to the Annual Report approval date

As of 1 January 2016, members of the Board of Directors were Messrs. Marek Świtajewski – Chairman, Piotr Wielowieyski – Vice-Chairman, Martin Durčák, Mirosław Kastelik, Andrzej Kozłowski, Łukasz Piotrowski – members.

The Supervisory Board at its meeting on 7 April 2016 re-elected Mr. Andrzej Kozłowski to office of Member of the Board of Directors with effect as of 9 April 2016.

The Supervisory Board at its meeting on 11 May 2016 recalled Mr. Piotr Wielowieyski from the office of Member of the Board of Directors with effect as of 11 May 2016. At the same meeting, the Supervisory Board elected Mr. Andrzej Modrzejewski with effect as of 12 May 2016 and Mr. Robert Małłek with effect as of 11 May 2016 to the office of Member of the Board of Directors.

The Supervisory Board at its meeting on 1 July 2016 recalled Mr. Marek Świtajewski from the office of Member of the Board of Directors with effect as of 1 July 2016. At the same meeting, the Supervisory Board elected Mr. Krzysztof Zdziarski with effect as of 2 July 2016 to the office of Member of the Board of Directors.

The Board of Directors at its meeting on 1 July 2016 elected Mr. Andrzej Modrzejewski to office of Chairman of the Board of Directors with effect as of 2 July 2016, Mr. Mirosław Kastelik to office of Vice-Chairman of the Board of Directors with effect as of 1 July 2016 and Mr. Krzysztof Zdziarski to office of Vice-Chairman of the Board of Directors with effect as of 2 July 2016.

The Supervisory Board at its meeting on 30 November 2016 discussed the resignation of Member of the Board of Directors, Mr. Martin Durčák and approved the termination date of his office as of 31 December 2016.

As of 31 December 2016, the Board of Directors included Messrs. Andrzej Modrzejewski – Chairman, Mirosław Kastelik – Vice-Chairman, Krzysztof Zdziarski – Vice-Chairman, Martin Durčák, Andrzej Kozłowski, Robert Małłek, Łukasz Piotrowski – members.

As of 1 January 2017, the Board of Directors included Messrs. Andrzej Modrzejewski – Chairman, Mirosław Kastelik – Vice-Chairman, Krzysztof Zdziarski – Vice-Chairman, Andrzej Kozłowski, Robert Małłek, Łukasz Piotrowski – members.

In 2017 up to the approval date of the Annual report, 13 March 2017, there was no change in the composition of the Board of Directors.

Supervisory Board

The Supervisory Board supervises the activities of the Board of Directors and activities of the company. It supervises the performance of the Board of Directors' competences and the running of the company's business. In accordance with the Articles of Association as in force as of 1 January 2017, the Supervisory Board had 9 members elected for a three-year term of office. The Supervisory Board elects from its ranks its Chairman and two Vice-Chairmen, each representing the Chairman of the Supervisory Board severally and fully in the execution of his competences.

Members of the Supervisory Board as of 13 March 2017

WOJCIECH JASIŃSKI

Born on 1 April 1948;

Member of the Supervisory Board (appointed as a substitute Member of Supervisory Board since 7 April 2016, elected as a Member of the Supervisory Board with effect as of 21 June 2016, current term of office will expire on 21 June 2019);

Chairman of the Supervisory Board (since 7 April 2016, re-elected to office of Chairman of the Supervisory Board on 21 June 2016);

University education, 44 years of professional experience;

Outside Unipetrol Group, Mr. Wojciech Jasiński is a Member and Chairman of the Management Board of PKN ORLEN S.A. since 16 December 2015.

Career overview:
In years 1972–1986 he worked in the branch of National Bank of Poland and in the Town Hall of city Płock. Between years 1990–1991 he organized the local government in Płockie Voivdeship, being the Delegate of the Government's Plenipotentiary for Local Government Reform. From 1992 to 1997 he worked in the Supreme Audit Office (NIK) in the position of director of NIK's Delegation Office in Warsaw, Finance and Budget Team, State Budget Department. In years 1997–2000 he was a Member and then the President of the Management Board of Srebrna company located in Warsaw. He was a Member of the Supervisory Board of Bank Ochrony Środowiska in years 1998–2000. In years 2000–2001 he held the position of Undersecretary of State in the Ministry of Justice. In years 2006–2007 he was the Minister of State Treasury. Since 2001 he was the Member of Polish Parliament where he performed the following function: the Chairman of Standing Subcommittee for the Banking System and Monetary Policy, Chairman of the Economy Committee, Chairman of the Public Finance Committee. He was also a member of the State Treasury Committee in the Parliament. Since 16 December 2015 he holds the office of the President of the Management Board of PKN ORLEN S.A.

Education:
University of Warsaw - Faculty of Law and Administration

SŁAWOMIR ROBERT JĘDRZEJCZYK

Born on 5 May 1969;

Member of the Supervisory Board (since 26 June 2008, re-elected to the office of a Member of the Supervisory Board with effect as of 1 July 2014, current term of office will expire on 1 July 2017);

Vice-Chairman of the Supervisory Board (since 11 December 2008, re-elected to office of the Vice-Chairman of the Supervisory Board with effect as of 3 July 2014);

University education, 23 years of professional experience;

Since 7 June 2008 he has been a Member of the Board of Directors of PKN ORLEN, and in September 2008 he was appointed a Vice-President of the Board of Directors and Chief Financial Officer of PKN ORLEN. Since 1 January 2014 he is a Member of the Board of Directors of ORLEN Upstream Canada Ltd. in Canada.

Career overview:
From 2005 to June 2008 he served as President of the Management Board and CEO of Emitel. Earlier he headed the Controlling Division at Telekomunikacja Polska S.A., he was a Member of the Management Board and CFO at Impexmetal S.A., and he also worked in the Audit and Business Advisory Department of Price Waterhouse.

Education:
British Certified Auditor title from the Association of Chartered Certified Accountants (ACCA)

Łódź University of Technology, specialization in Telecommunications

IVAN KOČÁRNÍK

Born on 29 November 1944;

Member of the Supervisory Board (since 22 June 2006, re-elected to office of a Member of the Supervisory Board with effect as of 25 June 2015, current term of office will expire on 25 June 2018)

Vice-Chairman of the Supervisory Board (since 6 October 2006, re-elected to office of the Vice-Chairman of the Supervisory Board with effect as of 16 September 2015);

University education, 48 years of professional experience;

Career overview:
He has been Chairman of the Supervisory Board at Impronta, a.s. (until 13 June 2003), Chairman of the Supervisory Board at Česká pojišťovna Slovensko, a.s. (until April 2008), Chairman of the Board of Trustees of Nadace VŠE, Chairman of the Supervisory Board of Česká pojišťovna a.s. (until January 2007), and Chairman of the Supervisory Board of ČESKÉ AEROLINIE, a.s. (until September 2009). He no longer holds any of these positions.

He held the office of the Deputy Prime Minister and the Minister of Finance (1992–1997), Deputy Minister of Finance of ČSFR (1990–1992). Before, he worked as Director of the research department of Federal Ministry of Finance (1985–1990), at the University of Economics in Prague (1975–1985) and in the Research Institute of Financial and Loan System (1966–1974).

Education:
University of Economics in Prague

ZDENĚK ČERNÝ

Born on 20 October 1953;

Member of the Supervisory Board (since 29 January 1999, re-elected to office of a Member of the Supervisory Board with effect as of 1 July 2016, current term of office will expire on 1 July 2019);

University education, 42 years of professional experience;

Career overview:
Outside Unipetrol Group he was Chairman of the Supervisory Board of Vykáň a.s. (until 30 June 2006) and Member of the Supervisory Board of Severomoravská energetika a.s., Ostrava (until 28 February 2007) over the preceding years.

Currently he holds the office of Chairman of the Trade Unions Association ECHO (Energy and Chemical industries). Before he held the post of Chairman of the Czech Trade Unions in Chemical Industry (1997–2004) where he also worked in various other positions from 1990 (the head of the Chairman's Office, executive secretary, head of legislative department). Between years 1975 and 1989 he worked in the railway transportation industry in various positions and departments.

Mr. Zdeněk Černý is a Member of the Supervisory Board of ČEZ, a.s. since 27 June 2014.

Education:
Institute of Law and Jurisprudence in Prague - MBA program with specialization in Commercial Law

Charles University in Prague - Faculty of Law

PIOTR ROBERT KEARNEY

Born on 4 October 1969;

Member of the Supervisory Board (since 8 June 2005, re-elected to the office of a Member of the Supervisory Board with effect as of 1 July 2014, current term of office will expire on 1 July 2017);

University education, 22 years of professional experience;

He currently works as Director of Mergers and Acquisitions Department in PKN ORLEN, and he is also a Member of Supervisory Board of ORLEN Upstream and a Member of Board of Directors of FX Energy, Inc.

Career overview:
He has been working in PKN ORLEN since 2000; he began at the post of Deputy Director for Capital Investments and later became Strategy and Development Executive Director. Before joining PKN ORLEN he worked for Nafta Polska S.A., first as an Adviser in the Financial Policy Department, subsequently at the post of Deputy Director for Restructuring and Privatization Department. He started his career in Rafineria Gdanska S.A. as Development Finance Manager (1995–1996).

Over the preceding years he was a Member of the Supervisory Board of ORLEN Deutschland GmbH (2003–2004), Rafineria Trzebinia S.A. (2003–2004), Inowrocławskie Kopalnie Soli Solino S.A. (2003 – 2004), Polkomtel S.A. (2008).

Education:
University of Gdansk - Faculty of Economics

KRYSTIAN PATER

Born on 16 December 1964;

Member of the Supervisory Board (since 28 June 2007, re-elected to office of a Member of the Supervisory Board with effect as of 1 July 2016, current term of office will expire on 1 July 2019);

University education, 28 years of professional experience;

Outside Unipetrol Group he is a Member of the Board of Directors responsible for Production of PKN ORLEN S.A. (2007 – present). Additionally, he is a Member of the Management Board of AB ORLEN Lietuva, Chairman of the Supervisory Board of ORLEN Południe S.A., and a Member of Management Board of EUROPIA and CONCAWE and Chairman of the Association of Oil Industry Workers in Płock.

Career overview:
Prior to his current role, he worked in PKN ORLEN S.A. as Executive Director responsible for Refining Production (2006–2007), chief engineer for technology (2003–2005) and supervisor of the production manager's office (1998–2002). Between years 1993 and 1998 he held the post of technologist in Petrochemia Płock S.A. Additionally; he was a Chairman of the Supervisory Board of ORLEN Asfalt Sp. z o.o. (2005–2007), ORLEN Eko Sp. z o.o. (2005–2007) and a Member of the Supervisory Board of Polyolefins Sp. z o.o. (2007–2008).

Education:
Warsaw School of Economics - Petroleum Sector Management and Enterprise Value Management

Pawel Wlodkowic University College in Płock - Management and Marketing

Warsaw University of Technology - post-graduate courses of Chemical Engineering and Equipment

Nicolaus Copernicus University in Torun - Faculty of Chemistry

ZBIGNIEW LESZCZYŃSKI

Born on 15 September 1977;

Substitute Member of the Supervisory Board (with effect as of 7 April 2016 till 21 June 2016);

Member of the Supervisory Board (elected to the office since 21 June 2016, current term of office will expire on 21 June 2019);

University education, 16 years of professional experience;

In PKN ORLEN S.A. he is responsible for refining and petrochemical product wholesale, retail sales, logistics as well as sales efficiency and development. Having worked for the ORLEN Group for almost a decade, he was responsible for the construction and development of the retail network at ORLEN Paliwa and for supporting and expanding the refining product wholesale business at PKN ORLEN. He also implemented many strategic projects.

On 8 February 2016, the Supervisory Board of PKN ORLEN S.A. appointed him to the Company's Management Board as its Member. Since 2 March 2016 he also serves as a Chairman of the Supervisory Board of ORLEN Deutschland GmbH and since 25 August 2016 he serves as a Chairman of the Supervisory Board of ORLEN Paliwa.

Career overview:
Previously Mr. Leszczyński served as President of the Management Board of Wodociągi i Kanalizacja w Opolu Sp. z o.o., President of the Management Board of Rynex Sp. z o.o., President of the Management Board of Wisła Płock S.A., and Sales and Marketing Director at Kompania Węglowa S.A. He also owned his own business providing project management, supervision and advisory services.

Education:
Kozminsky University - Project Management (postgraduate studies)

Nicolaus Copernicus University in Toruń - Computer Networks Design and Operation (postgraduate studies)

Warsaw School of Economics – EU Business Management (postgraduate studies)

Warsaw University - Faculty of Accounting and Finance

GRAŻYNA BAKA

Born on 18 August 1971;

Member of the Supervisory Board (elected to the office since 25 June 2016, current term of office will expire on 25 June 2019);

University education, 22 years of professional experience;

She currently works as an Executive HR Director in PKN ORLEN S.A. since January 2016.

Career overview:
In the preceding years (1994–2001) she worked as HR Director at RUCH S.A., previously served as Group Leader, Advisor to Board of Directors, Main Specialist and Specialist for training. Between years 2001–2002 she worked as Director of Human Resources at Pekaes S.A. (Group Pekaes) and as HR Director at Optimus Enterprise S.A., in bankruptcy (2002–2003). Between years 2003–2005 she served as HR Director at Fournier sp. z o.o. (currently Solvay Polska Sp. z o.o.). Between the years 2006–2009 she worked as Director of Department of HR policy and organization at CIECH S.A. (Chemical Group Ciech). She served as HR Director at CEZ Polska sp. z o.o. (ČEZ Group) in years 2009–2016.

Education:
Business College – postgraduate studies of Organization and Management, Psychology and HR Management

Business College – Organization and Management

Supervisory Board – Changes in 2016 and in 2017 up to the Annual Report approval date

As of 1 January 2016, the Members of the Supervisory Board were Messrs. Dariusz Jacek Krawiec – Chairman, Sławomir Robert Jędrzejczyk – Vice-Chairman, Ivan Kočárník – Vice-Chairman, and Piotr Robert Kearney, Krystian Pater, Zdeněk Černý, Bogdan Dzudzewicz, Piotr Chełmiński and Rafał Sekuła – members.

With effect as of 21 January 2016 Mr. Dariusz Jacek Krawiec's office of a Member of the Supervisory Board terminated due to his resignation from the office and with effect as of 11 March 2016 Mr. Rafał Sekuła's office of a Member of the Supervisory Board terminated due to his resignation from the office.

At its meeting held on 7 April 2016 the Supervisory Board appointed Mr. Wojciech Jasiński and Mr. Zbigniew Leszczyński to the office of substitute member of the Supervisory Board with effect as of 7 April 2016. The Supervisory Board also elected Mr. Wojciech Jasiński as a Chairman of the Supervisory Board.

The General Meeting of UNIPETROL, a.s. held on 21 June 2016 elected to the office of Members of the Supervisory Board Mr. Wojciech Jasiński and Mr. Zbigniew Leszczyński with effect as of 21 June 2016. With effect as of 25 June 2016 Mrs. Grażyna Baka was elected to the office of a Member of the Supervisory Board and with effect as of 1 July 2016 Mr. Krystian Pater and Mr. Zdeněk Černý were elected for another term of office.

As of 31 December 2016, the Members of the Supervisory Board were Wojciech Jasiński – Chairman, Sławomir Robert Jędrzejczyk – Vice-Chairman, Ivan Kočárník – Vice-Chairman, Members – Piotr Robert Kearney, Krystian Pater, Zdeněk Černý, Bogdan Dzudzewicz, Zbigniew Leszczyński and Grażyna Baka.

In 2017 up to the approval date of the Annual report, 13 March 2017, there were the following changes in the Supervisory Board – Mr. Bogdan Dzudzewicz resigned from the office of a Member of the Supervisory Board and his office terminated with effect from 18 January 2017.

Managers (persons with management powers)

"Managers" mean persons in executive management positions who substantially influence the company's actions. As far as UNIPETROL, a.s. is concerned, managers are the persons in the positions of Chief Executive Officer, Chief Financial Officer, and Chief Operations Officer.

Managers as of 13 March 2017

Chief Executive Officer

Andrzej Mikołaj Modrzejewski	since 21 July 2016

Chief Financial Officer

Mirosław Kastelik	since 6 February 2013

Chief Operations Officer

Krzysztof Zdziarski	since 21 July 2016

Statement of Compliance

The members of the Board of Directors, Supervisory Board, and management (the "Persons") listed below:

Andrzej Mikołaj Modrzejewski, Mirosław Kastelik, Krzysztof Zdziarski, Andrzej Jerzy Kozłowski, Robert Małłek, Łukasz Piotrowski, Wojciech Jasiński, Sławomir Robert Jędrzejczyk, Ivan Kočárník, Zdeněk Černý, Piotr Robert Kearney, Grażyna Baka, Krystian Pater and Zbigniew Leszczyński have each submitted an individual "Statement of Compliance" to UNIPETROL, a.s., wherein they have stated that they:

"a) Have not been a member of any administrative, governing, or supervisory body or a member or partner of any other company or general or limited partnership other than UNIPETROL, a.s. or a related party thereof over the five preceding years;

b) Are not a member of any administrative, governing, or supervisory body or a member or partner of any other company or general or limited partnership other than UNIPETROL, a.s. or a related party thereof;

c) Have not been convicted of offences involving fraud over the five preceding years;

d) Have not been associated with any bankruptcy/receivership proceedings, administration or liquidation over the five preceding years;

e) Have not been disciplined in any manner whatsoever by any governing bodies or regulatory authorities (including designated professional bodies);

f) Have not been deprived of the capacity to hold the office of a member of any administrative, governing or supervisory body of any issuer, or a position in the management of, or execution of the activities, of any issuer by any court over the five preceding years;

g) Do not have any potential conflict of interest between their obligations related to their offices, their private interests, and/or other obligations, and UNIPETROL, a.s.; and

h) Have not entered into any agreement on the holding of an office/position with UNIPETROL, a.s. or a related party thereof, granting them any benefit in connection with the end of their office/position."

They also noted, if applicable, exceptions from the items of the above Statement in cases where any of the above circumstances exist in respect of their own person. The exceptions from items (a) and (b) submitted by the Persons are specified in sub-chapters "Board of Directors", "Supervisory Board", and "Management"; in this chapter, these are specified separately for each Person in the wording submitted in that Person's Statement. No exceptions were noted in respect of items (c) to (h). The Persons holding the offices of a CEO, CFO, Chief Operations Officer, and members of the Board of Directors, at UNIPETROL, a.s. and the Persons exercising the office of an Executive in subsidiaries have agreement of exercise of the office in place with the respective companies, wherein benefits related to the end of their office are accorded to them in accordance with the rules of remuneration specified in the sub-chapter "Emoluments".

Audit Committee

Based on the Act No. 93/2009 on Auditors (the "the Act on Auditors"), the extraordinary general meeting of UNIPETROL, a.s. held on 10 December 2009 decided to amend the Company's Articles of Association to establish the Audit Committee and describe its remit, composition, and procedural rules.

In accordance with the general binding regulations applicable at the date of publication of this report, the Audit Committee is the company's body that performs, in particular but without limitation, the activities listed below without prejudice to the responsibility of the members of the company's Board of Directors or Supervisory Board:

a) monitors the effectiveness of internal control, risk management system;

b) monitors the effectiveness of internal audit and ensures its functional independence, when the internal audit function is established;

c) monitors the procedure of the preparation of financial statements and consolidated financial statements and submits recommendations to the management or supervisory body to ensure the integrity of accounting and financial reporting systems;

d) recommends the statutory auditor to the Supervisory Board with proper justification;

e) assesses the statutory auditor's and audit company's independence and the provision of non-audit services provided by the statutory auditor and audit company;

f) discusses with the auditor the risks threatening its independence and the protective measures that have been taken by theauditor in order to mitigate these risks;

g) monitors the process of the mandatory audit, while using the summary report on the quality assurance system;

h) comments on the termination of the obligation coming from the agreement on the mandatory audit or on the withdraw from the agreement on the mandatory audit according § 17a par. 1, Acts on Auditors;

i) assesses whether the audit engagement is subject to a quality control review of audit engagements by another statutory auditor performing the audit under its own name and on its own account or on the account of the audit company under the art. 4, par. 3, first subparagraph of the European Parliament and Council Regulation (EU) No. 537/2014 (hereinafter "**Regulation 537/2014**");

j) informs the Supervisory Board about the results of the mandatory audit and about the findings regarding the monitoring process of the mandatory audit;

k) informs the Supervisory Board how the mandatory audit contributed to ensure the integrity of the accounting and financial reporting systems;

l) decides on the continuation of the execution of the mandatory audit in accordance with the art. 4, par. 3, second subparagraph of the Regulation 537/2014;

m) approves the provision of other non-audit services;

n) approves the report on the tender process in the tender process in accordance with the art. 16 of the Regulation 537/2014; and

o) exercises other powers in accordance with Act on Auditors or a directly applicable EU regulation governing the specific requirements for the mandatory audit.

The company's auditor shall inform the Audit Committee on an ongoing basis about significant circumstances arising from the mandatory audit, especially on any fundamental shortcomings in internal controls in relation to the procedure of the preparation of financial statements or consolidated financial statements. The Audit Committee members participate in the company's general meetings and are obligated to inform the general meeting about the results of their work.

The Audit Committee has three members, appointed and dismissed by the general meeting from the ranks of the Supervisory Board members or third parties. The Audit Committee members may not hold the positions of Members of the Board of Directors or Proxies of the company. Most members of the Audit Committee must be independent and must be professionally qualified. The Chairman of the Audit Committee must be independent. Professionally qualified means a person who has for at least two (2) years (i) held an executive position in the entity that operates in the same industry as the Company, or (ii) has been responsible for the performance of a risk management, evaluation of the compliance of the activities the law, internal audit or the actuarial function, or other similar functions. At least one member of the Audit Committee must be a person who is or has been the statutory auditor or a person whose knowledge or previous experience in accounting ensures a proper performance of duties of a member of the Audit Committee, with regard to the industry in which the Company operates; this member must be always independent. The term of office of each member of the Audit Committee is three years. Re-election of members of the Audit Committee is allowed.

Audit Committee members shall refrain from voting on any issues that threaten or involve a conflict of interests on their part and shall notify the other members of the Audit Committee of such conflicts of interest without any undue delay. This does not prejudice the right of the Audit Committee member on whose part a conflict of interests threatens or exists to participate in the deliberations on the issue as per the preceding sentence. The Audit Committee shall take decisions at its meetings. The Audit Committee shall meet once every two months as a rule.

The Audit Committee members

IAIN HAGGIS

Born on 9 December 1961;

Independent Member of the Audit Committee (since 10 December 2009, re-appointed to office of member of the Audit Committee with effect as of 25 June 2016, current term of office will expire on 25 June 2019) and Chairman of the Audit Committee (since 20 July 2016);

University education, 31 years of experience;

Outside Unipetrol Group he is currently the director responsible for reporting and impact measuring in the company Valores Fund and he is also a consultant specialized in CSR/ESG area for corporations and funds. Since 1988 he has been a member of the Chartered Institute of Management Accounting (CIMA). Since 2016 he serves as Financial Officer and a Member of the Board of Directors at CENTRAL EUROPE INDUSTRY PARTNERS, a.s. He was in charge of financial statements and annual audit at Innova Capital (from 2007). He worked as the corporate finance director at TP Group (2005–2007), and before that as the COO and Executive Director at Radio Plus S.A. (2002–2005).

Career overview:
Between years 1999 and 2002 he held the post of the Finance Director at De Lage Landen Leasing Polska (the leasing and vendor finance subsidiary of Rabobank), Finance and Administration Director responsible for the audit process of the National Investment Fund at PTP Kleinwort Benson (1994–1999), Financial Director at GVG GmbH, Germany (1991–1994), Regional Financial Controller at Halifax Property Services, UK (1989–1991), Management Accountant and Assistant Financial Manager at Reuters Ltd (1984–1989).

Education:
Plymouth Polytechnics (BSc.) - Great Britain

RAFAŁ WARPECHOWSKI

Born on 20 September 1971;

Member of the Audit Committee (since 24 June 2013, re-appointed to office of member of the Audit Committee with effect as of 25 June 2016) and Vice-Chairman of the Audit Committee (since 20 July 2016);

University education, 21 years of experience;

Mr. Rafał Warpechowski has been the Executive Director for Planning and Reporting in the PKN ORLEN Group since 2008. He is a Member of the Supervisory Board of ORLEN Paliwa Sp z o.o. and a Chairman of the Supervisory Board of ORLEN Centrum Usług Korporacyjnych Sp. z o.o.

Career overview:
Between years 2003–2008 he held the post of the Accounting and Financial Reporting Division Director at Telekomunikacja Polska Group, between years 1998–2003 he held the post of the Group Reporting Manager at Impexmetal Group and since 2001 he held the position of Financial Director – Group Planning and Reporting.

In years 1996–1998 he worked at Pricewaterhouse and PricewaterhouseCoopers in Audit and Business Advisory Services.

Education:
ACCA qualification

Warsaw University of Technology Business School and London Business School – MBA program

Warsaw University of Technology - Civil Engineering Department

STANISŁAW WACŁAW URBAN

Born on 26 April 1951;

Independent Member of the Audit Committee (appointed to office of member of the Audit Committee on 2 June 2015);

University education, 42 years of experience;

Stanisław Wacław Urban worked as Financial Officer of IMS Polska Sp. z o.o. between years 2011-2013.

Career overview:
In years 2010–2011 he worked as a President/Liquidator in Europower Sp. z o.o. and in years 2009–2010 he worked as a consultant in Pareto Management Solutions Sp. z o.o.

In 2001 he started to work as a Corporate Controller in Telekomunikacja Polska S.A. In the following years he worked for Telekomunikacja Polska S.A. as a Director of Accounting and Financial Reporting and Deputy Chief Financial Officer.

In years 1989–1991 he worked for Howington Northern as a Controller & Treasurer and in years 1974–1989 he worked as Office Managing Director/Auditor for Coopers & Lybrand.

Education:
Walsh College, Troy, Michigan – Master's program – taxes

Wayne National University, Detroit, Michigan – MBA – accounting

University of Michigan, Ann Arbor, Michigan – Bc., Soviet and East European Studies

Election rules

The Board of Directors has 7 members. Under the Company's Articles of Association, Members of the Board of Directors are elected and dismissed by the company's Supervisory Board. If a Member of the Board of Directors dies, resigns, is dismissed or his term of office ends otherwise, the Supervisory Board shall elect a new member of the Board of Directors within two (2) months of the day when such a circumstance occurred. Any Member of the Supervisory Board is entitled to propose the election or dismissal of Members of the Board of Directors. The election/dismissal of Members of the Board of Directors shall take place by means of a secret ballot during a Supervisory Board meeting; per rollam vote outside the meeting is not possible in this case. Re-election of Members of the Board of Directors is allowed.

The Supervisory Board has 9 members who are elected and recalled by the General Meeting. If the number of Supervisory Board members has not decreased to less than half, the Supervisory Board may appoint substitute members until the next General Meeting. The period of office of a substitute member of the Supervisory Board is not accounted for in the term of office of a Member of Supervisory Board. The re-election of Supervisory Board members is possible.

The Audit Committee has 3 members. The Audit Committee members are, in accordance with the Company's Articles of Association, appointed and dismissed by the General Meeting. Audit Committee members shall not be members of the Board of Directors or proxies. The term of office of each member of the Audit Committee shall be three (3) years. If the number Audit Committee members has not decreased lo less than half, the Supervisory Board may appoint substitute members of Audit Committee until the next General Meeting. Re-appointment of an Audit Committee member is possible.

Emoluments

Principles of remuneration of managers and members of the Board of Directors and Supervisory Board

The setting of the emoluments for the Board of Directors and Supervisory Board members falls within the competencies of the general meeting. The general meeting decided on a fixed amount of emoluments for an indefinite period of time, differentiated for the Chairman, Vice-Chairman, and Members of both the Board of Directors and the Supervisory Board, in 2001.

During 2013 (on 24 June 2013), on the basis of a general meeting there was a change in remuneration policy of members of the Supervisory Board and their amounts of emoluments were raised.

Principles of remuneration of managers

The managers' remuneration consists of a fixed and a variable component related to each particular position and management level. Remuneration is paid in the form of wages for work performed under management contracts. The level of wages is based on qualified benchmarking studies on managers' remuneration in the Czech Republic, and reflects managerial and professional expertise. The variable component amounts to approximately 60% of the base monthly wages and is paid in accordance with the MBO objectives.

The entitlements arising from the contracts with managers upon the termination of employment contained both a competition and a stabilization clause as of 31 December 2016. The competition and stabilization clause ranges between three and six times average monthly earnings, monthly base salary respectively.

In addition to financial income, managers are entitled to income in kind, which includes:

- right to use a company car for private purposes;
- accommodation costs, any costs associated with relocation;
- air tickets expenditures according to contracts;
- healthcare.

MBO system – Principles of remuneration of managers (N, N-1, N-2)

The management by objective and remuneration system was implemented all the way to level N-2 in 2016, involving approximately 200 employees.

For the employees and managers evaluated under the MBO, the variable component of wages is set based on the tier of their position in the company and it is around 45 – 60 per cent. The variable component depends on the meeting of qualitative and quantitative targets and the achievement of the Group's planned financial results. For setting of individual objectives, the so-called Cascading system applies.

The quantitative targets include mainly operating profit, investments, fixed costs and safety parameters.

The qualitative targets mainly relate to managerial efficiency, which is one of the mandatory targets of all managers.

An MBO Committee was appointed by the CEO for addressing specific cases or employees' complaints related to the MBO system; its members are the company's CFO and HR director.

The specific qualitative and quantitative targets for the employees are set by their direct superiors. The direct superiors also evaluate the meeting of the targets for the relevant period. For the employees who are members of the Board of Directors, targets are set and evaluations done by the Supervisory Board.

The HR and Corporate Governance Committee

The duties of the HR and Corporate Governance Committee include support for the implementation of the company's strategic goals via the Committee's opinions and recommendations presented to the Supervisory Board on matters concerning the structure of management, including organizational arrangements, the remuneration system, and the selection of suitable persons capable of assisting the company in achieving success. The remit of the Committee includes, without limitation:

a) submission of recommendations concerning the appointment and dismissal of the Board of Directors members to the Supervisory Board;

b) regular assessment of, and submission of recommendations concerning the principles and system of remuneration for the Board of Directors members and the Chief Executive Officer, including management contracts and a system of incentives, and submission of proposals concerning the creation of such systems with regard to the implementation of the company's strategic goals;

c) submission of opinions to the Supervisory Board on the justification of the part of remuneration which depends on the results achieved, in connection with the evaluation of the degree to which the company's tasks and objectives have been carried out;

d) assessment of the HR management system in the company;

e) recommendation of candidates for the office of the company's Chief Executive Officer;

f) informing the Supervisory Board about all circumstances pertaining to the Committee's activities;

g) evaluation of implementation of the corporate governance principles;

h) submission of recommendations to the Supervisory Board concerning implementation of the corporate governance principles;

i) opinions in regard of normative documents concerning corporate governance;

j) if required, evaluation of reports concerning the compliance of the corporate governance rules with the corporate governance rules established by the Prague Stock Exchange or the Czech National Bank, if such rules exist;

k) presentation of opinions concerning the proposed changes of the company's corporate documents and preparation of proposals of amendments in case of the Supervisory Board documents;

l) monitoring of the corporate governance from the point of view of its compliance with legal requirements, including the valid corporate governance rules;

m) informing the Supervisory Board about any facts related to the activities of the Corporate Governance Committee.

Committee Members

Chairman	Krystian Pater	Member since 24 September 2010 Chairman since 2 December 2010 – until now
Vice-Chairman	Bogdan Dzudzewicz	Member since 24 September 2010 – until 18 January 2017 Vice-Chairman since 2 December 2010 – until 18 January 2017
Member	Zdeněk Černý	Member since 24 September 2010 – until now
Member	Rafał Sekuła	Member since 24 September 2010 – until 11 March 2016
Member	Grażyna Baka	Member since 25 July 2016 – until now

Amount of payments provided by the issuer in the last accounting period from 1 January 2016 to 31 December 2016

	Income in money	Income in kind	Total
Board of Directors – income tied to membership in the company's statutory body	CZK 43,929 ths	CZK 869 ths	CZK 44,798 ths
Supervisory Board – income tied to membership in the company's statutory body	CZK 7,173 ths	CZK 0 ths	CZK 7,173 ths
Audit Committee – income tied to membership in the company's statutory body	CZK 888 ths	CZK 0 ths	CZK 888 ths

Amounts paid by persons controlled by the issuer for the last accounting period

	Income in money	Income in kind	Total
Board of Directors – income tied to membership in the company's statutory body	CZK 1,013 ths	CZK 0 ths	CZK 1,013 ths
Supervisory Board – income tied to membership in the company's statutory body	CZK 247 ths	CZK 0 ths	CZK 247 ths

Members of the Board of Directors and Supervisory Board and Managers (persons with management powers) do not hold the issuer's participation securities or options under Section 118 of Capital Market Business Act No. 256/2004 and Article 10 of Commission Regulation (EC) No 809/2004.

The issuer has provided no credit, loans, or guarantees to governing bodies or members thereof, members of supervisory bodies, or managers (persons with management powers).

The members of the issuer's governing and supervisory bodies and managers (persons with management powers) were not involved in transactions outside of the issuer's scope of business or in other transactions unusual for the issuer in terms of their form, nature, terms and conditions, or subject matter during the current and latest completed accounting periods or in the previous accounting periods.

refinery

Milan Tomeček

The refinery is at the heart of our production processes. This is where it all begins. Milan Tomeček is the refinery maintenance manager. It is his job to ensure that all processes in the refineries run smoothly. Such work requires responsibility. It is thanks to people like Milan that the company maintains its operational excellence at the highest level.

Management report

Introduction

The general macroeconomic situation was overall supportive in 2016. The GDP in the Czech Republic as well as in the Eurozone grew but at a moderate pace compared with 2015. Looking at the downstream macro environment, the trend of high levels, especially of petrochemical margins, continued. The refining margins decreased when compared to the previous year but still remained at solid levels. This supportive environment was mainly due to a further drop in crude oil prices with the average price of Brent crude oil at the level of 44 USD/bbl in 2016, which is lower by 16% compared with 2015. Unipetrol's average model refining margin decreased to 3.1 USD/bbl in 2016 from 5.2 USD/bbl in 2015. The model combined petrochemical margins reached record high levels again, with an average of 842 EUR/t. A decrease of the margins was observed in the last quarter of 2016 stemming from the OPEC's deal on crude oil production cuts, which drove the crude oil price over 50 USD/bbl. The Brent-Ural differential, at an average level of 2.5 USD/bbl, was also higher in comparison with the 2015 levels.

From the production point of view, there were three events which considerably influenced the utilization of production units. The first one was the ongoing shutdown of the steam cracker unit at the Litvínov plant due to the reconstruction after the accident at the unit from August 2015. As a result the polymer units were operated only to limited extent, with the PE2 unit shutdown completely for the period. The second event was an extraordinary event at the fluid catalytic cracking (FCC) unit at the Kralupy refinery which required a shutdown of the whole refinery and therefore suspension of the crude oil processing in Kralupy nad Vltavou. Both units were restarted in October 2016, reaching the standard level of utilization. Last but not least, there was a scheduled complete turnaround of the Litvínov chemical complex executed successfully in March and April. All of the above mentioned events contributed to a substantially lower refining capacity utilization at the level of 62%.

From the financial perspective, Unipetrol Group achieved revenues of CZK 88 bn in 2016, which is lower by 19% compared with 2015, due to lower crude oil prices as well as much lower sales volumes of petrochemical products as a consequence of the non-operating steam cracker till October 2016. On the other hand, sales volumes of refining products increased in 2016 due to the sale of the products under normal circumstances processed at the steam cracker unit as well as the increase in the trading activities of fuels, which replaced the sale of the actual production during the period of the Kralupy refinery shutdown.

Although the operating profit increased to CZK 12 bn based on EBITDA LIFO in 2016, breaking the record high result of 2015 by almost CZK 1.2 bn, several important extraordinary factors influenced it. The main contributor to the result was the income in the amount of CZK 7.9 bn coming from insurers for the property damage and business interruption due to the steam cracker accident and consequent shutdown. The other one-off contributor was the reversal of impairment allowance of downstream segment assets worth CZK 1.9 bn based on the results of analysis performed at the end of 2016. The remaining CZK 2.2 bn resulted from standard operations with another increase in positive results of the retail segment.

Looking at each segment separately, the downstream segment results with EBITDA LIFO at the level of CZK 11 bn were mainly driven by the payments from insurers and reversal of impairment allowance of assets. Although the downstream segment macro environment was very positive with record high petrochemical margins, given the situation at production facilities the company was able to utilize these positive conditions only to limited extent.

The retail segment recorded great results and overall it achieved an operating profit close to CZK 1 bn based on EBITDA LIFO. The higher sales of fuels at filling stations, including the increased share of the premium fuels with higher added value, combined with the decrease in the prices of all types of the fuels sold, business strategy, marketing support and operating cost savings with the improved competitiveness of the market environment, expansion of the Stop Cafe concept and favorable macroeconomic factors positively influencing the demand for both gasoline and diesel were the main factors behind the very good financial results.

The net profit reached CZK 8 bn in 2016, which means another improvement from the previous year, however, bearing in mind the extraordinary items. Looking at the cash flow, the operating cash flow decreased to the level of CZK 8 bn, which was caused by the limited production and sales, and the free cash flow was negative at the level of CZK 1.8 bn due to the intensive capital expenditures caused by the steam cracker and FCC unit reconstruction and construction of the new polyethylene unit PE3 in the Litvínov production plant. Total CAPEX reached the level of CZK 10.8 bn, out of which the amount of CZK 10.2 bn was allocated to the downstream segment, CZK 0.5 bn to the retail segment, and the remaining part was dedicated to the corporate functions segment. At the same time Unipetrol Group kept its financial gearing ratio at the negative level of (-) 6.6%, corresponding to the net cash position at the level of CZK 2.8 bn at the end of 2016. The stable financial situation allowed the company after the several years to declare a dividend to its shareholders in the amount of CZK 1 bn, which was approved at the General Meeting in June.

The Group experienced a very challenging year, in which it coped with the major unplanned shutdowns and successfully resumed their operations in October. In March and April the turnaround of the whole chemical complex in Litvínov was executed with more than 70 investment projects implemented during the turnaround period. The construction of the new polyethylene unit (PE3) started in June with the expected launch of production in the second half of 2018. Also in June, Unipetrol Group acquired Spolana from Anwil Group. Spolana is a chemical company located in the Czech Republic whose main business is manufacturing and sale of chemical products such as PVC, caprolactam, fertilizers, inorganic compounds and other chemicals. The takeover of Spolana allows the Group to be more flexible and resilient in terms of production optimization, production and sales of ethylene, and it also allows a better coordination and integration of the value chain.

Among other achievements, a new contract with MERO ČR was signed, securing the crude oil transportation to the Czech Republic and new long-term contracts for REBCO crude oil deliveries were concluded between Unipetrol RPA and PKN ORLEN, ensuring stable crude oil supplies for the upcoming years. Benzina continued taking over the filling stations which were acquired based on the agreement signed with OMV. By the end of the year, 20 filling stations were already included in the Benzina network with continuation of the project in 2017.

Unipetrol Group completed the major consolidation of its structure which started already in 2015. By the beginning of 2017 companies Polymer Institute Brno (PIB), Benzina, Unipetrol Services, Unipetrol Rafinérie, Chemopetrol and Česká rafinérská had been merged with Unipetrol RPA, creating the integrated operational core of Unipetrol Group. The consolidated structure helps to simplify administrative procedures and to streamline internal processes while increasing competitiveness and operational excellence of the whole Unipetrol Group.

Key financial and non-financial data

Key financial data

in CZK million	2015	2016
Revenues	108,907	87,813
Gross profit	12,763	4,587
EBITDA LIFO[1,2]	10,879	12,037
EBITDA[1]	10,643	11,928
EBIT LIFO[1,3]	8,952	10,006
EBIT[1]	8,716	9,897
Downstream segment		
EBITDA LIFO	10,166	11,135
EBITDA	9,930	11,026
EBIT LIFO	8,598	9,473
EBIT	8,362	9,364
Retail segment		
EBITDA LIFO	829	957
EBITDA	829	957
EBIT LIFO	501	639
EBIT	501	639
Corporate functions		
EBITDA	(116)	(55)
EBIT	(147)	(106)
Net finance income / costs	(47)	131
Profit/loss before tax	8,669	10,028
Tax expense	(1,633)	(2,053)
Net profit	7,036	7,975
Earnings per share (CZK)	38.80	43.98
Operating cash flow	14,931	7,996
Free cash flow[1]	8,591	(1,793)
CAPEX[1]	3,344	10,788
Net working capital[1]	5,941	6,916
Net debt / net cash[1]	(5,857)	(2,757)
Net debt / (equity – hedging reserve)[1]	(16.7%)	(6.6%)
Net debt / EBITDA[1]	(0.5)	(0.3)

[1] See definitions on the page 67-68.

[2] EBITDA LIFO = Downstream segment EBITDA LIFO + Retail segment EBITDA LIFO + Corporate functions EBITDA

[3] EBIT LIFO = Downstream segment EBIT LIFO + Retail segment EBIT LIFO + Corporate functions EBIT

External environment

	2015	2016
Brent crude price, USD/bbl	53	44
Brent-Ural differential, USD/bbl	1.8	2.5
Unipetrol model refining margin, USD/bbl[1]	5.2	3.1
Unipetrol model petrochemical olefin margin, EUR/t[2]	351	338
Unipetrol model petrochemical polyolefin margin, EUR/t[3]	464	505
Unipetrol model combined petrochemical margin, EUR/t[4]	816	842

[1] Unipetrol model refining margin = revenues from products sold (96% products = gasoline 17%, naphtha 20%, JET 2%, diesel 40%, sulfur fuel oils 9%, LPG 3%, other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations.

[2] Unipetrol model petrochemical olefin margin = revenues from products sold (100% products = 40% ethylene + 20% propylene + 20% benzene + 20% naphtha) minus costs (100% naphtha); products prices according to quotations.

[3] Unipetrol model petrochemical polyolefin margin = revenues from products sold (100% products = 60% HDPE + 40% polypropylene) minus costs (100% input = 60% ethylene + 40% propylene); products prices according to quotations.

[4] Unipetrol model combined petrochemical margin = Unipetrol model petrochemical olefin margin + Unipetrol model petrochemical polyolefin margin

Key operating data (in thousand tons)

	2015	2016
Crude oil throughput	6,495	5,422
Refining utilization ratio[1]	84%	62%
Refining segment sales volumes, including retail segment (Benzina network)	5,800	6,280
Petrochemical segment sales volumes	1,445	1,069

[1] Conversion capacity of Unipetrol's refineries = Conversion capacity till 1Q2015 was 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y). In 2Q2015 conversion capacity increased to 7.8 mt/y driven by operation of Eni's 32.445% stake in Česká rafinérská from May. From 3Q2015 conversion capacity is 100% of Česká rafinérská, i.e. 8.7 mt/y (Česká rafinérská – Kralupy 3.206 mt/y, Česká rafinérská – Litvínov 5.492 mt/y).

Downstream segment

Financial result of the downstream segment

in CZK million	2015	2016
EBITDA LIFO	10,166	11,135
EBITDA	9,930	11,026
EBIT LIFO	8,598	9,473
EBIT	8,362	9,364

Key highlights of 2016

- New contract signed with MERO ČR securing the transportation of crude oil to the Czech Republic
- Commencement of construction of a new polyethylene unit (PE3) in Litvínov
- New contracts signed for REBCO crude oil deliveries ensuring the stable crude oil supplies for the upcoming years
- Acquisition of 100% share capital of Spolana securing stable offtake of ethylene
- Extraordinary event at FCC unit at Kralupy refinery in May halted the crude oil processing in the refinery till October
- Resuming of the steam cracker unit and Kralupy refinery operations in October
- Paramo nominated to the program Business Super-brands 2017 by Czech Superbrands organization

External environment

Refining business

External environment of the refining business

	2015	2016
Brent crude price, USD/bbl	53	44
Brent-Ural differential, USD/bbl	1.8	2.5
Unipetrol model refining margin, USD/bbl[1]	5.2	3.1

[1] Unipetrol model refining margin = revenues from products sold (96% products = gasoline 17%, naphtha 20%, JET 2%, diesel 40%, sulfur fuel oils 9%, LPG 3%, other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations.

Crude oil, gasoline and diesel prices

The year 2016 was a year with the lowest level of crude oil price with the average price level of Brent crude at 44 USD per barrel, which was the cheapest since 2004. At the same time, the crude oil price was very volatile; it was traded within a range from 26 USD per barrel to 55 USD per barrel. The slowing Chinese economy, warm winter between years 2015 and 2016, and ongoing high oil drilling activity were the key reasons which pushed the oil prices down. Low levels of crude oil prices particularly in the first half of the first quarter led the main producers (Russia, OPEC – especially Saudi Arabia, Venezuela) to the intention of crude oil production cuts, which was the beginning of the recovery and turn in crude oil prices. Good macroeconomic data from the US, fires in Canada, and limited production in Nigeria due to terrorism affected the Brent crude oil price return to the levels of 40 – 50 USD per barrel. The reaching of an agreement between OPEC members on crude oil production cuts at the end of November and subsequent accession of Russia was the key force which raised the crude price over 55 USD per barrel at the end of 2016.

Gasoline was traded at relatively lower levels compared with the previous years. The annual average crack spread (i.e. the price quotation difference between gasoline and Brent crude oil) reached the level of 136 USD per ton, the lowest level in the last six years. The seasonal evolution of the gasoline crack spread was highly atypical – it was relatively weak during the main driving season, but on the other hand it was relatively strong from the end of the third quarter till the end of the year.

Diesel was traded at very low levels in 2016 due to the warm winter between years 2015 and 2016, and a significantly lower demand for middle distillates and surplus of crude oil and crude oil distillates on the global markets. The annual average crack spread (i.e. the price quotation difference between diesel and Brent crude oil) reached the level of 66 USD per ton, which is the lowest level since 2004. The growth of crack spread levels to the reasonable levels began only in the fourth quarter of the year and was driven by the upcoming winter. The fuel price levels, especially the middle distillates, were also affected by the increasing imports to Europe, where export refineries primarily in the Middle East diverted part of their exports from Asia into Europe due to the lower demand growth in Asia and high utilization of local refining capacities.

Refining margins

The refining margins significantly decreased in 2016 compared with 2015 as a result of worldwide high refining capacity utilization, which exceeded the growing demand. The utilization of the European refineries decreased compared with 2015 because of higher imports; however, it was still significantly higher compared with 2014. The European refineries benefited mainly from the growth of gasoline consumption in the US. Although the year 2016 was a relatively good year, the structural weakness of the European refining sector persists.

Unipetrol's model refining margin reached the average level of 3.1 USD per barrel in 2016, which represents a decrease by 2.1 USD per barrel compared with 2015 from the level of 5.2 USD per barrel. The average price differential between Brent crude oil and Russian Ural crude oil, the Brent-Ural differential, was equal to 2.5 USD per barrel.

Petrochemical business

External environment of the petrochemical business

	2015	2016
Unipetrol model petrochemical olefin margin, EUR/t[1]	351	338
Unipetrol model petrochemical polyolefin margin, EUR/t[2]	464	505
Unipetrol model combined petrochemical margin, EUR/t[3]	816	842

[1] Unipetrol model petrochemical olefin margin = revenues from products sold (100% products = 40% ethylene + 20% propylene + 20% benzene + 20% naphtha) minus costs (100% naphtha); products prices according to quotations.

[2] Unipetrol model petrochemical polyolefin margin = revenues from products sold (100% products = 60% HDPE + 40% polypropylene) minus costs (100% input = 60% ethylene + 40% propylene); products prices according to quotations.

[3] Unipetrol model combined petrochemical margin = Unipetrol model petrochemical olefin margin + Unipetrol model petrochemical polyolefin margin.

Olefins and chemicals

In 2016 the trend of low feedstock prices and of high petrochemical margins continued. The crude oil market started in the same position in which it finished the previous year – a high level of reserves and a large excess of supply. The excess increased after the sanctions against Iran were lifted by the US, the EU and the UN, which lead to additional millions of barrels of crude oil on the market. Moreover, the 40-year ban on crude oil export from the US was lifted, which played a role as well. It allowed the US oil companies to find new markets. OPEC's position was also a key factor for the market – the organization refused to limit oil production until nearly the end of the year and thus contributed in a significant way to ensuring that the level of oil production was higher in comparison with the previous year. The average prices of crude oil and virgin naphtha were at the lowest level in the last twelve years. This situation allowed the operators of petrochemical units to continue production with very high margins, which was not affected even by a year-on-year decrease in the prices of most petrochemical products. The low prices of virgin naphtha caused a decrease in the difference between the level of ethylene production costs and ethylene derivatives in Europe and the US, which helped to increase the competitiveness of European markets on the global market. European producers were also supported by the strengthening of the dollar in relation to the euro. The petrochemical margins decreased at the end of the year because of the rise in the crude oil prices caused by OPEC's decision in November to decrease crude oil production. The agreement among the OPEC members on the decrease in production by 1.2 million barrels daily was followed by an agreement of 11 countries outside OPEC, which decreased the daily production by 558,000 barrels of crude oil. After these steps, the price of Brent crude oil was above the level of USD 50 per barrel at the end of 2016.

The monomer prices kept decreasing, which had started in the middle of 2015. Considering the different situations on the ethylene and propylene markets, the spread between both monomers kept increasing, and in the middle of the year it reached the level of EUR 280 per ton. The ethylene market was balanced for the most part of the year, whereas the propylene market had to deal with an excess of supply. The reason behind the difference was a different level of demand from non-polymer sectors; the level of demand from polymer producers was very good in both cases. From the second quarter, the situation started to improve on the polypropylene market as well. The derivatives producers benefited from the low propylene prices in Europe and from the weak euro in relation to the dollar, and they managed to increase their competitiveness on the export markets. Planned as well as unplanned shutdowns of steam cracker units and refineries, which lowered the availability of polypropylene on the market, also played a role. The ethylene and propylene markets were also influenced by a strike in France, which was related to a complete shutdown of or a significant reduction in production in several petrochemical and refinery units. Propylene became scarce on the European market. Some of the European players tried to deal with the situation through imports, but they had only a marginal impact on the situation on the market. At that time, propylene was sold on the spot market for prices exceeding the valid contract value. Unplanned shutdowns in related sectors changed the nature of the market in the last quarter, an excess of supply was evident on the market. Some players try to deal with the situation by exporting the excess products, mostly to Asia. The low prices of feedstock enabled the operators of steam cracker units to produce with very high margins in the course of the year, and this was not changed by a drop in prices of most main coproducts of the steam cracker.

The European benzene market was relatively stable in the course of the year. The high price volatility from the previous years disappeared. The difference between the highest and lowest spot prices reached in the course of the year was also relatively small. From the global perspective, the European prices were the highest for the most part of the first half of the year, and at the same time, a limited demand and rise in feedstock stopped the prices on the markets in the US from increasing. The result was a significant rise in imports to Europe in the first half of 2016. Since May the prices went down slightly because of a lower demand from related sectors. The following transition to cracking of lighter feedstock and the renewed operation of several shutdown derivative units supported the market, and the prices slightly increased. However, the most significant change in the market conditions occurred at the end of the year. The first impulse came from Asia, where a substantial increase in spot prices occurred because of an excess demand from China and higher prices of crude oil. This resulted in exports from Europe and the US to Asia, and led to an increase in European spot prices as well.

The ammonia prices continued in the significant fall from the fourth quarter of 2015 to the first two months of 2016. The fall was caused by weak demand from the US and a large excess in supply on the global market. The continuous decrease was finally stopped by a shutdown of some production units. The demand increased and the market was further supported by planned and unplanned shutdowns in Indonesia and the Persian Gulf. The insufficient volume of transport capacity was also talked about. The overall activity on the market continued to be very low and resulted in a slight rise in prices. However, the rise was only temporary, and from the end of May the prices started to decrease again. The market had to deal with new capacities in the US, Russia and Saudi Arabia. Moreover, some fertilizer producers stopped producing nitrogen fertilizers because of the low prices and instead they increased the sales of ammonia. The demand from the US was also weak. Neither unplanned shutdowns of some units, nor a significant reduction of natural gas supply in Trinidad stopped another decrease in prices. The prices in Yuzhny reached a level at which the production was no longer profitable. Many important producers reduced or completely shut down their productions capacities in an effort to resume the increase in prices. These efforts were finally successful in the second half of November. In comparison to yearly average, they were at the lowest level since 2004.

Unipetrol's model olefin margin reached 338 EUR per ton in 2016, which represents a decrease less than 4% y/y compared with 2015, when the margin reached 351 EUR per ton.

Polyolefins

In 2015 the polyolefin market was more favorable for the sellers, but in 2016 the situation changed significantly to the benefit of the buyers. The processors were in a more comfortable position, and the availability of PE (polyethylene) and PP (polypropylene) on the market was much wider in comparison with the previous year. This change was brought about by several reasons. Much more products were imported to and much fewer were exported from Europe in comparison with 2015. There were also much fewer unplanned shutdowns, and so the processors as well as the traders had much larger reserves. The demand from related sectors was also lower. Despite the mentioned factors, the margins were higher than the previous year for the integrated olefin producers.

The European prices of HDPE (high-density polyethylene) were the highest in comparison with the rest of the world and managed to attract a large volume of imports to Europe. Products from Iran started to appear on the market after the sanctions were lifted. A low demand caused a drop in prices, which was much bigger than the drop in the ethylene contract price. Apart from the larger volume of imports, the change in behavior of most processors also had an influence. They kept much larger reserves because of the situation in 2015. A rise in demand and a smaller volume of imports from Asia, where the prices rose, supported the European market and resulted in an increase in prices, although, only temporary. The processors started to use the products in their reserves, because they were confident that they would be able to replenish them easily at low prices. The HDPE prices went down despite the rise in the ethylene contract prices, and the spread between HDPE and ethylene decreased. The falling European prices and the strengthening market in Asia diverted some imports from Europe to territories with higher added value. The demand improved, the processors, who in the previous months had used cheaper imports, started to buy the European products once again. However, this had no great impact on the prices, which remained relatively stable until the end of the year.

The PP prices decreased at the beginning of the year. Whereas the decrease in the contract prices was the same as the decrease in the propylene prices, the drop was almost double in spot prices. The main cause was cheap imports. Later, the market stabilized and prices started to rise. The decreasing difference between European and Asian prices diverted the products of the Middle East to Asia. The demand decreased, the buyers declined to accept the increase in prices. As with PE, the processors started to use the products which they kept in their reserves. For the remaining part of the year, the PP prices changed in the same way as did the propylene contract prices. Globally, the European PP prices were among the lowest, and therefore the imports from the Middle East were still directed to Asia rather than to the European market.

Unipetrol's model polyolefin margin reached 505 EUR per ton in 2016, which represents an almost 9% increase compared with 2015, when the model margin reached 464 EUR per ton. Unipetrol's model combined petrochemical margin (olefins plus polyolefins) in 2016 outperformed the very high value of 2015 and reached the level of 842 EUR per ton, representing a 3% increase y/y.

Crude oil purchases

In 2016, regarding the crude oil supplies, Unipetrol continued in its strategic cooperation with its majority owner, PKN ORLEN on the basis of which the crude oil was being transported via the Druzhba and TAL-IKL pipelines under the long-term contracts from 2006.

In the course of 2016 the supplies of Russian Export Blend Crude Oil (REBCO) via the Druzhba pipeline were stable and without any outages. With effect from 1 July 2016 the third amendment to the agreement on crude oil deliveries via the Druzhba pipeline was signed with PKN ORLEN on the basis of which the crude oil deliveries from Rosneft were extended until 30 June 2019. At the same time, with effect from 1 July 2016 a new contract was signed with PKN ORLEN according to which the deliveries from the resources of the company Tatneft's were commenced. This agreement was amended in December so that the maximum volumes were increased and the effect was extended till 31 December 2019.

Regarding the low-sulfur crude oil supplies via TAL and IKL pipelines, Azeri Light crude oil from Azerbaijan remained the main source and a key feedstock for processing in the Kralupy refinery. Azeri Light crude oil was blended in the optimal ratio with CPC Blend crude oil from Kazakhstan. Where appropriate, the CPC Blend was also supplied to the Litvínov refinery for blending with REBCO crude oil in order to achieve better yields of lighter products and to improve refinery margins.

As part of diversification and crude oil portfolio optimization for processing in Litvínov refinery, Unipetrol RPA performed a test of processing the Arab Light crude oil from Saudi Arabian national oil company Saudi Aramco. The crude oil was supplied based on the long-term agreement between PKN ORLEN and Saudi Aramco and processed during August and December.

Pipeline and railway supplies of crude oil from various Moravian deposits to the Kralupy refinery continued in 2016 on the basis of long-term business relations. These comprise approximately 2.1% of the total amount of crude oil purchased by Unipetrol.

On 22 November 2016, representatives of UNIPETROL RPA, s.r.o., and Croatian company Jadranski Naftovod signed a framework agreement on crude oil transportation via the Adria pipeline. This could in the future become an alternative transportation route to the current Druzhba and IKL pipelines.

Crude oil purchases in 2016 (in thousand tons)

REBCO-Druzhba	3,410	61.5%
Seaborne low-sulphur crude oil supplies for the Kralupy and Litvínov refineries	2,020	36.4%
Moravian crude oil	117	2.1%
Total	**5,547**	**100.00%**

Production

Crude oil throughput and refining utilization ratio

	2015	2016
Crude oil throughput (in thousand tons)	6,495	5,422
Refining utilization ratio[1]	84%	62%

[1] Conversion capacity of Unipetrol's refineries = Conversion capacity till 1Q2015 was 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y). In 2Q2015 conversion capacity increased to 7.8 mt/y driven by operation of Eni's 32.445% stake in Česká rafinérská from May. From 3Q2015 conversion capacity is 100% of Česká rafinérská, i.e. 8.7 mt/y (Česká rafinérská – Kralupy 3.206 mt/y, Česká rafinérská – Litvínov 5.492 mt/y).

In 2016 approximately 5.4 million tons of crude oil were processed in the production units of Česká rafinérská, a subsidiary of Unipetrol, which is a 16.5% decrease in comparison with 2015.

The operation of the refineries in 2016 was considerably influenced by an accident at the steam cracker unit in August 2015. The operation of the steam cracker unit was suspended during its reconstruction, causing low offtake of petrochemical feedstock, which impacted on the utilization of the capacity of both refineries. A further decrease in the crude oil processing was caused by a serious malfunction in the FCC unit in the Kralupy refinery in May 2016. The refineries were fully functional again in the last two months of 2016, after both the Kralupy refinery and the reconstructed steam cracker unit in Litvínov had been put into operation again.

Despite the absence of supplies for petrochemical business, which is a significant outlet for a part of the refinery production, the Litvínov refinery was successfully kept in operation until the restart of the steam cracker unit in the autumn of 2016. After the shutdown of the Kralupy refinery caused by the accident on the FCC unit, the Kralupy refinery was used as a logistics and dispensing terminal for refinery products.

A planned large turnaround in the Litvínov refinery took place in March 2016 and lasted approximately one month. The restart of the Litvínov refinery after the turnaround took more time because of a fire at the vacuum distillation unit which occurred during the completion of the turnaround works. At the end of August 2016, a planned replacement of the catalytic converter was carried out in one of the gas hydrogenation units. A planned replacement of the catalytic converter in the gas hydrogenation unit and the regeneration of the catalytic reforming unit (CCR) in Kralupy were both carried out before the refinery was put back into operation in September 2016. In November/December 2016, a planned turnaround of the visbreaking unit in Litvínov was carried out because of regular cleaning.

In 2016 an operational test of vegetable oil hydrogenation was conducted in one of the hydrocracking chambers in order to confirm the capability for the production of second-generation biofuels.

In 2016 the Paramo subsidiary further developed production of lubricant oils and bitumen. Production of base oils and lubricant oils is based at the plant in Kolín. Production of lubricants is based on hydrogenates from Unipetrol RPA that are further processed and blended into the final production of the motor oils of all performance categories, gear oils, hydraulic and other industrial oils. Production of process oils for the rubber industry and production of special industry oils and liquids as well as production of bitumen and bitumen products is located at the plant in Pardubice. Paramo produces a wide range of industrial bitumen products intended predominantly for construction purposes and special hard road bitumen products. Paramo was also providing storage and dispatch services for diesel and gasoline, for Unipetrol RPA and Administration of State Material Reserves – Czech Republic (ASMR).

Spolana is the only producer of polyvinylchloride and caprolactam in the Czech Republic. The company operates two production units – production unit PVC and production unit Caprolactam. The main products of the PVC unit are polyvinylchloride and sodium hydroxide. The Caprolactam unit produces caprolactam, ammonium sulfate and sulfuric acid. Production of PVC and sodium hydroxide in 2016 was strongly influenced by the lack of ethylene resulting from the accident at the steam cracker unit in Litvínov in August 2015. Due to the market situation and difficult transportation, replacement of ethylene deliveries was performed only to a limited extent. From October 2016 supplies of ethylene from Litvínov were restored and the following production of PVC and sodium hydroxide was restored in full.

Market position and sales

Refining business

Market development

Based on the latest available data the Czech fuel market consumption was growing in two main product categories: gasoline and diesel. However the company observed a much higher pace of consumption for diesel than gasoline, which reflects the general EU tendency.

Market position

Despite the parallel limited throughput of capacities in Litvínov and Kralupy refineries the company struggled to maintain the former market share. Therefore the company performed enhanced trading activities and replaced own produced fuels with imported ones, mainly from the other companies from ORLEN Group. Thanks to the above mentioned cooperation, the company maintained its market position intact and at the same time it managed the proper fuel supply for the Czech market.

Sales volumes of refining products, including retail segment (Benzina network of filling stations)

thousand tons	2015	2016
Total refining sales volumes, including retail segment	**5,800**	**6,280**
Diesel, including retail segment	3,093	3,494
Gasoline, including retail segment	1,483	1,476
JET	179	121
LPG	195	196
Fuel oils	200	133
Naphtha	92	220
Bitumen	354	329
Lubricants	35	33
Rest of refining products	169	278

Motor fuels sales

Domestic and export sale of fuels was affected due to the limited production of the refineries, therefore any business development was suspended until the production restoration and supply stabilization in the fourth quarter of 2016. Despite the production limits the company successfully launched business activities via its Hungarian entity established in 2015. Further business development is planned for 2017 based on the revised wholesale strategy.

Other refining product sales

Other refinery product sales were performed according to the modified production mode of the refineries during the period of repair of production units which significantly changed the offered portfolio of products. Total sales volumes of other refinery products increased compared to 2015 also due to the sale of petrochemical feedstock which given to the circumstances company was not able to process at the steam cracker unit.

Paramo market position and sales

Paramo is the market leader in oils and bitumen products sales in the Czech Republic with market share exceeding 35%. More than 60% of Paramo's production is exported, mainly base and process oils.

Paramo produces a wide range of oils for the automotive business and for special industrial application expanding own production with the new most modern generation of oil based on the result of in-house research employing the best laboratories and experts.

Paramo maintained deliveries of the process oils to the Continental Group which extended cooperation for the year 2017 and with other rubber industry companies. The cooperation continued with additives producers and also new foreign customers for sale of wide range of the base oils group I, II and III.

Finished oils and greases were exported to 26 countries. The main export market is Slovakia where Paramo was represented by Unipetrol Slovakia. Paramo developed a strong position in Germany, Hungary and states of the former Yugoslavia. Paramo also managed to develop and increase sales to the Eastern European markets.

Petrochemical business

The overall sales of petrochemical products were significantly influenced by the continuing shutdown of the steam cracker unit due to the accident at the facility from mid-August 2015. As a result the polymer units were operated only to limited extent with PE2 unit shutdown completely for the period. The full production of the steam cracker and polymer units was resumed in October. Total sales volumes reached the level of 1,069 kt, which is lower by 26% compared to the year 2015.

Sales volumes of petrochemical products

thousand tons	2015	2016
Total petrochemical sales volumes	**1,445**	**1,069**
Ethylene	107	45
Benzene	145	36
Propylene	36	6
Ammonia	230	188
C4 fraction	51	16
Butadiene	49	44
Polyethylene	255	104
Polypropylene	227	141
Rest of petrochemical products	345	489

Olefins and chemicals

The sale of steam cracker unit products and ammonia is the core business line of Business Units Monomers and Chemicals. The most important products of the steam cracker unit include ethylene, propylene, C4 fractions and benzene. Sales of the products were significantly influenced by the steam cracker shutdown which followed after the extraordinary event of August 2015. The subsequently issued notice of force majeure which covered the supply of all steam cracker unit products remained in force till November 2016. This situation essentially meant the complete discontinuation of selling the steam cracker products until the fourth quarter of 2016. Restored supplies were almost exclusively directed to the traditional long-term strategic customers, or they were further processed in production units of Unipetrol RPA.

The ammonia production was not affected by the extraordinary event; sales were at similar level as in previous years. The territorial division of sales did not change either thanks to existence of a long-term contract concluded with the largest domestic fertilizer manufacturer. As in previous years, the vast majority of the ammonia produced by Unipetrol RPA ended up on the domestic market.

Sales of high conductive carbon black Chezacarb AC remain of in the forefront of company's interest as well. Chezacarb AC is used primarily to modify electromagnetic proprieties, electrical and thermal conductivity of plastics, coating materials and rubber, for pigmentation of paints and varnishes and for coloring of plastics and rubbers. They also find their use in the environmental area as sorbents. When compared with the previous years, the volume of sold carbon black rose even over the threshold of 2,000 tons. This was due to the good level of demand, especially in Asia. Besides the stable markets in China and Korea, there was an increase especially in sales to Japan. More carbon black also went to US markets.

Polyolefins

Unipetrol RPA is the exclusive producer of polyolefins in the Czech Republic and a major supplier for the markets in Central and Western Europe. The company's production capacity for polyolefins accounts for 4% of the European market. The production capacity for high-density polyethylene (HDPE) accounts for a 5% share and the production capacity for polypropylene (PP) accounts for a 3% share of Europe's total production capacity.

Traditionally, Unipetrol is a prominent player on the Czech polyolefin market. Thirty per cent of its production of high-density polyethylene (HDPE) is supplied to the Czech market. Since the production of this type of polyethylene significantly exceeds the domestic demand, the remaining production is exported. Similarly, the export share of polypropylene accounts for 50% of the total polypropylene production.

The Czech Republic and Western Europe are the key polyolefin markets for Unipetrol. The D-A-CH region is the key European market. In this region Unipetrol relies on the services of its subsidiary Unipetrol Deutschland. Last year Unipetrol's share on the polyolefin market was influenced by the steam cracker accident in mid-August 2015. The accident had a significant impact on the HDPE and PP production and also on the product portfolio until mid-2016. The limited availability of ethylene and propylene caused a shutdown of one of the company's polyethylene units (PE2) and lead to a limited production portfolio of polypropylene. This was the reason why the types of polyethylene used for the production of injection molding grades, and block and random polypropylene copolymers were not available. Because of these limitations, the company lost a part of its market share in the Czech Republic as well as, partially, its shares on other European markets.

Throughout the year the general situation on the European market was still favorable for the European producers although the petrochemical margins were gradually declining; nevertheless, they still remained at high levels. From the demand side, a healthy economic situation in Europe across most of the segments created a robust demand.

From the European market situation perspective, the year 2016 was generally much better in respect of the production units availability. The supply side was much more stable compared with the extreme year 2015. The balance on the European market was also sustained by increased imports.

Total polyolefins sales in 2016 were negatively impacted by the steam cracker unit reconstruction, which continued till August 2016. With the gradual launch of steam cracker unit operation from October, the operation of the polypropylene unit and both polyethylene units was restored as well. As a result the sales volumes in the first 10 months were on significantly lower levels due to the limited availability of the feedstock (HDPE on the level of 30% and PP on the level of 50% compared to the standard years with regular operation). During November and December, the production reached the standard level and sales volumes gradually increased accordingly. Total sales volumes in 2016 reached the level of 245 kt (104 kt of HDPE and 141 kt of PP).

Spolana market position and sales

Polyvinylchloride (trademark Neralit) is produced and sold in four modifications and used for products from plasticized and unplasticized plastic mixtures. Final products are used in many applications such as packaging, building industry, production of customer goods, etc. Sales of PVC were affected by the above mentioned lack of ethylene, in consequence of which the company was able to meet the demand only in part. The return to the market after restoration of ethylene supplies is slowed down by the seasonal effect when demand from building industry goes down at the beginning of winter.

Sodium hydroxide is produced as a by-product together with Polyvinylchloride, thus the sales were affected by a lack of ethylene as it well. In order to cover the needs of main customers, Spolana imported a certain amount of sodium hydroxide. Sodium hydroxide is used in a wide range of manufacturing processes, e.g. in paper and cellulose production, artificial fibers production and the food industry. Due to the significance of transportation costs the product is sold only in the Czech Republic and in the neighboring countries.

Caprolactam is the basic raw material for Polyamide 6 (PA6) which finds use in textile fiber manufacturing and in the plastics industry. The caprolactam market in 2015 was affected by declining demand in China, which also influenced the market in Europe. During 2016 the market situation stabilized gradually thanks to increased demand from Asia, which also positively affected the European market. For 2017 gradual growth is also expected.

Ammonium sulfate (trademark Spolsan) is industrial fertilizer which is produced as by-product together with caprolactam and is used as a stand-alone fertilizer or in fertilizer mixtures. Sale of ammonium sulfate is seasonal, but from long-term point of view is relatively stable. Sold volumes in 2016 were determined by the drop in the fertilizers market in Europe, especially in first half of the year.

Expected development in 2017

Refining business

The prevailing excess of crude oil supply over demand and recovering shale oil drilling in the US will keep the crude oil prices at relatively low levels in 2017. The crude oil price should not rise significantly above the current level of around 55 USD per barrel. The balance between supply and demand for crude oil should be reached in the last quarter of 2017 according to estimates, and 2018 should be the first year with a slightly deficit balance. However, the globally high level of inventories of crude oil and crude oil distillates should mitigate the space for crude oil prices growth in 2018 too. The relatively low price level of crude oil together with an increase in consumption will keep supporting refining margins in the year 2017.

Unipetrol Group will focus on improving efficiency and operational excellence across all segments of the business. The main goal, which applies to the whole Group is to secure long-term growth beneficiary for all stakeholders. The Group will also be investing further in synergies between refining and petrochemical businesses, which will continue to be the key competitive advantage of Unipetrol Group.

The strategy for the future development of Paramo will be still based on the following pillars - lubricant oils production and sales supported by strong marketing activities, bitumen and bitumen products production and sales, continuous energy efficiency and production performance enhancement, and further product development. Paramo will gain a competitive edge through the offer of services supplementing sold products - blending for third parties, fuel terminal operation, change and filtration services tied with sales of oils to the final industrial customers and fluid management.

Petrochemical business

Olefins and chemicals

Similarly as in the previous years, the price levels of crude oil and virgin naphtha will be key for further development. It is generally expected that the price of Brent oil should not go below USD 50 per barrel, but at the same time it is not expected to go above 60 USD per barrel in 2017. More intensive crude oil production is expected in the countries outside OPEC. It should be obvious mainly in the US, where higher oil prices will result in more investments into oil production from shale reserves. The lower prices led to significant cuts in investments in this type of production, and it will be necessary to invest again in order to secure a long-term stability of this sector. The level of demand will also be influenced by the continuous effort on the part of the Chinese to replace the production based on coal with the production based on the cheap crude oil which they import mainly from Africa and the Middle East. The relatively low prices of feedstock should help to preserve the competitiveness of some European derivatives on the export markets. The petrochemical margins should remain relatively high thanks to the expected rise of most petrochemical products, but they should not reach the levels they had in 2015 and 2016.

At the beginning of the year, the European ethylene units should be fully utilized and their operators will be getting ready for a series of planned shutdowns, which should start in March. The level of demand should be rather good, which should not be affected by speculative purchases of monomers taking place in the course of the fourth quarter of 2016. From the price perspective the European market, at the beginning, should remain unattractive for exports, which should be directed to Asia, especially to China. The lower availability of ethylene and the expected increase in feedstock prices should support the prices at least in the first half of 2017. The second half of the year will be probably influenced by the availability of ethylene from new units which should be launched in the US. The cracking of lighter feedstock in some European units should also make ethylene more available. The European propylene market should be relatively stable in the course of 2017, with a possible excess in demand. The opposite situation should arise in the US and Asia, where an excess in demand is expected because of the launch of new units. Deliveries from these territories could help to balance the deficit market in Europe in the future.

The expected rise in prices in the US and Asia, together with the tense European market, will also result in a price increase in Europe. The increase should be more significant than the increase in feedstock prices and it should influence negatively the production in related sectors, which probably will not be able to transfer the increase in benzene prices to the prices of derivatives. The high benzene prices will not be sustainable for a long time and they are expected to decrease significantly at the beginning of the second quarter at the latest. The following price development should not be very volatile. In general, the situation on the European market will mainly depend on the ability to absorb imports. Considering that most demands of European processors should be satisfied through long-term contracts and a portion through import contracts negotiated in advance, a lower level of activity on the spot market is expected. In addition, products from new units in India and in the Middle East could be directed to Europe. That could improve the availability of benzene on the European market, which often had to deal with a lack of this product in the past.

The increase in ammonia prices, which was caused by a significant reduction of production capacities of the key players at the end of 2016, should continue in 2017 as well. The level of demand should be higher, and the 2016 situation should not happen again. The prices should slowly return the level of previous years. The market will have to deal with an increase in new capacities, which should be higher than the expected increase in demand. The anticipated decrease in the Chinese ammonia capacities will not provide enough support. The fertilizer market should be in a better condition, apart from an improved political and economic situation in some developing countries, better weather is also expected.

Polyolefins

From the perspective of polyolefin producers, the first half of 2017 should be stable. The planned shutdowns of production units should keep the PE and PP markets in a relative balance and stop a decrease in prices. The lowest level of European prices and the weak euro in relation to the dollar should make the European market less attractive for exporters, which will try to get the products to the territories with higher prices. A key factor for the PE market will be an increase in production capacities in the US and China in the course of 2017. Capacities will be increased significantly also in the Middle East and India. Since only a slight increase in demand is expected, an excess in supply on the HDPE market is also expected. That will lead to lower utilization of production units and pressure on a decrease in prices. The main problem could be an excess of products in the US, which will have to be exported. The most important market for the US products should remain Asia, especially China, but the situation will be impacted by the potential introduction of tariffs as a reaction to the US measures for trading with China. A larger amount of the PE from the US would then be directed to Europe and other parts of Asia. The PP market should be in a similar position. Even though the European polypropylene market could experience some tension, globally, there will be an excess of supply, but definitely to a smaller degree than on the PE market. Therefore the processors should not find themselves in the same situation as in 2015, when they had to decide whether to buy products at any price or whether to shut down the production because of a shortage of product supply.

Spolana

The strategy of the future development of Spolana will be based on the continuation of the production of current product lines with a gradual modernization and adjustments due to regulatory requirements. Restoration of full production and sales of polyvinylchloride will take place. Construction of a new production line allowing launch of new product SPOLSAN G at the end of 2017 will be completed. The shutdown of chlorine production using mercury electrolysis is planned for the year 2017 as required by regulation. Continuation of polyvinylchloride production from EDC semi-product is planned to replace the current setup. Further analyses of other potential options will be continued during the year 2017. Preparation for the construction of a new power generation center has started at the begining of 2017. The company also plans a continuation of cooperation with neighbouring municipalities to build flood protection barriers. Approach to the non-used assets will be further analysed. Action within the area of employment stabilization and hiring are being undertaken. Programs for induction, training fostering knowledge-sharing and promoting best practices shall be strengthened. Spolana will also continue integration with the rest of the Unipetrol Group after being acquired in 2016.

Retail segment

Financial result of the retail segment

in CZK million	2015	2016
EBITDA LIFO	829	957
EBITDA	829	957
EBIT LIFO	501	639
EBIT	501	639

Note: Financial results of the retail segment include UNIPETROL RPA, s.r.o. – BENZINA, registered branch (filling stations network) and PETROTRANS, s.r.o. (road transporter of fuels).

Key highlights of 2016

- By the end of the year a total of 20 filling stations taken from OMV
- Five completely new BENZINA filling stations opened
- Implementation of the new coffee concept throughout the entire Benzina network and installation of new coffee machines at more than 200 filling stations
- VERVA fuel offer was expanded at 30 filling stations; CNG product introduced at 11 stations in cooperation with our partners
- Benzina YouTube channel reached more than 6.5 million views
- Significant increase of Benzina brands in terms of awareness and satisfaction
- Introduction of a new prepaid discount card Tank Card EASY

External environment

Fuel consumption in the Czech Republic in the entire year 2016 was influenced by macroeconomic and technical factors. Among the macroeconomic factors were the growth of GDP, low unemployment rate, and in this context the increased performance of many sectors with intensive use of diesel, and the willingness of households to spend more manifested itself in a higher demand for gasoline. The technical factors include car fleet conversion from gasoline to diesel engines with lower fuel consumption and also the fact that the new cars have lower gasoline consumption.

Tax evasions and related negative impacts on the state budget, corporate economics and the competitive environment were dealt with and decreased significantly by adopting a series of appropriate measures leading to improved conditions on the Czech market. The measures were enforced through new legislation and operated effectively throughout 2016. Thus the positive legislative changes and other control systems significantly improved the competitive environment of the fuel sales business.

In 2016, there was a reduced interest in alternative liquid fuels with a high amount of bio-component (E 85, B 30, B 100) due to reduction of their tax advantage.

A sharp increase was also recorded in the case of the gas alternative CNG. In addition to the increased number of cars, the number of filling stations offering CNG increased as well. This type of alternative is supported in terms of taxes.

The above-listed factors were crucial for the development of demand for fuels on the domestic market in 2016, which when compared to 2015 was characterized by a 2% increase in gasoline consumption and by a 5% increase in diesel consumption. So far higher increases in consumption of fossil fuels determine all other alternatives that are subject to tax concessions.

As of 31 December 2016, there was a total of 6,992 filling stations in the Czech Republic, of which 2,428 non-public, 658 with limited access and 3,906 public filling stations.

Market position and sales

Market position

Unipetrol RPA, s.r.o. - BENZINA, registered branch, operated the largest network of filling stations in the Czech Republic in 2016. As of 31 December 2016, the network comprised of 363 filling stations with a wide range of fuels with additives; a selected segment of the filling stations offers a range of VERVA premium fuels and a wide collection of other goods, refreshments and services. The network was renovated and upgraded mainly between the years 2006 and 2010 and is currently profiled into three segments: the premium, represented on the domestic market by BENZINA Plus filling stations, the standard brand portfolio of BENZINA filling stations and the self-service filling station segment under the brand name Expres 24.

Compared to 2015, Benzina's market share in 2016 increased from 16% to 17.6% (company's estimates based on the data from the Czech Statistical Office as of October 2016).

Fuel sales

Benzina's key business is the sale of fuels and other goods and services at filling stations. The sales structure confirmed the long-term trend of a higher proportion of diesel fuel, which continued in 2016.

Structure of fuel sales at filling stations (%)

	2015	2016
Gasoline	35	36
Diesel	65	64

Compared to 2015, the sales of diesel in the Benzina network recorded a growth of 14.1% in 2016. The range of diesel fuels contributing to the growth included both the standard TOP Q diesel (+12.8%) as well as the premium VERVA diesel (+27.5%).

Compared to 2015, the total sales of the range of gasoline fuels recorded a growth of 14.5% in 2016. The main contributor remained Natural 95, which accounted for 92% of total composition of the gasoline sold and showed a year-on-year increase of 12%. The sales of the high-octane VERVA 100 gasoline increased on a year-on-year basis by 54%. Since its introduction in 2006, its share of the gasoline sold had grown and in 2016 achieved 7.7% of the total gasoline sales.

As part of nationwide monitoring of the quality of the fuel sold at public filling stations carried out by the Czech Trade Inspection Authority and publication of the results by the CTIA, there was only one slight discrepancy in the case of diesel out of the whole Benzina network of filling stations. All the checked premium fuels were found to be compliant. Within the internal program "Seal of Quality", an independent accredited laboratory checked 1,821 samples from the Benzina network and 99.5% were free of defects.

The higher sales of fuel at filling stations in 2016, including the increased share of the premium fuels with higher added value combined with the decrease in the prices of all types of the fuels sold, business strategy, marketing support and operating cost savings have all contributed to very good financial results of the retail segment. A positive impact on the results was also supported by the improved competitiveness of the market environment and favorable macroeconomic factors positively influencing the demand for both gasoline and diesel. The highly competitive environment in the retail market was in 2016 again attributable to a large number of filling stations in the Czech Republic.

Non-fuel sales

Total revenues from sales within the non-fuel segment increased notably by 13.5% in 2016 compared to 2015 results. Higher dynamics were recorded within the sub-segment of gastronomy, whose revenue grew by 28.2%. This positive development was mainly due to the introduction of the Stop Cafe fast food concept, where customers can enjoy quality coffee, hot dogs, fresh sandwiches and hot meals.

Expected development in 2017

In the current economic conditions of the Eurozone and economic reforms in the Czech Republic, in particular the adoption of measures promoting growth by the Czech government, the further growth of the Czech economy can be expected with a positive impact on growth in demand for fuels on the domestic market, mainly through increased performance of sectors with intensive diesel consumption. The tax-advantageous CNG will further strengthen its stable position on the market. The new tax legislation applicable to highly concentrated biofuels will significantly reduce the demand for it, which will now shift to standard fossil fuels. In the strongly competitive market environment of the filling stations the pressure exerted on fuel profit margins will also persist this year.

An approval of new stricter legislation is expected in the form of an amendment to the Act on Fuels and Filling Stations, for fair and controlled business in the area of filling stations and fuel sales, including the harmonization of European legislation in the infrastructure of alternative fuels, which in the years to come will bring greater restrictions on unfair practices in the sector. Categories of filling stations which do not meet legislative requirements should be gradually squeezed out of the market in favor of serious market players. The gasoline and diesel assortment available in 2017 will depend on the conditions defined by theenvironmental legislation determining the level of binding obligations for reducing CO_2 emissions of fossil fuels in terms of thebio-component content with lower emission footprint in years 2017-2020. In addition, it can be expected that there will be further expansion of the range of fossil fuels with additives, alternatives such as CNG or fast charging points at filling stations for charging electric cars. The remaining market space will be filled by low-cost, self-service filling stations.

Benzina's priorities within the framework of the adopted Strategy 2013-2017 remain an increase in the market share in fuel sales, an increase in average throughput per filling station as well as an increase in sales of the nonfuel segment, including the extension and harmonization of refreshment offerings. Benzina will also seek to further strengthen customer confidence.

According to market development, the state of fleet modernization and new technologies of fuel combustion in cars, Benzina filling stations will continue to improve the range of fuel assortment, premium fuels, CNG and environmentally friendly operating fluid Ad Blue.

Investments

Investments in the downstream segment in 2016 were influenced by the extraordinary event that occurred in August 2015 at the steam cracker unit and related investments into the reconstruction of the unit and into the construction of the new furnaces of the steam cracker. Another extraordinary event occurred in May 2016 at the FCC unit in Kralupy refinery which also took a substantial part of investments. The biggest investment project implemented in 2016 was construction of the new polyethylene unit PE3, which had already begun in 2015, but in 2016 the construction works started on the unit itself. In 2016 the scheduled turnaround of all production units in Chempark Záluží was implemented.

Other investments were mainly focused on maintaining the operational reliability, safety, meeting regulatory requirements in thearea of environment and enhancing of operational efficiency, especially energy efficiency. Other important investment projects focused on renovation of the T700 power station, environmental protection, and meeting the new regulatory requirements in the tax area. The project of increasing of capacity of the polypropylene unit was completed in 2016.

In the retail segment the majority of investments were related to the acquisition and rebranding of filling stations, which the Group acquired from OMV. Construction of the new filling stations was completed in Osice and in Opava and a new unmanned filling station was opened in Poděbrady. In the course of 2016, the retail segment also invested in the expansion of the Stop Cafe refreshment concept, and new coffee machines were purchased.

Investments in the corporate functions segment were directed mainly into the projects of the subsidiary Unipetrol Centre for Research and Education and into the IT projects. The main investments of the subsidiary Unipetrol Research and Education Centre were intended for the completion of UniCRE (Unipetrol Centre for Research and Education) and for the purchase of equipment within the grant program NSU (National Sustainability Program). The main goal is to intensify and streamline research and development in the area of industrial chemistry and environmental technologies.

Unipetrol Group CAPEX overview according to the investment category and business part for the year 2016 and plan for the year 2017 (CZK million)

	Investment category/ Business part	Downstream	Retail	Corporate functions	Total
2016	Development	6,875	382	24	7,281
	Maintenance/refurbishment	3,179	83	42	3,304
	Environment	175	3	0	178
	Safety	18	4	3	25
	Total	**10,247**	**472**	**69**	**10,788**
2017	Development	4,940	568	178	5,686
	Maintenance/refurbishment	2,562	108	96	2,766
	Environment	336	2	0	338
	Safety	469	2	40	511
	Total	**8,307**	**680**	**314**	**9,301**

Research and development

Research and development of Unipetrol focuses on three basic areas - plastics, petrochemistry, and refinery. In 2016, research and development in the area of plastics was carried out by the Polymer Institute Brno (PIB) registered branch, while the petrochemistry and refinery research areas were covered by Unipetrol Centre for Research and Education, a.s. (UniCRE). Aside from the aforementioned institutions, Unipetrol also closely cooperated with universities, especially the University of Chemistry and Technology, Prague (UCT Prague) and the Czech Technical University in Prague (CTU). The results of research and development are applied within technical support for production, the preparation of individual strategies, or directly in order to introduce new products into the production portfolio.

The Research Institute for Inorganic Chemistry was renamed to Unipetrol Centre for Research and Education (UniCRE) as of 1 January 2016.

In 2016, UniCRE implemented the NSP (National Sustainability Program) and CATPRO (Large Infrastructures) programs.

It followed up on or extended its collaboration with academic institutions and universities, both in the Czech Republic and abroad. It made a significant contribution in the area of education in collaboration with the University Center UCT Prague - Unipetrol in Litvínov – providing facilities for 11 students within the "Auxiliary Scientific Staff" program, and preparing new topics for Bachelor and Master Theses. It worked with high school students and provided laboratory exercises for students of the University Center.

UniCRE submitted applications for projects within the following programs: TRIO, Operational Program Enterprises and Innovations for Competitiveness, Operational Program for Research, Development and Education, Horizon 2020 and the Coal and Steel development fund.

Within its activities, it supported RDI (Research, Development and Innovation) in cooperation with the government, the Ministry of Trade and Industry, the Ministry of Education, Youth and Sports, and the Ústí Region (Strategy for RDI restructuring and measures).

So UniCRE is viewed as one of the leaders in the area of applied chemistry research in the Czech Republic.

Refining business

Research and development in the area of refinery technology and products followed two primary areas – the production of motor fuels and the processing of residual fractions.

Legislative pressure on reducing greenhouse gas emissions and increasing the share of renewable resources leads to the necessity of researching and developing of applications of various types of renewable energy sources, and this also applies in the area of refinery technology. In 2016, an operational test for the hydrogenation processing of plant oil was successfully prepared and carried out with the research, technological and analytical support of UniCRE. The surveying of potentially usable renewable energy sources also continued; the goal here is to implement new energy sources in the production of motor fuels. Development and testing in the area of desulfurization of fuel components, their blending and additivation also formed an integral part of this area.

The conversion of residual fractions is an important economic aspect of every refinery, and so emphasis was placed on its further improvement with a goal of increasing the production of light products. Projects also targeted the production of road asphalt, the basic material used for road construction. Possible ways of increasing the durability of asphalt binders were investigated along with possible improvements of other properties of asphalt using modern rheological and analytical methods. The expected reduction of sulfur contents in heating oils will limit their further applications and bring further pressure on alternative applications of residual fractions, and so options for potentially reducing their production or improving their quality were researched.

In the area of projects with public support, a project continued in cooperation with CTU Prague whose primary goal is the recycling of waste material from the reconstruction of roads. Methods were discovered which will allow the use of such material in the construction of the road network.

In addition to this, UniCRE specialists and experts in the area of refinery production took part in the teaching program of UCT Prague, both during laboratory work and by supervising Bachelor and Master theses.

Petrochemical business

Olefins and chemicals

Long-term plans in the area of petrochemistry are to improve the quality of the product portfolio and improve production efficiency.

In 2016, possible options were investigated for utilizing light hydrocarbons originating from pyrolysis and their applications in the production of foaming agents. In the same period, possible ways were also investigated for utilizing the remaining unsaturated C5 hydrocarbons using hydrogenation procedures.

Furthermore, possibilities for the production of pure hydrocarbons from naphthalene concentrates were analyzed.

Research projects also targeted theoretical problems in pyrolysis and sought other possible ways of utilizing its secondary products; utilization of renewable energy sources in petrochemistry; searching for more efficient management and improving the economy of petrochemical production using modern, instrument-based analytical methods.

Projects covered within UniCRE institutional financing focused on the area of selective dehydrogenation of butane and butene to 1,3-butadien and on the area of using liquid products from the pyrolysis of waste tires. The results of these constitute the base documents for the preparation of research projects.

Work was also carried out on the implementation of development projects focusing on economic and environmental applications of used converters, and a nontrivial amount of work was also carried out in the area of energy savings.

Polyolefins

In the area of polyolefins, Unipetrol continues to refine its production processes and products. In 2016, research carried out by the Polymer Institute Brno (PIB) registered branch focused on securing high-quality propylene for the production of polypropylene, on optimizing of production, and on implementing new catalytic systems meeting the requirements of REACH.

Research in the field of polyethylene focused on two specific areas - preparation of laboratory testing equipment (polymeration lines) for the new INEOS slurry technology, currently under construction in the Záluží facility; and selection of suitable catalytic systems for PE2 and PE3 units in order to prepare documentation for the innovation of the polymer types currently produced at the PE2 unit. Other areas of research included the start of work on developing selected types of matrices, currently produced at the PE1 unit, whose equivalents are not included in the INEOS licence. Due to the requirements of customers for continued production of these materials even after the termination of production at the PE1 unit, a significant amount of attention is focused on this line of research and development.

The preparation for new production technologies also includes the necessity to develop new testing methods, since the characteristics of bimodal types of polymers significantly differ from standard unimodal polymers.

Documents were prepared for the restoration of certificates for piping materials for the region of Scandinavia, and documents supplied by the PE research group from PIB were used to prepare a matrix which successfully passed testing in Sweden and thus regained certification for this type of products in the given region.

In the area of matrix additivation, a test sample for operation tests was prepared based on a recipe which is currently in development – the application of this recipe to production would lead to significant cost savings.

Research in the area of polypropylene production in 2016 targeted especially non-phthalate catalysts adhering to REACH which also allow increased production of polypropylene. During the long-term shutdown of the steam cracker unit in Litvínov and the FCC plant in Kralupy, propylene analyses from external sources were carried out, and suitable recommendations for processing it were made in order to make polypropylene. Technical documentation was prepared for a new cleaning unit for propylene from external sources. New methods for preparing copolymers of polypropylene with better properties and the innovation of current types of polymers with a goal of reducing operating costs were investigated.

Research also focused on the area of additive recipes for polymer products and research in the area of additivation/stabilization of produced polymer materials.

Research projects also targeted the area of polypropylene and polyethylene production. Pursued projects were related to production support, where the polypropylene and polyethylene technology department of PIB worked with the polyolefin production team of Unipetrol RPA in order to improve the production process and remove technological bottlenecks.

Aside from research activities, PIB also provided Unipetrol RPA with specialized technical service via its customer support.

A joint project carried out in 2016 focused on the possibility of using highly conductive Chezacarb soot as a filling agent for polymer materials manufactured at Unipetrol RPA. Furthermore, research carried out at PIB targeted the optimization of stabilization recipes for composite containing Chezacarb eliminating the effects of soot contaminated with transition metals and for Chezacarb composites with engineering plastics. Moreover, development of the Chezacarb/PP material with reduced flammability continued throughout the year for applications to pass the UL-94 flammability tests, and in this respect the multiphase compounds with lower contents of Chezacarb soot which maintained electrical conductivity of the system were also investigated (the results were presented at a conference organized by AMI).

As part of sales support for Chezacarb and the research into new materials with Chezacarb, recipes of conductive or antistatic compounds and master batches based on specific customer needs were developed. Two of these were then transferred to the production of composites in cooperation with an external compound manufacturer (external compounding company IQAP).

Chezacarb

Last year, technical support for the application of conductive Chezacarb soot in plastics was carried out, and existing as well as new potential applications of Chezacarb in polyolefin materials produced by Unipetrol RPA and in engineering plastics were investigated.

Work was carried out in the area of utilizing Chezacarb soot in conductive paint materials. Samples of these materials were prepared and procedures were developed for the production of such paint materials.

Employees

Unipetrol Group considers human resources to be one of the key driving forces of every company. It strives to create a pleasant working environment for its employees, so that they could deliver the best results and therefore support the positive development of the whole Group.

Unipetrol Group was one of the biggest companies in the region with its 4,566 employees in 2016.

One of the main tasks in 2016 was the merger of companies and related transfers of employees under Section 338 of the Labour Code. The aim of the mergers was to simplify the organizational structure and to streamline the management of the company. As of January 2016, some of the employees of UNIPETROL, a.s. and a first portion of the employees of the service organization UNIPETROL SERVICES, s.r.o. were transferred to UNIPETROL RPA, s.r.o. New registered branches were created which became part of UNIPETROL RPA, s.r.o.: UNIPETROL RPA, s.r.o. – POLYMER INSTITUTE BRNO, registered branch, and UNIPETROL RPA, s.r.o. – BENZINA, registered branch. In March 2016 a portion of the employees of ČESKÁ RAFINÉRSKÁ, a.s. was transferred to UNIPETROL RPA, s.r.o., and in August the transfer of the second portion of the employees of UNIPETROL SERVICES, s.r.o also to UNIPETROL RPA, s.r.o. was completed. Another portion of the employees of ČESKÁ RAFINÉRSKÁ, a.s. was transferred simultaneously.

Total number of employees of Unipetrol Group (persons) as of 31 December 2016

Company	2016
Butadien Kralupy a.s. (51%)[1]	10
ČESKÁ RAFINÉRSKÁ, a.s.	519
PARAMO, a.s.	440
PETROTRANS, s.r.o.	128
UNIPETROL, a.s.	10
UNIPETROL DEUTSCHLAND GmbH	16
UNIPETROL DOPRAVA, s.r.o.	409
UNIPETROL RPA, s.r.o.	2,188
UNIPETROL SLOVENSKO s.r.o.	25
Unipetrol výzkumně vzdělávací centrum, a.s.	119
UNIPETROL RPA Hungary Kft.	9
SPOLANA a.s.	682
HC VERVA Litvínov, a.s.	11
TOTAL	**4,566**

[1] Number of employees in Butadien Kralupy a.s. (100%) was 19.5.

Education of employees

Education of Unipetrol Group's employees in 2016 was influenced mainly by the ongoing generational change. Unipetrol RPA's primary focus was on the process of succession and individual development of current employees related to that. The education of employees in 2016 focused on the training and development of employees in the "Operator in training" and "Graduate" programs.

Like every year the company organized for its employees corporate trainings. The employees received mandatory trainings, professional or vocational seminars, and foreign language courses. Some employees also attended trainings financed by European funds.

Workforce structure

The workforce structure in 2016 corresponds to the character of the whole Group. The most frequent level of education is of the secondary level, which is common in a production company. Higher education is quite frequent as well. It is mostly favored within the managerial and leadership positions. As one of the biggest employers, Unipetrol Group offers attractive work conditions which create loyalty towards the company among employees.

Employment structure of Unipetrol Group as of 31 December 2016

Employment structure by education	
Primary	5%
Vocational	29%
Secondary	**45%**
Higher	21%
Employment structure by gender	
Men	**74%**
Women	26%
Employment structure by length of employment	
< 5	**33%**
5-10	13%
11-20	17%
21-30	23%
> 30	14%
Employment structure by age	
< 30	11%
31-40	17%
41-50	**34%**
51-60	30%
> 60	8%

HR policy

Unipetrol Group adopted current HR policy in 2013 which determines the development in the area of HR for years 2013–2017.

The Group Strategy focuses on developing an integrated company which produces and sells fuels and energy with a diversified asset structure. Realization of these ambitious objectives requires strong management and highly qualified employees who will be able to fulfil the strategic objectives and ensure effective management of incoming changes.

Strategic directions in HR policy

The corporate culture of Unipetrol is based on values listed below, adopted and applied in Unipetrol as well as in other companies of the capital Group of PKN ORLEN:

- Responsibility
- Progress
- People
- Energy
- Dependability

Based on this new corporate culture, HR supports managers in dealing with matters pertaining to personnel operations. In the area of segment management the HR department takes steps towards the highest possible synergies.

The HR department introduces processes and means which suit the needs of business, support the implementation of the Strategy (especially in areas such as downstream and energy) and also take into consideration social conditions. The HR department's activities focus on:

- an efficient recruitment and adaptation process which enables the choosing of employees with desirable competencies;
- targeted professional development of employees, which supports strengthening of competencies desired within the Group companies;
- a systematic approach to accumulation and exchange of knowledge within the Group;
- promotion of mobility, exchange of experience on the intercultural level;
- remuneration policy which allows recruitment of new employees and influences their motivation and commitment.

The HR department is responsible for the steady increase in the efficiency of HR processes within the Group and introduction of advanced and innovative solutions, while taking into account the optimization of costs.

Financial standing

Consolidated statement of financial position

As of 31 December 2016, non-current assets of Unipetrol Group amounted to CZK 32,270 million. In 2016, the Group acquired tangible and intangible assets worth CZK 10,788 million.

The impairment allowance of CZK 1,919 million recognized in the past in the refinery cash generating unit to non-current assets of ČESKÁ RAFINÉRSKÁ, a.s. was reversed as at 31 December 2016. Most investments were done in the downstream segment CZK 10,247 million, followed by investments in the retail segment CZK 472 million.

Total current assets amounted to CZK 36,382 million as of 31 December 2016 and were higher by CZK 4,458 million compared to the previous year, especially due to an increase in inventories and receivables. Compared to 31 December 2015 inventories increased by CZK 3,335 million and trade receivables increased by CZK 2,183 million driven by restored operations of the production units.

Total equity rose by CZK 6,112 million to the level of CZK 41,621 million in the year 2016 stemming mainly from net profit reached in the year 2016 in the amount of CZK 7,975 million compensated by dividend approved in amount of CZK 1,001 million.

Current liabilities were higher by CZK 7,668 million as at 31 December 2016 as compared with 31 December 2015 due to among others increase in trade liabilities by CZK 2,870 million, investment liabilities by CZK 2,108 million and tax liabilities by CZK 2,539 million.

Consolidated statement of profit or loss and other comprehensive income

The Group's revenues for the year 2016 amounted to CZK 87,813 million and were 19% lower than in the year 2015, due to low crude oil price and lower utilization of production capacity resulting from both the steam cracker and the Kralupy refinery shutdowns.

The Group's profit from operations of CZK 9,897 million on EBIT level for 2016 was influenced by a few one-offs items. The main contributor to the result was the amount of CZK 7.9 bn coming as the payments from insurers for the property damage and business interruption due to the steam cracker accident which the Group recognized in the 2016 financial statements. The second one-off contributor was the reversal of impairment allowance of downstream segment assets worth of CZK 1.9 bn based on the results of an analysis performed at the end of 2016.

The Group's net profit reached the level of CZK 7,975 million at the end of the year.

Consolidated statement of cash flows

Net cash provided by the Group's operating activities amounted to CZK 7,996 million in 2016.

At the same time, investment activities resulted in cash outflow in the amount of CZK 9,789 million driven by very high investment spendings and financing activities resulted in cash outflows in the amount of CZK 1,165 million driven by dividend payment to shareholders in amount close to CZK 1 bn.

The Group's financial position was still very strong at the end of the year 2016 as the net cash amounted to CZK 2,757 million and financial gearing, defined as the ratio of net debt and equity, amounted to (-) 6.6%.

Revenues

Trends in revenues for own products and services

	2016	2015	2014	2013	2012
	CZK million	CZK million	CZK million	CZK million	CZK million
Revenues	87,813	108,907	123,938	99,415	107,160

The Group's revenues for the year 2016 amounted to CZK 87,813 million and were 19% lower than in the year 2015, due to low crude oil prices and lower sales volumes of petrochemical products resulting from both the steam cracker and the Kralupy refinery shutdowns.

Structure of revenues by business segments

Business segment	2016	2015	2014	2013	2012
	Revenues in %	Revenues in %	Revenues in %	Revenues in %	Revenues in %
Downstream	89	91	91	89	91
Retail	10	9	9	11	9

In 2016, the external sales of the downstream segment decreased by CZK 20,771 million compared with the previous year and reached the level of CZK 78,543 million. This drop was due to the low crude oil price as well as lower sales volumes of petrochemical products due to the shutdown of steam cracker unit until October 2016.

The external sales of the retail segment in 2016 reached the level of CZK 9,105 million and were by CZK 386 million lower compared with the previous year due to decline in crude oil prices affecting the fuel prices however partially compensated by higher sales volumes.

Structure of sales revenues by area

Area	2016	2015	2014	2013	2012
	Revenues in %	Revenues in %	Revenues in %	Revenues in %	Revenues in %
Czech Republic	68	64	67	69	71
Other European countries	30	35	31	29	27
Other countries	2	2	2	2	2

Compared to the year 2015, the territorial structure of the Group's revenues remained stable with the majority of sales was directed toward EU countries.

Separate profit / loss and dividends of UNIPETROL, a.s.

CZK million	2016	2015	2014	2013	2012
Profit for distribution	47	2,143	328	938	404
Allocation to the reserve fund	--	--	--	47	20
Number of profit-bearing shares	181,334,764	181,334,764	181,334,764	181,334,764	181,334,764
Profit/loss per share (CZK/share)	0.26	11.82	1.81	5.17	2.23
Dividend per share (CZK/share)	--[1]	5.52	--	--	--
Total for distribution	47	2,143	328	891	384
Profit brought forward as of 31 December	9,239	10,193	6,331	6,050	5,132

[1] The decision on the distribution of the profit 2016 will be taken at the Annual General Meeting.

Property, plant and equipment

UNIPETROL, a.s., owns most of the land within the production facilities situated in the cadasters of Kralupy nad Vltavou and Litvínov towns. A major part of this land is situated underneath its subsidiaries' production facilities and underneath the production facilities of SYNTHOS Kralupy, a.s. UNIPETROL, a.s., also owns several plots of land outside of these production facilities, a part of which is used by its subsidiaries and SYNTHOS Kralupy, a.s., for their activities, e.g. landfills, roads, location of product pipelines etc.

The total area of land owned by UNIPETROL, a.s., within the cadasters of Kralupy nad Vltavou is approximately 2.496 million sq m and of Litvínov approximately 8.875 million sq m.

UNIPETROL, a.s., as a non-production company does not own any buildings or equipment on this land, nor has it any oil fields or natural gas production sources of its own. The property, plant and equipment on UNIPETROL´s land land are owned and operated predominantly by its subsidiaries that have their operations in the industrial facilities. To a lesser extent, other entities not belonging to Unipetrol Group are the owners or tenants of this property, plant or equipment where the subsidiaries have no use for such assets. SYNTHOS Kralupy, a.s. (previously KAUČUK, a.s.), which is not a part of Unipetrol Group any more, is a major owner of buildings and equipment on the premises of the chemical production facilities in Kralupy nad Vltavou.

On the basis of the agreement on the sale of KAUČUK, a.s., to the new owner, Firma Chemiczna Dwory S.A., Republic of Poland, an agreement benefiting SYNTHOS Kralupy, a.s., on the pre-emptive rights to specific in Chemical Production Complex Kralupy land used for its activities was executed. The pre-emptive rights are registered in the land register.

Tangible assets are described in detail in the Notes to the Consolidated Financial Statements. The land owned by UNIPETROL, a.s., is not encumbered by any liens.

The land is zoned for industrial activities and its use is governed by easement agreements executed between the owner of the land, UNIPETROL, a.s., and the companies operating on both cadastral areas. The easements are provided for a consideration.

Capital resources

Operational financing of the Group is provided mainly at the level of the parent company UNIPETROL, a.s. using available resources within existing cash pools or operational loans provided by reputable banks.

Thanks to the planned merger of Česká rafinérská with UNIPETROL RPA, credit lines were rearranged within the Group in 2016 with the aim of existence of bilateral loan agreements only between UNIPETROL, a.s. and the banks. The total amount of credit lines originating from these contracts is CZK 11,701 million (including a separate credit line for Unipetrol RPA of CZK 150 million in total), thereof CZK 10,123 million may be drawn in the form of bank overdrafts.

As part of operational financing of the parent company UNIPETROL, a.s. bank guarantees of CZK 2,018 million were provided for Unipetrol RPA's liabilities (worth of CZK 1,043 million), Spolana's liabilities (worth of CZK 51 million), Paramo's liabilities (worth of CZK 381 million) and liabilities of Unipetrol Slovensko (worth of CZK 543 million).

Additional bank guarantees were provided within the Group for Česká rafinérská (worth of CZK 21 million), Unipetrol Deutschland (worth of CZK 369 million) and Unipetrol RPA (worth of CZK 143 million).

On top of that, UNIPETROL, a.s., issued parent company guarantees for UNIPETROL RPA, s.r.o., and SPOLANA a.s. to secure excise tax and liabilities from the concluded contracts.

Risk management

Risk management in the Group is provided mainly by the documents "Financial Risk Management Policy" and "Market Risk Management Policy". These documents define the rules and recommendations regulating financial management activities in Unipetrol Group companies.

The documents create a module of rules and recommendations for risk management, and their purpose is to provide a formal framework for treasury operations. Appendices to these documents set out the credit limits for counterparties, dealers' competencies, permitted transactions and the tools for which special permission is required.

The documents define the permissions for each of the Treasury departments and, as the case may be, for the authorized financial management department of subsidiary Unipetrol RPA to carry out activities relating to associated (underlying) risks and reducing financial and commodity risks for the Group companies while meeting the conditions for the definition of hedging operations from the IFRS perspective.

The applicable financial risk management policy is based on the principle that the Group companies act as conservative entities which on no account use their funds or positions for speculative purposes.

Explanation on the use of alternative performance measures

Indicator	Definition	Purpose	Reconciliation
EBITDA	Operating profit/ (loss) + depreciation and amortization	The indicator shows operating performance of the company. It allows comparing with other companies because it does not depend on the accounting depreciation method, capital structure or tax regime.	*see note 3.1. of the notes to the consolidated financial statements*
EBITDA LIFO	Operating profit/ (loss) + depreciation and amortization + LIFO effect	The indicator shows operating performance of the company and additionally it shows the impact of the change in the crude oil price. Using the LIFO methodology for inventory valuation (Last-In-First-Out).	*in CZK m* / ***for year 2015*** / ***for year 2016*** EBITDA: 10,643 / 11,928 LIFO effect: 236 / 109 **EBITDA LIFO: 10,879 / 12,037**
EBIT	Operating profit/ (loss)	The indicator shows operating performance of the company without the influence of the company's capital structure and taxation. It allows monitoring of revenues and expenses on the operational level.	*see note 3.1. of the notes to the consolidated financial statements*
EBIT LIFO	Operating profit/ (loss) + LIFO effect	The indicator shows operating performance of the company without the influence of the company's capital structure and taxation and additionally, it shows the impact of the change in the crude oil price. Using the LIFO methodology for inventory valuation (Last-In-First-Out).	*in CZK m* / ***for year 2015*** / ***for year 2016*** EBIT: 8,716 / 9,897 LIFO effect: 236 / 109 **EBIT LIFO: 8,952 / 10,006**
Free cash flow (FCF)	Net cash flow from operating activities + net cash used in investing activities	The indicator measures the financial performance of the company. It shows what amount of cash is the company able to generate after deducting the capital expenses.	*see Consolidated statement of cash flows*
Net working capital	Inventories + trade and other receivables - trade and other liabilities	The indicator shows how much operating funds remains available to the company when all its short-term obligations are paid. It allows measuring of short-term financial health of the company.	*see note 20.7.3. of the notes to the consolidated financial statements*
Net debt / net cash	Non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents	The indicator shows the financial debt less cash and cash equivalents. It allows assessing the overall indebtedness of the company, i.e. ability of the company to pay all its debts if they were payable at the same time using only the available cash and cash equivalents.	*see note 20.7.1. of the notes to the consolidated financial statements*
Net debt / (equity – hedging reserve)	Net debt / (total equity – hedging reserve) x 100%	The indicator shows the financial debt in proportion to the equity less the hedging reserve (the amount of the hedging reserve results from the valuation of derivatives meeting the requirements of cash flow hedge accounting). It allows monitoring the company's debt level.	Net debt *see note 20.7.1. of the notes to the consolidated financial statements* Equity *see Consolidated statement of financial position* Hedging reserve *see Consolidated statement of financial position*

<table>
<tr><th>Indicator</th><th>Definition</th><th>Purpose</th><th colspan="3">Reconciliation</th></tr>
<tr><td rowspan="12">Net debt / EBITDA</td><td rowspan="12">Net debt / EBITDA, where the EBITDA indicator is adjusted for extraordinary (one-off) items, which do not relate to the ordinary economic activity.</td><td rowspan="12">The indicator measures the company’s ability to pay its debt. The indicator shows approximately in how long is the company able to pay back its debt out of its normal source of operating cash flow.</td><td colspan="3">Net debt
see note 20.7.1. of the notes to the consolidated financial statements

EBITDA
see note 3.1. of the notes to the consolidated financial statements</td></tr>
<tr><td>in CZK m</td><td>for year 2015</td><td>for year 2016</td></tr>
<tr><td>EBITDA</td><td>10,643</td><td>11,928</td></tr>
<tr><td colspan="3">indicator adjusted for:</td></tr>
<tr><td>gain on acquisition</td><td>(-) 429</td><td>-</td></tr>
<tr><td>impairment of the steam cracker unit</td><td>(+) 597</td><td>-</td></tr>
<tr><td>other expenses incurred in the relation to the steam cracker unit accident</td><td>(+) 156</td><td>-</td></tr>
<tr><td>impairment allowance of the downstream segment assets reversal</td><td>-</td><td>(-) 1,919</td></tr>
<tr><td>EBITDA</td><td>10,967</td><td>10,009</td></tr>
<tr><td>Net debt</td><td>(5,857)</td><td>(2,757)</td></tr>
<tr><td>Net debt / EBITDA</td><td>(0.5)</td><td>(0.3)</td></tr>
<tr></tr>
<tr><td>Capital expenditures (CAPEX)</td><td>Additions to non-current asset.</td><td>The indicator shows the additions to non-current assets of the company for the period. It allows monitoring of investing activities of the company.</td><td colspan="3">see note 3.1. of the notes to the consolidated financial statements</td></tr>
</table>

petrochemistry

Ivana Vaňková

Petrochemistry is the future. It is the most dynamically developing segment of the chemical industry. It provides advancement to manufacturing, automotive and medical industries. By applying her research and science expertise, Ivana Vaňková has contributed to the growth of the petrochemical unit for over 25 years. She works in the petrochemical laboratories, testing samples for the steam cracker unit.

Key environmental activities

In 2016, the Unipetrol Group's environmental protection activities concentrated primarily on new obligations stemming from the implementation of the Industrial Emissions Directive, the ongoing review of best available techniques (BAT) reference documents (BREFs) and the monitoring, evaluation and preparation of measures relating to new or amended national and European Union legislation.

Unipetrol Group companies engaged, both directly and through industry associations and NGOs, in the preparation and consultation of new Czech and EU legislation and related documents (e.g. the BREFs). In 2014, work on the BREF for the refining of mineral oil and gas was completed and the BAT conclusions were published in the form of a European Commission Decision. In 2016, the BAT conclusions for wastewater and waste gas treatment were published. Work on the BREFs for large combustion plants and the large-volume organic chemical industry approached completion.

In 2015, both Unipetrol Group refining companies, i.e. Česká rafinérská and Paramo, prepared an analysis of conformity with the newly published BREF, after which they reviewed the existing integrated permits. An amendment to the Litvínov refinery's integrated permit in late 2015 and to the Kralupy refinery's integrated permit in early 2016 implemented the requirements of conclusions on best available techniques. In the first half of 2016, the integrated permits for both of Paramo's economic centers (in Pardubice and Kolín) were amended in response to a review of binding conditions relating to conformity with the newly released BAT conclusions. Activities were commenced to ensure compliance with the requirements of best available techniques for the refinery sector.

At Unipetrol RPA the impacts of each version of the relevant BREFs are analyzed on an ongoing basis.

Development of selected indicators of the environmental performance of Unipetrol Group

Carbon dioxide emissions under the EU scheme for trading in carbon dioxide emission allowances (EU ETS)

When the second trading period started on 1 January 2008, conditions for greenhouse gas emission monitoring and reporting were tightened up following the expiry of certain exemptions applicable in the initial period. Under the new allocation plan issued in the form of Government Regulation No. 80/2008 for the 2008-2012 trading period, allowances were also issued to Unipetrol Group companies. The third trading period began in 2013 and will last until 2020. This third trading period has witnessed a major rise in the number of CO_2 emission sources monitored, accompanied by a change in the way quantities of CO_2 emissions are calculated, monitored and reported. The calculation used for the assignment of freely allocated allowances was also overhauled.

The 2016 emission calculation indicates that the annual number of allowances assigned at Unipetrol RPA covers approximately 51% of annual emissions. The year-on-year increase in the share of allowances covered by the allocation was prompted by a nine-month steam cracker unit shutdown and the scaling down of production at other production plants. The allocation for the next year will be used to cover the allowance deficit, and purchases will be made to cover the deficit left over. Paramo has long operated with a considerable surplus of allowances from previous allocation periods. The fall in CO_2 emissions reported by Česká rafinérská in 2016 can be attributed to the limited operation of the Kralupy refinery and planned turnaround at the Litvínov refinery. Lower utilization of the steam cracker unit will partially reduce Unipetrol RPA's freely allocated allowances in 2017.

Allocation of allowances to Unipetrol Group companies under the National Allocation Plan for 2005-2007 and 2008-2012, total allocation for the 2013-2020 period, and actual CO_2 emissions in 2005-2016 (externally verified)

Allocation of allowances (thousands) Actual emissions (thousands of tons per year)	Unipetrol RPA	Česká rafinérská[1]	Paramo	Unipetrol Group
Annual allocations under NAP 2005-2007	**3,495**	**1,100**	**270**	**4,865**
2005: actual CO_2 emissions	3,071	803	194	4,068
2006: actual CO_2 emissions	3,092	910	196	4,198
2007: actual CO_2 emissions	2,889	904	191	3,984
Annual allocations under NAP 2008-2012	**3,121**	**867**	**199**	**4,187**
2008: actual CO_2 emissions	2,762	910	176	3,848
2009: actual CO_2 emissions	2,558	806	172	3,536
2010: actual CO_2 emissions	2,468	883	170	3,521
2011: actual CO_2 emissions	2,136	835	148	3,119
2012: actual CO_2 emissions	1,944	856	95	2,895
Total allocation for the 2013-2020 period	**10,159[2]**	**6,494**	**445**	**17,098**
2013: actual CO_2 emissions	3,062	772	47	3,881
2014: actual CO_2 emissions	3,138	877	37	4,052
2015: actual CO_2 emissions	2,841	889	36	3,766
2016: actual CO_2 emissions	2,491	678	37	3,206

[1] 100% of Česká rafinérská.

[2] In the period 2013-2020 there was a significant increase in the number of sources of greenhouse gas emissions included in the EU ETS. Due to changes in the operation of the facility the allocation may change further

Development of emissions of selected pollutants

In the past four years, emissions of pollutants to the environment have stabilized at the level achieved by the enormous environmental investments made over the course of the previous decade. At Česká rafinérská and Unipetrol RPA, SO_2 emissions were lower than in 2011 and 2012 in the wake of extensive repairs to and the subsequent seamless operation of liquid sulfur production facilities.

Sulfur dioxide emissions in the Group companies (t/year)

Year	2011	2012	2013	2014	2015	2016
Unipetrol Group	14,648	13,760	7,084	6,307	6,469	4,896

COD pollutant emissions in the Group companies (t/year)

Year	2011	2012	2013	2014	2015	2016
Unipetrol Group	519	459	431	432	372	307

BOD_5 pollutant emissions in the Group companies (t/year)

Year	2011	2012	2013	2014	2015	2016
Unipetrol Group	112	107	90	73	43	43

Major Accident Prevention under Act No 224/2015 Coll.

In 2015 there was an accident at the steam cracker unit of Unipetrol RPA classified as a major accident. The accident was reported in accordance with legislative requirements and a written report of the major accident was delivered within 24 hours to the Regional Office. Furthermore, a draft of the final report on the occurrence and impacts of the major accident was also prepared and submitted. An investigation by the Police of the Czech Republic had not been completed as of the end of 2016.

No accident classified as a major accident occurred in terms of Act No. 224/2015 in any of the companies of Unipetrol Group in 2016.

Other plant accidents which occurred during the year were managed in-house or by the in-house (company's) fire brigades and the response to them was adequate to rectify the situation and prevent their recurrence. The effects of minor operating accidents did not extend beyond the premises of the companies of the Group.

Mitigation of old environmental burdens

Further to a Czech government privatization-related decision, the Unipetrol Group companies and the Ministry of Finance entered into the following contracts on how to deal with environmental liabilities incurred prior to privatization (Environmental Contract):

UNIPETROL, a.s. (as the successor organization to CHEMOPETROL Group, a.s.) – Contract No. 14/94, as amended by Addendum 3 of 25 January 2005; UNIPETROL, a.s. (as the successor organization to KAUČUK Group, a.s.) – Contract No. 32/94, as amended by Addendum 1 of 4 July 2001; PARAMO, a.s. – Contract No. 39/94, as amended by Addendum 2 of 4 July 2001, and Contract No. 58/94, as amended by Addendum 4 of 27 June 2016; BENZINA, s.r.o. – Contract No. 184/97, as amended by Addendum 7 of 18 January 2007.

In 2016, active clean-up work was carried out at the Litvínov production complex. This included groundwater decontamination, the pumping of underground drains, and the excavation and subsequent biodegradation (or disposal) of contaminated soil. Remediation systems were gradually added at the various contamination plumes. Water was pumped from the remediation system on the site of the former phenol production plant. At the former Růžodol sludge lagoons, a new drain was operated with downstream remediation technology, and additional clean-up was carried out at local sites with spatially delimited contamination. Drainage water was pumped from lime sludge dumps as a protective remediation measure. The updated risk analysis of the complex and the surrounding area was completed and approved. Zoning decision and building permit documentation for the K4a dump's hydraulic protective system was updated.

Monitoring of the quality of groundwater at contamination plume E was launched at the Kralupy nad Vltavou complex in June 2016. This monitoring is a follow-up to two stages of pumping for protective remediation and monitoring implemented between 2011 and 2015. A ruling handed down by the Supreme Administrative Court in Brno lifted the Czech Environmental Inspectorate's 2011 decision ordering UNIPETROL, a.s. to fix the defective condition of its barrel disposal site in Nelahozeves. As a result, the Inspectorate's previous decision from 2003 remained in force. In January 2016, the Czech Environmental Inspectorate issued an order requiring UNIPETROL, a.s. to take action to fix the defective condition of its barrel disposal facility in Nelahozeves. This action involved the monitoring of groundwater and surface water quality pending the commencement of the actual remediation work. There were four rounds of monitoring in 2016. In 2016, a tendering procedure was held to find a contractor for the remediation work. The site was handed over to the successful tenderer, Aquatest a.s., in September 2016 so that preparatory work could be carried out. The remediation work itself did not start in 2016.

At Paramo (the Pardubice complex), work on groundwater remediation was carried out. Remediation drains were pumped up the U Trojice site. An open competition for a remediation supplier (Stage 1A) was completed at the Ministry of Finance. In addition, the Nová Ves dumping site underwent remediation, and pumping was carried out at the Časy dumping site for protective remediation purposes. At the Kolín complex, work on groundwater remediation was carried out. Contaminated soil at the railway yard and former mixing station was excavated and disposed of. The excavation of the sludge lagoons' dams and subsoil was completed and they were technically reclaimed.

At Benzina, maintenance-related clean-up work (pumping for protective remediation purposes) was carried out at the Nový Bohumín, Šumperk and Točník distribution storage facilities. The stages of additional surveying, the production of remediation projects, protective pumping tendering procedures, monitoring and post-remediation monitoring are under way at other sites.

An overview of MF ČR financial guarantees and utilization of financial resources in Unipetrol Group (CZK million incl. VAT)

	Unipetrol Litvínov	Unipetrol Kralupy	Paramo Kolín	Paramo Pardubice	Benzina	Spolana Neratovice	Group total
MF ČR financial guarantees	6,012	4,244	1,907	1,241	1,349	8,159	**22,912**
Costs covered by the MF ČR in 2016	171.7	0.3	97.1	11.8	4.3	2.2	**287.4**
Costs covered by the MF ČR since the start of work	4,186	52	1,860	524	481[1]	5,595	**12,698**
Projected costs of future work	2,519	788	41	2,750	1,363	1,741	**9,202**
Total (estimated) remediation costs	**6,705**	**840**	**1,901**	**3,274**	**1,844**	**7,336**	**21,900**

[1] Benzina – excluding costs spent on remediation works until 1997 in the amount of approximately CZK 500 million.

Costs for environmental protection

Environmental investments

Environmental investments are defined as capital investment projects that stem directly from environmental protection legislation requirements and are closely linked to the implementation of integrated pollution prevention in practice. The Unipetrol Group made the following significant environmental investments in 2016:

Česká rafinérská

Environmental protection investment projects at Česká rafinérská totaled CZK 80.8 million and focused on the following in particular:

- Reconstruction of the sewer systems at the Litvínov refinery – a sewer system repair project interlinking the visbreaking unit with the de-oiling facility was completed. Work started on the preparation of a project to repair the Compact Block sewer at the New Litvínov Refinery and production units for the preparation of petrochemical input materials.
- At the Litvínov refinery, the first stage of a project to reconstruct the New Litvínov Refinery slop system was implemented. This project will continue in the next year.
- In 2016 work continued on preparing projects to ensure compliance with the requirements of best available techniques (BAT). The system in place for continuous measurements of emissions into the air was supplemented at selected sources at both refineries. At the Kralupy refinery a project to install DeSOx additive dosing at the fluid catalytic cracker unit will be implemented.
- At the Kralupy refinery a project to repair storage tank yards was carried out.
- At the Litvínov refinery the first stage of a project to repair trapping equipment on tapping track 69 was implemented.

Unipetrol RPA

Environmental protection investment projects at Unipetrol RPA totaled CZK 58.6 million and focused on the following in particular:

- Preparation for the installation of DeNOx and DeSOx technology at CHP plant T700.
- The replacement of the continuous measurement of emissions at CHP plant T700.
- The reconstruction of the sewer, including manholes, at the steam cracker unit.
- Water management in the steam cracker unit's handling areas.
- Completion of the construction of a facility to clean tanks at the mechanical final-cleaning station.
- Completion of filter replacement at the homogenization silos of the polypropylene production plant.
- Completion of the construction of a cleaning area for the requirements of shutdown work.
- Preparation of design documentation for the construction of a new power-generating unit at the steam cracker unit, including an EIA.

Numerous other measures with a positive environmental impact were carried out within the scope of the operating costs of equipment maintenance.

Paramo

Environmental protection investment projects at Paramo totaled CZK 1.8 million and focused on the installation of a ground flare – a safety feature of the BA Storage Facility (Fuel Operation).

Benzina

Environmental protection projects at Benzina totaled CZK 289 thousand and focused on the following in particular:

- Replacement of the organic wastewater treatment plant at the Hradec nad Svitavou filling station.
- The continuation of a project to change the way in which rainwater is disposed of. This is in various stages of implementation, from a feasibility study to the commencement of building permit proceedings. In 2016, this project encompassed the remaining 34 filling stations in the Benzina network. For two of them, a feasibility study with the recommendation to proceed was delivered. For one the conclusion was negative on account of the inappropriate hydrogeological conditions. Permit proceedings were initiated for another filling station. In another seven cases, the original feasibility study was referred for revision.
- Closure of the unsuitable organic wastewater treatment plant at the Sušice filling station and the installation of a drain to channel foul water into the public sewer system.

Capital expenditures on environmental protection in the Group (CZK million)

Year	2011	2012	2013	2014	2015	2016
Unipetrol Group	281	213	117	252	320	142

Environmental operating costs

Costs associated with the operation of air protection facilities, wastewater treatment, waste management, the operation of environmental management systems, the monitoring of substances released into the various components of the environment, the environmental impact analysis process, integrated pollution prevention, and other related environment activities are referred to as environmental operating costs.

Developments in environmental operating costs between 2011 and 2016 are shown in the following overview.

Environmental operating costs in the Group (CZK million)

Year	2011	2012	2013	2014	2015	2016
Unipetrol Group	841	734	679	617	629	646

Total environmental costs

The total costs of environmental protection within the Unipetrol Group encompass the costs of environmental investments, the operating costs of environmental protection, the costs of cleaning up historical environmental damage, charges for air pollution, the discharge of wastewater and landfilling, provisioning for landfill reclamation and compensation for pollution damage to forests.

Developments in the total costs of environmental protection between 2011 and 2016 are shown in the following overview.

Total environmental costs in the Group (CZK million)

Year	2011	2012	2013	2014	2015	2016
Unipetrol Group	1,576	1,434	1,317	1,163	1,183	1,110

The “Responsible Undertaking in the Field of Chemistry - Responsible Care” Program

The Responsible Care (hereinafter RC) Program is a voluntary chemical industry initiative adopted worldwide, aimed at promoting the industry’s sustainable development with responsive enhancements to the safety of facilities and product transportation, along with improvements in the protection of human health and the environment. The program is a reflection of the long-term strategy coordinated by the International Council of Chemical Associations (ICCA) and, in Europe, by the European Chemical Industry Council (CEFIC). The contribution made by the RC Program to sustainable development was recognized by the conferral of a UN Environment Program award at the global summit in Johannesburg.

The national version of the RC Program is the Responsible Business in the Chemical Industry Program, officially announced in October 1994 by the Minister for Industry and Trade and the President of the Czech Chemical Industry Association (SCHP ČR). Since 2008 the program has complied with the conditions of the RC Global Charter.

The right to use the Responsible Care Program logo, following a successful public defense, was again conferred on UNIPETROL, a.s. and UNIPETROL DOPRAVA, s.r.o. in 2014. UNIPETROL RPA, s.r.o., following the renewal of its SCHP ČR membership in 2016, will re-defend the right to use the RC logo in 2017. As PARAMO, a.s. is no longer a member of the Czech Chemical Industry Association, it does not avail itself of the right to use the logo, but continues to adhere to the principles.

More details on environmental protection results are published in the separate Unipetrol Group Joint Report on Occupational Health, Safety and Environmental Protection, and can also be found at the Company’s website at www.unipetrol.cz

retail

Lenka Aubrechtová

With the largest network of filling stations in our country, Benzina really knows how to run its activities to the fullest. In doing so, it can rely on employees like Lenka Aubrechtová. Lenka is in charge of customer Tank Cards, for which the demand has recently grown thanks to the best quality of fuels and continued development of petrol stations.

Structure of the Group

UNIPETROL, a.s., is the parent company of Unipetrol Group. It is a company with a majority owner and as such it is a controlled entity. The major shareholder or the majority owner respectively, is Polski Koncern Naftowy ORLEN Spółka Akcyjna ("PKN ORLEN S.A.").

Controlling person	Interest with voting rights as of 31 December 2016	Controlling agreement
PKN ORLEN S.A. ul. Chemików 7, 09-411 Płock, Republic of Poland	62.99%[1]	none

[1] Unless stated below that the ownership interest is different from the proportion of voting rights, it can be assumed that both proportions are identical.

The company PAULININO LIMITED owns 20.02% of shares. The remaining shares of the company (16.99%) are held by minority shareholders, both legal entities and natural persons.

PKN ORLEN S.A. is the parent company of ORLEN Group and UNIPETROL, a.s., together with the companies controlled by it ("Unipetrol Group") are among the key members of ORLEN Group.

UNIPETROL, a.s., is independent of all other entities in ORLEN Group. There are no known arrangements that could result in a change in control over the company.

In accordance with Section 18.3 of Attachment I of the Commission regulation No. 809/2004, related to the directive of the European Parliament and Council 2003/71/ES, UNIPETROL, a.s., states that the scope of activities, rights and obligations of the shareholders, including the control limits, result from the Articles of Association of UNIPETROL, a.s. Supervisory Board is the controlling body of UNIPETROL, a.s. In its internal regulations UNIPETROL, a.s., in order to prevent abuse of controlling possibilities, regulates methods and possibilities of information providing, where the rule of equal treatment of all the shareholders of UNIPETROL, a.s. applies.

ORLEN Group

The ORLEN Group companies operate in the area of crude oil processing and the production of a broad range of refinery, petrochemical and chemical products, and also in the transport, wholesaling, and retailing of these products. The ORLEN Group also includes companies operating in some other related areas. The key companies of the ORLEN Group operate in Poland, the Czech Republic, Lithuania, and Germany. The Group has 6 refineries: 3 in Poland (Płock, Trzebinia, and Jedlicze), 2 in the Czech Republic (Litvínov and Kralupy) and 1 in Lithuania (Mazeikiu). The integrated refinery and petrochemical complex in Płock is among the most advanced European operations of this type. The retail network of ORLEN Group comprises of approximately 2,700 outlets offering services in Poland, Germany, the Czech Republic, and Lithuania. In Poland fuel filling stations operate under two brands: ORLEN (the premium brand) and BLISKA (the economy brand). Clients in Germany are served at stations branded STAR, and in the Czech Republic at outlets bearing the standard Benzina and the premium Benzina Plus logos. Fuel filling stations in Lithuania operate under the ORLEN Lietuva and Ventus brands.

PKN ORLEN S.A.

PKN ORLEN S.A. is the parent company of ORLEN Group and operates as a public company whose shares are quoted and traded on the Warsaw Stock Exchange.

PKN ORLEN S.A. shareholders structure as of 31 December 2016

Shareholder	Number of shares	Number of votes	Share capital in %	Number of votes in %
Polish State Treasury	117,710,196	117,710,196	27.52%	27.52%
Nationale-Nederlanden OFE (fund)[1]	39,785,564	39,785,564	9.3%	9.3%
Aviva OFE (fund)[1]	31,257,000	31,257,000	7.31%	7.31%
Others	238,956,301	238,956,301	55.87%	55.87%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

[1] According to the information from the Ordinary General Meeting of PKN ORLEN held on 3 June 2016.

PKN ORLEN S.A. shareholders structure as of 24 January 2017

Shareholder	Number of shares	Number of votes	Share capital in %	Number of votes in %
Polish State Treasury	117,710,196	117,710,196	27.52%	27.52%
Nationale-Nederlanden OFE (fund) [1]	35,590,112	35,590,112	8.32%	8.32%
Aviva OFE (fund) [1]	30,000,000	30,000,000	7.01%	7.01%
Others	244,408,753	244,408,753	57.15%	57.15%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

[1] According to the information from the Extraordinary General Meeting of PKN ORLEN held on 24 January 2017.

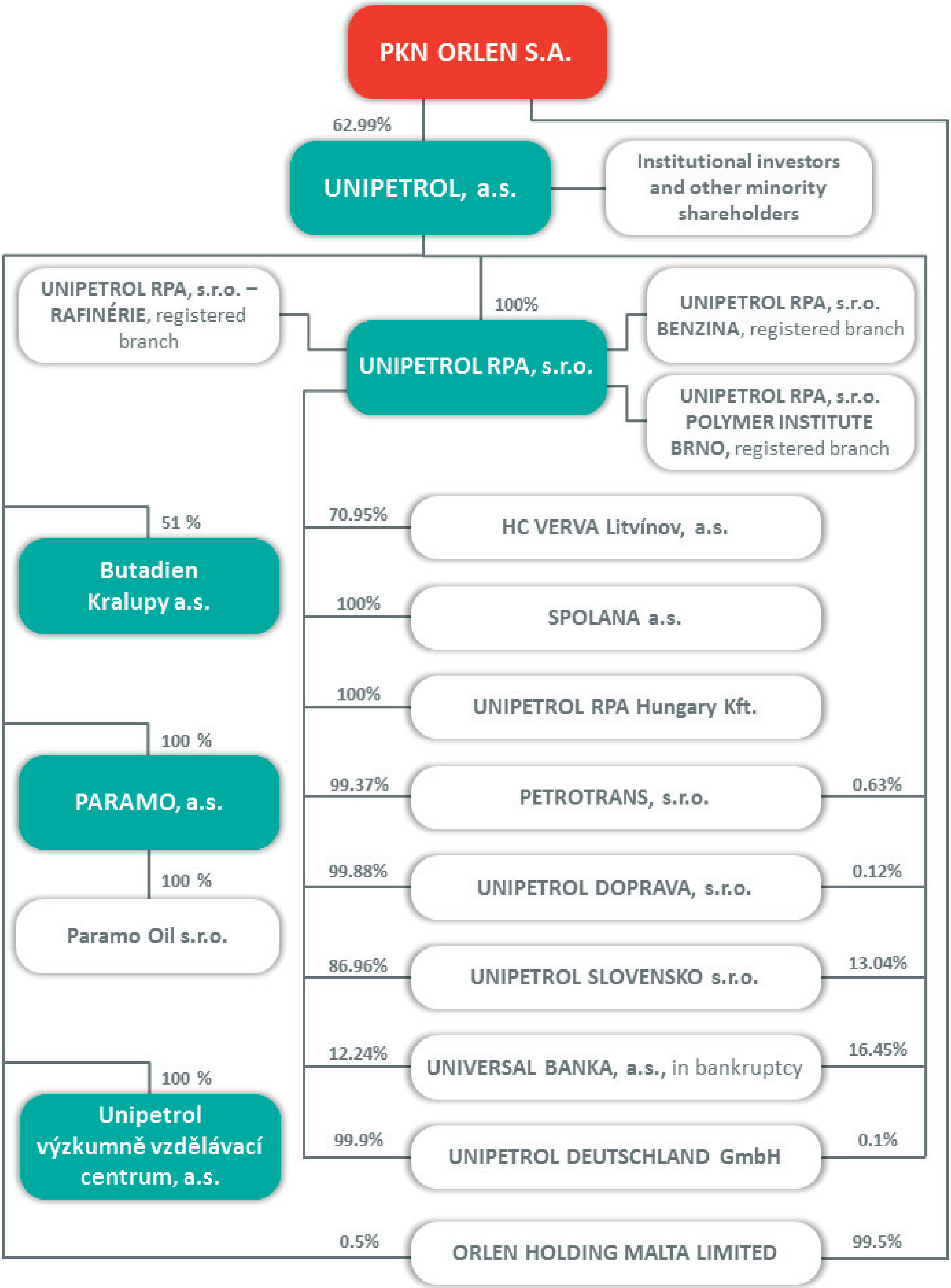
According to Polish capital market regulations PKN ORLEN receives information only about shareholders holding at least 5% of the total number of votes at the general meeting. According to Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading and on Public Companies, dated 29 July 2005 (Journal of Laws 2013, item 1,382) an entity or person which has achieved or exceeded 5% of the total number of votes at the general meeting in a public company is obliged to immediately inform this company and the Polish Financial Authority about this change.

Main companies of ORLEN Group

Company name	Scope of business
Production and sales	
PKN ORLEN S.A.	crude oil processing, production of refining and petrochemical products, wholesale and retail sale of products
ORLEN Lietuva Group	crude oil processing, production of refining products and wholesale of company's products on the local market as well as inland export and seaborne through maritime terminal Klajpedos Nafta
Unipetrol Group	crude oil processing, production and distribution of refining, petrochemical and chemical products
ANWIL Group	production of nitrogen fertilizers, plastics (PVC, PVC granules and PVC sheets) and chemicals for manufacturing industry and for agriculture (ammonium, chlorine, nitric acid, industrial salt and caustic soda)
ORLEN Południe S.A.	crude oil processing, production and sale of biofuels and oils, logistic and warehousing services, waste oils processing, manufacture and sale of oil bases, heating oils and organic solvents
ORLEN Oil Group	production, distribution and sale of grease oils, lubricants, oil bases, car care products and maintenance liquids
ORLEN Paliwa Sp. z o.o.	wholesale of liquid fuels and LPG
ORLEN Asfalt Sp. z o.o.	sales of road asphalt, modified, multi-type, industrial and asphalt specifics
Inowrocławskie Kopalnie Soli SOLINO S.A.	oil and fuels warehousing, packaging of salt and brine extraction
ORLEN Deutschland GmbH	retail sales of fuels in Germany
Petrolot Sp. z o.o.	distribution of aviation and automotive fuels, fuels warehousing, storing, filling, and dispatching services
Services	
ORLEN KolTrans Sp. z o.o.	rail transport of goods, rail servicing of loading and discharge, product shipping, repairs and upgrade of railway rolling stock
ORLEN Transport S.A.	transport of fuels, liquid gas and heavy chemicals
ORLEN Serwis S.A.	repairs and maintenance services of electronic and optical equipment
ORLEN Eko Sp. z o.o.	waste management with the use of waste recovery and disposal installation, including among others hazardous waste, provision of safety and hygiene services, fire prevention and environment protection services, rescue and fire equipment maintenance
Upstream	
ORLEN Upstream Group	production of hydrocarbons on the Canadian market and conduct exploration and extraction projects in the Polish market

Structure of the Group

As of the Annual Report approval date:



Ownership interests

Changes in ownership interests of Unipetrol Group

Ownership interests of parent company UNIPETROL, a.s.

As of 1 January 2016 the company Výzkumný ústav anorganické chemie, a.s. changed its name to Unipetrol výzkumně vzdělávací centrum, a.s.

As of 2 August 2016, UNIPETROL SERVICES, s.r.o., CHEMOPETROL, a.s. and UNIPETROL RAFINÉRIE, a.s. (dissolved companies) were merged with UNIPETROL RPA, s.r.o. (successor company).

As of 9 September 2016, UNIPETROL AUSTRIA HmbH was deleted from the commercial register.

On 1 January 2017, ČESKÁ RAFINÉRSKÁ, a.s. (dissolved company) was merged with UNIPETROL RPA, s.r.o. (successor company). UNIPETROL RPA, s.r.o., as a legal successor established a branch UNIPETROL RPA, s.r.o. - RAFINÉRIE, registered branch.

There were no other changes in ownership interests during 2016 and during 2017 till the Annual Report approval date.

Ownership interests of subsidiaries

UNIPETROL RPA, s.r.o.

UNIPETROL RPA, s.r.o. holds equity interests in UNIPETROL DOPRAVA, s.r.o. (99.88%), UNIPETROL SLOVENSKO s.r.o. (86.96%), UNIPETROL DEUTSCHLAND GmbH (99.9%), PETROTRANS, s.r.o., (99.37%), UNIPETROL RPA Hungary Kft (100%), SPOLANA a.s. (100%) and HC VERVA Litvínov, a.s. (70.95%), which did not change during 2016 and during 2017 till the Annual Report approval date on 13 March 2017.

CHEMOPETROL, a.s. (100%) was merged with UNIPETROL RPA, s.r.o., and with effect as of 2 August 2016 it ceased to exist.

UNIPETROL RPA, s.r.o. became the sole shareholder of SPOLANA a.s. as of 14 June 2016.

Nadace Unipetrol ("Unipetrol Foundation") was registered in the Register of Foundations on 27 December 2016.

PARAMO, a.s.

PARAMO, a.s., is the sole owner of Paramo Oil s.r.o.

On 1 January 2016, UNIPETROL SLOVENSKO s.r.o. and MOGUL SLOVAKIA s.r.o. merged with legal succession of UNIPETROL SLOVENSKO s.r.o.

There were no other changes in ownership interests during 2016 and 2017 till the Annual Report approval date.

Ownership interests held by UNIPETROL, a.s. as of 31 December 2016

Company	Based at	Company No.	Registered capital	Ownership interest (% of registered capital)
UNIPETROL RPA, s.r.o.	Litvínov, Záluží 1	27597075	CZK 11,147,964,000	100.00
Unipetrol výzkumně vzdělávací centrum, a.s.	Ústí nad Labem, Revoluční 1521/84	62243136	CZK 60,000,000	100.00
PARAMO, a.s.	Pardubice-Svítkov, Přerovská 560	48173355	CZK 2,036,078,000	100.00
ČESKÁ RAFINÉRSKÁ, a.s.	Litvínov, Záluží 2	62741772	CZK 9,348,240,000	100.00
Butadien Kralupy a.s.	Kralupy nad Vltavou, O. Wichterleho 810	27893995	CZK 300,000,000	51.00
UNIPETROL SLOVENSKO s.r.o.	Bratislava, Jašíkova 2, Slovakia	35777087	EUR 7,635	13.04
UNIVERSAL BANKA, a.s. in receivership	Prague, Senovážné náměstí 1588/4	48264865	CZK 1,520,000,000	16.45
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen, Paul-Ehrlich-Str. 1B, Germany	TAX 04424705213	EUR 1,048,000	0.10
UNIPETROL DOPRAVA, s.r.o.	Litvínov, Růžodol 4	64049701	CZK 806,000,000	0.12
PETROTRANS, s.r.o.	Prague 8, Střelničná 2221	25123041	CZK 16,000,000	0.63
ORLEN HOLDING MALTA	Level 3, Triq ir-Rampa ta' San Giljan, Balluta Bay, St Julians, STJ1062, Malta	C 39945	USD 5,050,000	0.50

Ownership interests held by UNIPETROL, a.s. as of 13 March 2017

Company	Based at	Company No.	Registered capital	Ownership interest (% of registered capital)
UNIPETROL RPA, s.r.o.	Litvínov, Záluží 1	27597075	CZK 11,147,964,000	100.00
Unipetrol výzkumně vzdělávací centrum, a.s.	Ústí nad Labem, Revoluční 1521/84	62243136	CZK 60,000,000	100.00
PARAMO, a.s.	Pardubice-Svítkov, Přerovská 560	48173355	CZK 2,036,078,000	100.00
Butadien Kralupy a.s.	Kralupy nad Vltavou, O. Wichterleho 810	27893995	CZK 300,000,000	51.00
UNIPETROL SLOVENSKO s.r.o.	Bratislava, Jašíkova 2, Slovakia	35777087	EUR 7,635	13.04
UNIVERSAL BANKA, a.s. in receivership	Prague, Senovážné náměstí 1588/4	48264865	CZK 1,520,000,000	16.45
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen, Paul-Ehrlich-Str. 1B, Germany	TAX 04424705213	EUR 1,048,000	0.10
UNIPETROL DOPRAVA, s.r.o.	Litvínov, Růžodol 4	64049701	CZK 806,000,000	0.12
PETROTRANS, s.r.o.	Prague 8, Střelničná 2221	25123041	CZK 16,000,000	0.63
ORLEN HOLDING MALTA	Level 3, Triq ir-Rampa ta' San Giljan, Balluta Bay, St Julians, STJ1062, Malta	C 39945	USD 5,050,000	0.50

Main companies

UNIPETROL RPA, s.r.o.

Registered office: Litvínov, Záluží 1, 436 70

Company No.: 27597075

The company is a successor in title to the dissolved companies (i) CHEMOPETROL, a.s., and UNIPETROL RAFINÉRIE, a.s., which ceased to exist on 1 August 2008 upon merger with UNIPETROL RPA, s.r.o., (ii) BENZINA, s.r.o., which ceased to exist on 1 January 2016 upon merger with UNIPETROL RPA, s.r.o., (iii) POLYMER INSTITUTE BRNO, spol. s r.o., which ceased to exist on 1 January 2016 upon merger with UNIPETROL RPA, s.r.o., (iv) UNIPETROL SERVICES, s.r.o., CHEMOPETROL, a.s. and UNIPETROL RAFINÉRIE, s.r.o., which ceased to exist on 2 August 2016 upon merger with UNIPETROL RPA, s.r.o. and (v) ČESKÁ RAFINÉRSKÁ, a.s., which ceased to exist on 1 January 2017 upon merger with UNIPETROL RPA, s.r.o.

Ownership structure as of 31 December 2016 and 13 March 2017: UNIPETROL, a.s., holds 100% of the registered capital.

UNIPETROL RPA, s.r.o. established three registered branches: UNIPETROL RPA, s.r.o. – BENZINA, registered branch, UNIPETROL RPA, s.r.o. – POLYMER INSTITUTE BRNO, registered branch and UNIPETROL RPA, s.r.o. – RAFINÉRIE, registered branch.

Basic characteristics of the company

The company has two production units and three business units ("BU") based on product types.

The production units consist of the Chemical Production section, the Energy section, and the Services section and the Production section of registered branch RAFINÉRIE.

The Chemical Production section operates manufacturing units according to the plans and requirements of business units. It comprises a steam cracker, a polypropylene and polyethylene plant, production of hydrogen, production of ammonia and urea, the Chezacarb plant for the production of carbon black, and production and supply of industrial gases for the entire premises. The Energy section supplies the entire premises with energy and water and is responsible for wastewater treatment. The Services section is responsible for the management of the facilities within the premises and for the logistics of plastics, urea, and Chezacarb. The Production section of RAFINÉRIE, registered branch, is processes crude oil in Litvínov and Kralupy nad Vltavou.

BU REFINERY plans and controls crude oil processing at RAFINÉRIE, registered branch, with a specific focus on the requirements of the downstream production processes in Unipetrol Group. It is responsible for the purchase of crude oil for the Group's refineries and also for the wholesaling of motor fuels and other refinery products.

BU MONOMERS AND CHEMICALS plans and controls the production downstream from crude oil processing. It provides feedstock for the production of polyolefins and sells petrochemical products, ammonia, and urea.

BU POLYOLEFINS operates in the area of plastics – polyolefins. It plans production in the plants that produce polypropylene (PP) and high density polyethylene (HDPE) and is responsible for the sale of finished products (PP, HDPE).

BENZINA, registered branch, operates the largest nationwide network of fuel filling stations in the Czech Republic, where it sells fuels and other goods and services to the general public.

Key products and services

Motor fuels, fuel oils, bitumen, liquefied petroleum products, oil hydrogenates, other refinery products, olefins and aromatics, agrochemicals, alcohols, carbon black and sorbents and polyolefins (high-density polyethylene, polypropylene), since 1 January 2017 also sulfur and feedstock for steam cracker unit and partial oxidation at the production unit of UNIPETROL RPA, s.r.o.

Major ownership interests as of 31 December 2016

Company	Based at	Company No.	Registered capital	Ownership interest (% of registered capital)
UNIPETROL DOPRAVA, s.r.o.	Litvínov	64049701	CZK 806,000,000	99.88
UNIPETROL SLOVENSKO s.r.o.	Bratislava	35777087	EUR 7,635	86.96
SPOLANA a.s.	Neratovice	45147787	CZK 3,455,229,360	100.00
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	04424705213	EUR 1,048,000	99.90
HC VERVA Litvínov, a.s.	Litvínov	64048098	CZK 21,000,000	70.95
PETROTRANS, s.r.o.	Prague	25123041	CZK 16,000,000	99.37
UNIPETROL RPA Hungary Kft.	Budapest	01-09-272652	HUF 3,000,000	100.00
Unipetrol Foundation	Litvínov	05661544	CZK 500,000[1]	100.00

[1] Foundation capital

Key financial data of UNIPETROL RPA, s.r.o. (under IFRS)

(in CZK thousand)	2016	2015	2014[1]	2013	2012[1]
Total assets	57,092,830	38,327,642	36,839,739	35,111,715	34,594,261
Equity	23,339,795	14,726,209	8,923,351	6,352,795	8,066,486
Registered capital	11,1147,964	11,147,964	11,147,964	11,147,964	11,147,964
Liabilities	33,753,035	23,601,433	27,916,388	28,758,920	26,527,775
Total revenues	82,351,090	102,227,194	115,493,964	91,177,542	99,205,899
Operating profit / (loss)	6,252,694	6,613,358	1,673,294	(1,689,361)	(361,396)
Profit before tax	6,621,139	6,741,384	1,811,678	(1,667,932)	(423,155)
Profit for the accounting period	5,460,978	5,413,294	1,847,933	(1,538,452)	280,319

[1] Reclassified

ČESKÁ RAFINÉRSKÁ, a.s.

Registered office: Litvínov, Záluží 2, 436 70

Company No.: 62741772

Ownership structure as of 31 December 2016: UNIPETROL, a.s. owns 100% of the registered capital.

As of 1 January 2017 ČESKÁ RAFINÉRSKÁ, a.s. ceased to exist by merger by amalgamation with UNIPETROL RPA, s.r.o. UNIPETROL RPA, s.r.o. established a registered branch UNIPETROL RPA, s.r.o. – RAFINÉRIE, registered branch.

Core business

Refinery processing of crude oil (a processing [cost center] refinery).

Basic characteristics of the company

The company operates the two largest refineries in the Czech Republic, located in Litvínov and in Kralupy nad Vltavou, with a combined capacity of 8.7 million tons of feedstock annually. It is the largest processor of crude oil and producer of petroleum products in the Czech Republic. Based on a processing agreement entered into by the company and the shareholders' subsidiaries in January 2003, it started operating in the processing mode on 1 August 2003, under which the said companies (referred to as the processors) purchase crude oil and other feedstock for processing in the refineries and then take and trade in the processing products.

Key products and services

Automotive gasoline, jet kerosene, diesel oil, LPG, fuel oils, propylene (for chemical syntheses), bitumen, sulfur, oil hydrogenates (feedstock for the production of lubricating oils) and feedstock for the ethylene unit and for partial oxidation in Unipetrol RPA's production unit.

PARAMO, a.s.

Registered office: Pardubice, Svítkov, Přerovská 560, 530 06

Company No.: 48173355

Core business

Production of bitumen products, lubricating and process oils, including related and ancillary products, using imported feedstock. Provision of services in the area of fuels storage and distribution.

Ownership structure as of 31 December 2016 and 13 March 2017: UNIPETROL, a.s. holds 100% of the registered capital.

Basic characteristics of the company

The company has a tradition of more than a hundred years in crude oil processing and in the production of fuels, lubricants, and bitumen. In July 2012 Unipetrol Group announced permanent discontinuation of crude oil processing in the Pardubice refinery. Paramo focuses on the oils business, production of special bitumen and bitumen products since the shutdown of the refinery part of the company.

The company places its products primarily on the domestic market.

Providing services in the area of fuels storage and distribution for sister company Unipetrol RPA is a new business element following the shutdown of the refinery part of the company.

Key products and services

The company is a well-known producer of automotive and industrial oils, metalworking fluids, preservatives, bitumen, special bitumen products, fats, greases, and waxes. The company began providing services in the area of fuels storage and distribution for its sister company Unipetrol RPA during 2012.

Ownership interest as at 31 December 2016

Company	Based at	Company No.	Registered capital	Ownership interest (% of registered capital)
Paramo Oil s.r.o.	Pardubice	24687341	CZK 200,000	100.00

SPOLANA a.s.

Registered office: ul. Práce 657, Neratovice

Company No.: 45147787

Core business

SPOLANA a.s. based at Neratovice is the biggest chemical plant in the Czech Republic producing sodium hydroxide, chlorine and products thereof.

Ownership structure as of 31 December 2016 and 13 March 2017: UNIPETROL RPA, s.r.o. holds 100% of the registered capital.

Basic characteristics of the company

SPOLANA a.s. is one of the major chemical companies of the Czech industry. From the end of 2001 till November 2006 SPOLANA a.s. was part of UNIPETROL Group, which became part of ORLEN Group in May 2005. In November 2006 UNIPETROL, a.s. sold its shareholding in SPOLANA a.s. to the Polish company ZAKŁADY AZOTOWE ANWIL S.A. (now ANWIL SPÓŁKA AKCYJNA), which is also part of ORLEN Group. On 10 June 2016 UNIPETROL RPA, s.r.o. signed an agreement with ANWIL S.A. on the shares transfer based on which it acquired 100% shares of SPOLANA a.s. and became its sole shareholder.

Spolana operates two production units – PVC production complex and caprolactam production complex. Apart from these main production units, the company operates a heating plant with electricity generation and water management and rents unused objects. The company exports approximately 80% of its production, mainly to European countries. The company strives to place its products on the European Union market with the lowest possible logistics costs.

Key products and services

The main products of the PVC production complex are polyvinyl chloride (PVC) and sodium hydroxide, the by-products are chlorine, hydrochloric acid and sodium hypochlorite. The main products of the caprolactam production complex are caprolactam and ammonium sulfate, the by-products are sulfuric acid and oleum.

Ownership interest as at 31 December 2016:

Company	Based at	Company No.	Registered capital	Ownership interest % of registered capital
TIÚ-PLAST a.s.	Neratovice	45148384	CZK 67,428,000	15.27

Complementary information as required by the Act on business activities on the capital market

Legal regulations governing the issuer's business

The basic legal regulations that UNIPETROL, a.s. observed in conducting its business in 2016 include, without limitation, the following laws, and the Company's Articles of Association as amended:

- Act No. 90/2012 on Trading Companies and Co-operatives (on Business Corporations),
- Act No. 455/1991, the Trade Licensing Act,
- Act No. 563/1991 on Accounting,
- Act No. 256/2004 on Business on the Capital Market,
- Act No. 89/2012, the Civil Code,
- Act No. 262/2006, the Labor Code,
- Act No. 627/2004, on the European Company,
- Act No. 104/2008, on Takeover Bids,
- Act No. 125/2008, on Transformation of Companies and Cooperatives,
- Act No. 300/2008, on Electronic Transactions and Authorized Conversion of Documents,
- Act No. 304/2013, on Public Registers of Legal Entities and Individuals,
- Act No. 143/2001, on Protection of Competition,
- Articles of Association of UNIPETROL, a.s.

Major agreements

Companies of Unipetrol Group ("the Group") carry on business mainly in the refinery and petrochemical industries and in related business lines, taking advantage of the synergic effects of operating within the Group.

For this purpose the Group companies enter into agreements, in particular, for the sale of base feedstock and basic products and motor fuel supplies.

The base feedstock and basic products include, for example, C4 fraction, virgin naphtha, C5 fraction, raffinate 1, heavy fuel oils and polyolefins (polypropylene a polyethylene).

Motor fuel supplies include, for example, 95 Natural gasoline, Verva 100 and Verva 95 premium high-octane gasoline, Diesel Top Q diesel fuel and Verva Diesel with cetane number 60.

Arrangements for production are based on standard commercial agreements, for example, agreements on the purchase and sale of energy resources, in particular coal, electricity, steam, etc.

Brief description of major agreements valid in 2016 is shown in the following tables:

UNIPETROL, a.s.

Company	Type of contract	Subject matter
AIG Europe Limited, registered branch in the Czech Republic	Insurance contract	Insurance of liability for damages and liability for defective products
SPOLANA a.s	Loan agreement	Provision of loan
Unipetrol výzkumně vzdělávací centrum, a.s.	Loan agreement	Provision of loan
ORLEN Asfalt Česká republika s.r.o.	Loan agreement	Provision of loan
UNIPETROL RPA, s.r.o.	Agreement on provision of services	Provision of services
SPOLANA a.s.	Loan agreement	Provision of loan
Česká spořitelna, a.s.	Agreement on payment of dividend to shareholders	Dividend payment service
UNIPETROL RPA Hungary Kft.	Agreement on loan	Lending of funds

ČESKÁ RAFINÉRSKÁ, a.s.

Company	Type of contract	Subject matter
INELSEV Servis, s.r.o.	Work contract	Providing of maintenance MaR + ELE - Litvínov
Slovenské elektrárne, a.s. - branch	Purchase agreement	Electricity supplies to Litvínov and Kralupy in 2016
CB&I s.r.o.	Work contract	NHCU regeneration – realization
ELMEP s.r.o.	Work contract	Providing of maintenance MaR + ELE - Kralupy
EUROMONT GROUP a.s.	Work contract	Production of JET - A1
Intecha, spol. s r.o.	Work contract	Improving the reliability of CCR – other parts – realization
CHEMPEX - HTE, a.s.	Work contract	Improving the reliability of CCR – part of furnace
MARSH, s.r.o.	Insurance contract	Insurance for the environmental damage and responsibility
EUROMONT GROUP a.s.	Work contract	Improving of reliability of SRU Litvínov
SAM - SHIPBUILDING AND MACHINERY a.s.	Work contract	TA2016 7 mechanical/construction work AVD
EUROMONT GROUP a.s.	Work contract	VNR EPC
UNIPETROL RPA, s.r.o.	Purchase agreement	Natural gas supplies for 2016
Invensys Systems s.r.o.[1]	Work contract	Modernization of DCS Litvínov
Mostecká montážní a.s.	Work contract	VNR OPEX

[1] The company changed its name to Schneider Electric Systems Czech Republic s.r.o. as of 1 December 2016.

PARAMO, a.s.

Company	Type of contract	Subject matter
K-PROTOS, a.s.	Work contract	Complex maintenance
ČEZ Distribuce, a.s.	Agreement on provision of distribution system service at the voltage levels of 35 kV	Electricity supplies and distribution system
UNIPETROL RPA, s.r.o.	Lease agreement	Agreement on the lease of railcars
Josef Moravec – ADRIA	Framework sale agreement	Supplies, sale of products
SÚS Královéhradeckého kraje a.s.	Sale agreement	Supplies, sale of emulsions
ORLEN Asfalt Česká republika s.r.o.	Sale agreement	Supplies, sale of bitumen
VESELÝ ZNOJMO, s.r.o.	Framework sale agreement	Supplies of products
Správa a údržba silnic Plzeňského kraje, příspěvková organizace	Framework sale agreement	Supplies, sale of bitumen
Prista Oil Romania SA	Framework sale agreement	Supplies – sale of products
MOGoil GmbH	Sale agreement	Product purchases

UNIPETROL DOPRAVA, s.r.o.

Company	Type of contract	Subject matter
UNIPETROL SERVICES, s.r.o. / UNIPETROL RPA, s.r.o.	Services agreement	Amendment No. 15 to the Service Level Agreement - stipulation of fee for 2016 and update of appendices (scope of provided services)
Synthesia, a.s.	Agreement on the shipping	Amendment No. 11 - Contract for transport of goods (No. 57-2011; No. 00000360) - stipulation of siding fee, transport prices, spedition margin and list of rented rail wagons in 1.1. - 31. 12. 2016.
UNIPETROL RPA, s.r.o.	Work contract	Agreement on providing services of railway workshops No. 806-2014
UNIPETROL RPA, s.r.o.	Work contract	Agreement on providing of services of cleaning of railway wagons and services of operation of ammonia filling station No. 67-2015 Amendment No. 1 – guaranteed volume of provided services
UNIPETROL RPA, s.r.o.	Service contract	Agreement No. 0086-2016, 0008-2016 – providing services of Fire Brigade, E&Q, HR, Procurement, PR, Security, Controlling CKP, CAPEX
UNIPETROL RPA, s.r.o.	Contract for lease of vehicle	Contract for lease of railway wagons No. 807-2014 - lease of railway wagons owned by UNIDO Amendment č. 1-3 – specification of leased cars
UNIPETROL RPA, s.r.o.	Agreement on the shipping	Contract for providing transport services No. 804-2014 - transport of goods on regional, interstate and international railroad
QBE INSURANCE (EUROPE) LIMITED, branch Allianz pojišťovna, a.s.	Insurance police	Contract on insurance No. 7-863-000435/15. Renewal of contract on insurance against responsibility for damage including damage that will be committed by the company in the function of railway forwarder in accordance with Act. No. 266/1994 Coll., Act No. 164/1996 Coll. (Slovak) and Act. No. 59/2006. It means inter alia damage on property, health, lost profit, ecological damage, net finance damages.
ČESKÁ RAFINÉRSKÁ, a.s.	Agreement on the shipping	Amendment No. 1 - Contract on providing of transport services No. SSN_2014_159_00 - update of 3 articles in actual contract, primarily reduction of contractual due date from 60 days to 30 days
ČESKÁ RAFINÉRSKÁ, a.s.	Work contract	Amendment No. 1 - Contract on providing services of cleaning of wagons No. SSN_2014_162_00 - especially reduction of contractual due date to 30 days

PARAMO, a.s.	Agreement on the shipping	Amendment No. 29 - Contracts on providing of transport services of products No. 1/01/120 - establishing of sidings fees (Pardubice + Kolín), price for transports and rental of RTC for year 2016
UNIPETROL RPA, s.r.o.	Lease agreement	Contract on lease of sidings: UNIPETROL DOPRAVA, s.r.o., Kaučuk Základní závod and Kaučuk SKP Úžice - lease of strategic property, which will be transferred to UNIPETROL RPA, s.r.o. on basis of SPIN OFF
SYNTHOS Kralupy a.s.	Contract on providing of transport services	Contract on providing of transport services - transportation via rail sidings - transport of goods via sidings at Kralupy nad Vltavou, transport of car goods on regional, interstate and international railroad, lease of rail cars
UNIPETROL RPA, s.r.o. ČESKÁ RAFINÉRSKÁ, a.s.	Agreement on the shipping	Contract for providing transport services on sidings - transport of goods on sidings in Litvínov and Kralupy nad Vltavou
Railpool Austria GmbH	Contract for lease of vehicle	Lease contract - lease of loco TRAXX F140 MS DAPL
Railpool Austria GmbH	Contract for lease of vehicle	Lease contract - lease of loco TRAXX MS DAPLCZSK

UNIPETROL RPA, s.r.o. (Business Unit Refinery)

Company	Type of contract	Subject matter
Tesco Stores ČR a.s.	Sale agreement	Sale of motor fuels
Czech Airlines Handling, a.s.	Sale agreement	Sale of motor fuels
MOL Česká republika, s.r.o.	Sale agreement	Sale of motor fuels
AHOLD Czech Republic, a.s.	Sale agreement	Sale of motor fuels
UNIPETROL SLOVENSKO s.r.o.	Sale agreement	Sale of motor fuels
ORLEN Deutschland GmbH	Sale agreement	Sale of motor fuels
ARMEX Oil, s.r.o.	Sale agreement	Sale of motor fuels
ČEPRO, a.s.	Sale agreement	Sale of motor fuels
TANK OIL s.r.o.	Sale agreement	Sale of motor fuels

UNIPETROL RPA, s.r.o. (Business Unit Monomers and Chemicals)

Company	Type of contract	Subject matter
Orlen Insurance Ltd	Insurance contract	Property insurance, business interruption due to property damage, machinery insurance, business interruption due to machinery damage
SPOLANA a.s.	Sale agreement	Sale of ammonia
Synthos S.A.	Sale agreement	Sale and supplies of benzene
Synthos S.A.	Sale agreement	Sale and supplies of ethylene
Lovochemie, a.s.	Sale agreement	Sale of ammonia
Butadien Kralupy a.s.	Sale agreement	Sale of C4 fraction

UNIPETROL RPA, s.r.o. (Business Unit Polyolefins)

Company	Type of contract	Subject matter
PEGAS NONWOVENS s.r.o.	Sale agreement	Sale and supplies of PP and HDPE
SILON s.r.o.	Sale agreement	Sale and supplies of PP and HDPE
greiner packaging s.r.o.	Sale agreement	Sale and supplies of PP and HDPE
JUTA a.s.	Sale agreement	Sale and supplies of PP and HDPE
COVERIS Global Rigid	Sale agreement	Sale and supplies of PP and HDPE
INNO-COMP BOHEMIA, s.r.o.	Sale agreement	Sale and supplies of PP and HDPE

UNIPETROL SLOVENSKO s.r.o.

Company	Type of contract	Subject matter
T a M trans spedition, s.r.o.	Sale agreement	Sale of motor fuels
Eni Hungaria Zrt.	Sale agreement	Sale of motor fuels
TESCO STORES SR, a.s.	Sale agreement	Sale of motor fuels
AUCHAN MAGYARORSZÁG Kft.	Sale agreement	Sale of motor fuels
Real - H.M. s.r.o.	Sale agreement	Sale of motor fuels
DALITRANS, s.r.o.	Sale agreement	Sale of motor fuels
VOMS, s.r.o.	Sale agreement	Sale of motor fuels
W.A.G. payment solutions SK, s.r.o.	Sale agreement	Sale of motor fuels
RAL group Slovakia s.r.o.	Sale agreement	Sale of motor fuels
TANKER, s.r.o.	Sale agreement	Sale of motor fuels
BENZINOL SLOVAKIA s.r.o.	Sale agreement	Sale of motor fuels
AVIA DIESEL Kft.	Sale agreement	Sale of motor fuels

SPOLANA a.s.

Company	Type of contract	Subject matter
ANWIL S.A.	Purchase agreement	Ammonia supplies
ANWIL S.A.	Purchase agreement	Sodium hydroxide - trade goods
ANWIL S.A.	Service purchase	Agreement on cash pooling
ORLEN SERWIS SPÓŁKA AKCYJNA, registered branch	Services purchase	Agreement on securing of coaling
PKN ORLEN S.A.	Purchase agreement	Agreement on purchase of ethylene
PKN ORLEN S.A.	Purchase agreement	Agreement on purchase of sulphur in 2016
UNIPETROL RPA, s.r.o.	Purchase agreement	Anhydrous ammonia suplies
UNIPETROL RPA, s.r.o.	Purchase agreement	Purchase of ethylene
UNIPETROL RPA, s.r.o.	Purchase agreement	Supplies of sulphur
UNIPETROL RPA, s.r.o.	Purchase agreement	Sodium hydroxide, sulfuric acid
UNIPETROL, a.s.	Credit agreement	Credit

Information about the persons responsible for the Annual Report

Andrzej Mikołaj Modrzejewski, Chief Executive Officer and Chairman of the Board of Directors of Unipetrol, and Mirosław Kastelik, Chief Financial Officer and Vice-Chairman of the Board of Directors of Unipetrol, hereby claim to their best knowledge, that the Annual Report and the Consolidated Annual Report present, in all aspects, a true and fair image of the financial standing, business, and results of the issuer and its consolidated group for the previous accounting period, as well as of the future outlook for the financial standing, business, and results.

Andrzej Mikołaj Modrzejewski

Chief Executive Officer and Chairman of the Board of Directors

Mirosław Kastelik

Chief Financial Officer and Vice-Chairman of the Board of Directors

Audit

(in CZK thousand)	2016
Audit and other verification services (main auditor)[1]	11,372
Fees for other services and translations (main auditor)[1]	50
Audit and other verification services (additional auditors)[1]	469

[1] Without VAT

Auditor for 2016

Name:	KPMG Česká republika Audit, s.r.o.
Partner:	Karel Růžička
Licence no.:	1895
Address:	Pobřežní 648/1a, 186 00 Prague 8
Company No.:	49619187

Securities

Shares

Name	**UNIPETROL, a.s.**
Class	ordinary share
ISIN	CZ0009091500
BIC	BAAUNIPE
Type	bearer share
Form	dematerialized security
Currency	CZK
Nominal value	CZK 100
Number of shares	181,334,764
Total issue	CZK 18,133,476,400
Tradability	listed security (Prague Stock Exchange, the Prime Market)

Under an agreement, ADMINISTER spol. s r.o., Husova 109, 284 01 Kutná Hora, Company No. 47551054 was authorized to pay out dividends for 1997.

Under an agreement, Česká spořitelna, a.s., Prague 4, Olbrachtova 1929/62, PSČ 140 00, Company No: 45244782 was authorized to pay out dividends for 2015.

UNIPETROL, a.s. shares are traded on the Prime Market of Prague Stock Exchange.

The extent of the voting rights of each shareholder is defined by the number of shares held, one share with a nominal value of CZK 100 being equal to one vote. All shares of the issuer therefore carry the same voting rights.

A shareholder is entitled to a share of the company's profit (dividend) that the General Meeting has approved for distribution depending on the company's result. The dividend is defined as the ratio of the nominal value of the shares held by a shareholder and the total nominal value of the shares held by all shareholders as of the Record Date.

If the company is liquidated, each shareholder is entitled to a share of the proceeds from liquidation. The amount of the proceeds from liquidation shall be calculated in the same manner as the amount of the shareholder's dividend.

Shares carry rights to take part in the management of the company. Shareholders may only exercise this right at the General Meetings, provided that they observe the rules governing the organization of the General Meetings. Shareholders are entitled to take part in the General Meetings, vote at the General Meetings, request and receive an explanation of any matters concerning the company where an explanation is necessary for assessing a point on the agenda of the General Meeting, and raise proposals and counter-proposals.

The dividend due date is two months after the date of the General Meeting at which the decision to pay out dividends was passed, and its numerical designation shall correspond to the date of the General Meeting.

The right to receive dividends is separately transferable starting from the date on which the General Meeting decided on the payment of dividends.

Acquisition of own shares and share warrants

As of 31 December 2016, the Group held no own shares or share warrants.

Final information

Significant proceedings in court, body appropriate for arbitration proceedings or in front of public administrations bodies

Claims regarding reward for employees' intellectual work

In the year 2001 the court case commenced regarding the award for the employees' intellectual work between UNIPETROL RPA, s.r.o. and its two employees. Employees demanded an award of approximately CZK 1.8 million. UNIPETROL RPA, s.r.o. as a defendant did not agree and offered the award amounting to approximately CZK 1.4 million, based on experts' valuations. In 2005 Employees plaintiffs filed the next petition to the court to extend the action to an amount of approximately CZK 82 million. The first court hearing was held on 18 October 2011. The claimants have decreased the claimed amount to CZK 68 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 valuation ordered by the court, however the former employees have not withdrawn their claim.

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

On 23 May 2012 UNIPETROL RPA, s.r.o., the subsidiary of UNIPETROL, a.s., received a petition from the District Court Ostrava, by which the claimant – "I.P.-95, s.r.o." is claiming compensation of damages totalling CZK 1,789 million. "I.P.-95, s.r.o." claims that it incurred damages as a result of an unjustified insolvency filing against "I.P.-95, s.r.o." made by UNIPETROL RPA, s.r.o. on 24 November 2009. "I.P.-95, s.r.o." assigned part of the receivable of CZK 1,742 million, to NESTARMO TRADING LIMITED, Cyprus; following the assignment, "I.P.-95, s.r.o." filed a motion regarding NESTARMO TRADING LIMITED joining the proceedings as a claimant. UNIPETROL RPA, s.r.o. is one of eight respondents against whom the petition was filed.

In related court proceedings, the Upper Court in Olomouc ruled that receivable of UNIPETROL RPA, s.r.o., which was claimed by UNIPETROL RPA, s.r.o. in the bankruptcy against "I.P.-95, s.r.o.", was rightful, justified and existing at the time of making the insolvency filing. On the basis of applicable jurisprudence – claiming of a justified receivable within a bankruptcy proceedings can not cause any damage to the debtor. Hence it can be reasonably expects that the damages compensation claim against UNIPETROL RPA, s.r.o. will be rejected by the relevant court.

On 31 July 2015, the Regional Court resolved to annul the resolution of District Court in Ostrava allowing for the Cypriot company, NESTARMO TRADING LIMITED, to accede the court proceedings as plaintiff. On 12 January 2016 the District Court in Ostrava dismissed the motion of "I.P.-95, s.r.o." to allow for the Cypriot company, NESTARMO TRADING LIMITED, to accede the court proceedings as plaintiff.

Management of the Group does not recognize the alleged claim and considers the claim as unjustified and unfounded.

Purchase of shares of PARAMO, a.s.

In January 2009 UNIPETROL, a.s. effected a squeeze out of PARAMO, a.s. shares and became sole shareholder of PARAMO, a.s.

In accordance with the resolutions of the Extraordinary General Meeting of PARAMO, a.s., all other shares in PARAMO, a.s were transferred to the Company and the Company provided to the other shareholders of PARAMO, a.s. monetary consideration of CZK 977 per share of PARAMO, a.s. of 6 January 2009.

In connection with the squeeze-out, certain minority shareholders of PARAMO, a.s. filed a petition with the Regional Court in Hradec Králové for a review of the adequacy of compensation within the meaning of the Czech Commercial Code. The case is now pending at the Regional Court in Hradec Králové.

On 23 June 2015 the court decided to appoint another expert witness - Expert Group s.r.o. having its registered seat at Radniční 133/1, České Budějovice - to provide a valuation of the PARAMO, a.s. shares.

The Expert Group s.r.o. valuation report regarding of PARAMO, a.s. shares received by UNIPETROL, a.s. on 1 December 2016 provides for PARAMO, a.s. share value as at:

a) 6 January 2009 – CZK 1,853/share;
b) 4 March 2009 – CZK 1,691.53/share.

UNIPETROL, a.s. is currently preparing a filing to comment on the recently submitted expert opinion.

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

On 31 August 2015 UNIPETROL RPA, s.r.o., as petitioner, submitted its action to the District Court in Děčín requesting issuance of a payment order ordering ČEZ Distribuce, a.s., as respondent, to pay an unjustified enrichment to UNIPETROL RPA, s.r.o. in the amount of CZK 303 million including interest and legal fees. The unjustified enrichment of ČEZ Distribuce, a.s. results from ČEZ Distribuce, a.s., during the period from 1 January 2013 until 30 September 2013, charging UNIPETROL RPA, s.r.o. a monthly fee for renewable sources of energy and combined heat and power production with respect to the electricity produced and distributed by UNIPETROL RPA, s.r.o. itself. The Group is of the opinion that ČEZ Distribuce, a.s., as distribution system provider, is not entitled to charge a fee to its customers with respect to electricity which was produced and consumed by the customers themselves, i.e. for electricity for which no distribution service was provided.

On 25 November 2016 UNIPETROL RPA, s.r.o. filed action, same as the one filed against ČEZ Distribuce, a.s., against OTE, a.s. (Czech operator of energy market responsible for, among others collecting (POZE) fees from energy distributors including ČEZ Distribuce, a.s.). The action was filed as a precaution.

Tax proceeding of UNIPETROL RPA, s.r.o.

UNIPETROL RPA, s.r.o., acting as legal successor of CHEMOPETROL, a.s., is a party in a tax proceeding related to the validity of investment tax relief for 2005. UNIPETROL RPA, s.r.o. claims the return of income tax paid in 2006 for the fiscal year 2005 by CHEMOPETROL, a.s. The claim concerns unused investment relief attributable to CHEMOPETROL, a.s. The total value of the claim amounts to approximately CZK 325 million.

On 14 October 2015, the Czech Supreme Administrative Court annulled the Regional Court in Ústí nad Labem judgment and decided to return the case back to the Regional Court in Ústí nad Labem for re-examination. The Supreme Administrative Court commented that the Regional Court did not correctly deal with the legitimate expectations objection raised by UNIPETROL RPA, s.r.o. On 30 November 2016 the Regional Court in Ústi nad Labem resolved to annul the Appellate Tax Authority decision dated 27 October 2010. The case is now pending with the Appellate Tax Authority.

Information on the interruption of business

The issuer did not interrupt its business in 2016.

Information on the Group's liabilities and how they are secured

The information on the total amount of outstanding loans or borrowings, structured into secured and unsecured, and on the security provided by the issuer as well as on other conditional liabilities, is specified in the Notes to the Consolidated Financial Statements (see Chapters 21 and 27).

Information about the issuer's registered capital

The Company's registered capital is CZK 18,133,476,400 and has been fully paid up.

Information about the securities into which the registered capital is divided:

Name	**UNIPETROL, a.s.**
Class	ordinary share
ISIN	CZ0009091500
BIC	BAAUNIPE
Type	bearer share
Form	dematerialized security
Currency	CZK
Nominal value	CZK 100
Number of shares	181,334,764
Total issue	CZK 18,133,476,400
Tradability	listed security (Prague Stock Exchange, the Prime Market)

67,110,726 shares (ISIN CZ0009091500), representing CZK 6,711,072,600 (37.01% of the Company's share capital), are held by the general public.

PKN ORLEN S.A. with ownership interest 62.99% (114,226,499 shares) and PAULININO LIMITED with ownership interest of 20.02% are the only shareholders whose share of share capital, and thereby of voting rights, exceeds 5%.

As of the end of 2016 and during 2017 up to the Annual Report closing date, Unipetrol had not been informed about any change of stake in the share capital.

There is no employee benefit program involving employee shareholding.

No changes have been made to the share capital of UNIPETROL, a.s. over the last three years.

Memorandum and Articles

Changes to the Articles of Association of UNIPETROL, a.s. in 2016

The General Meeting of UNIPETROL, a.s. held on 21 June 2016 decided pursuant to item 13 of the agenda pursuant to Article 8 (8.2) (a) of the Articles of Association on changes to the Articles of the Association. The current wording of the UNIPETROL a.s. Articles of Association is available at www.unipetrol.cz.

[1] As of 13 June 2016 (last available data) - according to a notification received on 21 June 2016 PAULININO LIMITED holds 20.02% share of votes. The companies Egnaro Investments Limited (with direct holding as of 13 June 2016 at the level of 0%), Levos Limited (0%), LCE Company Limited (0%), Neevas Investment Limited (0%), Uprecht Investment Limited (0%) and Mustand Investment Limited (0%) are companies acting in concert with PAULININO LIMITED and at the same time they control the company.

Objects of business

The Company's mission is as follows the Company's currently applicable Articles of Association:

- strategic management of the development of the group of directly or indirectly controlled companies,
- coordination and facilitation of matters of common interest of the group of directly or indirectly controlled companies,
- arranging of financing and development of financing systems in the companies within the concern,
- development of human resources and a system of human resource management in the companies within the concern,
- administration, acquisition of and handling of ownership interests and other assets of the Company, in particular:
  - (i) establishing of business corporations, participation in their foundation and other acquisitions of ownership interests in business of other legal entities,
  - (ii) exercising of shareholder's and similar rights within directly or indirectly controlled companies,
  - (iii) renting of real estate and provision of basic services for due functioning of real estate.

The subject of business of the company is as follow the Company's currently applicable Articles of Association:

- Provision of services in the field of occupational health and safety
- Manufacture, trade and services not specified in the annexes 1 – 3 of the Trade Licensing Act
- Rental of apartments, real estate and nonresidential premises

Object of business as per the current Certificate of Incorporation:

- Provision of services in the field of occupational health and safety
- Manufacture, trade and services not specified in the annexes 1 – 3 of the Trade Licensing Act
- Rental of apartments, real estate and nonresidential premises

Explanatory report

Explanatory Report, prepared in accordance with the provisions of Section 118(4) letters (b),(c),(e) and (j) and (5) letters (a) through (l) of Act No. 256/2004 Coll., Act on Conducting Business on Capital Market, as amended.

Information on the breakdown of the equity of UNIPETROL, a.s.

The breakdown of the Company's equity as of 31 December 2016 (in millions of CZK) is as follows:

Share capital	18,133
Revaluation reserve	503
Retained earnings	9,239
Total equity	27,875

The Company's share capital amounts to CZK 18,133,476,400 and is distributed among 181,334,764 ordinary bearer shares with the nominal value of CZK 100. The shares are issued in book-entry form and are listed.

Information on restrictions on transferability of securities

The transferability of the Company's securities is not restricted.

Information on significant direct and indirect shareholdings in company

Significant direct or indirect shareholdings in the Company are as follows:

- PKN ORLEN S.A. – direct shareholding in the amount of 62.99%,
- PAULININO LIMITED[2] - direct shareholding in the amount of 20.02%.

Up to the end of 2016 and during 2017 up to the Annual Report closing date, Unipetrol had not been informed about any other change of stake in the share capital.

Unipetrol has no other shareholder whose stake in the share capital of the Company, and thereby of voting rights, exceeds 5%.

Information on owners of securities with special rights

None of the Company's securities have any special rights attached to them.

Information on restriction on voting rights

The voting rights attached to Company's individual shares and/or to a certain amount of the Company's shares are not restricted in any manner.

Information on agreements between shareholders which may result in restrictions on transferability of shares and/or voting rights

The Company is not aware of the existence of any agreements between the Company's shareholders which may result in restrictions on the transferability of the Company's shares and/or voting rights attached to the shares.

[2] As of 13 June 2016 (last available data) - according to a notification received on 21 June 2016 PAULININO LIMITED holds 20.02% share of votes. The companies Egnaro Investments Limited (with direct holding as of 13 June 2016 at the level of 0%), Levos Limited (0%), LCE Company Limited (0%), Neevas Investment Limited (0%), Uprecht Investment Limited (0%) and Mustand Investment Limited (0%) are companies acting in concert with PAULININO LIMITED and at the same time they control the company.

Information on special rules on election and recall of members of board of directors and amendment of articles of association

Members of the Board of Directors are elected and recalled by the Supervisory Board. A decision on amendment to the Company's Articles of Association requires the consent of a special majority consisting of two thirds of the votes of the shareholders present at the General Meeting. No special rules governing the election and recall of the members of the Board of Directors and/or amendment to the articles of association apply.

Information on special powers of the Board of Directors

Members of the Board of Directors do not have any special powers; in particular, they have not been granted by the General Meeting authority to adopt a decision on an increase of the Company's share capital, on acquisition by the Company of its own shares or another decision of such type.

Information on significant agreements connected with change of control over company as result of takeover bid

The Company is not a party to any significant agreement which will enter into effect, change and/or cease to exist in the event of change of control over the Company as result of a takeover bid.

Information on agreements binding company in connection with takeover bid

No agreements have been concluded between the Company and the members of its Board of Directors which would bind the Company to render performance in the event that the position of a member of the Company's Board of Directors is terminated in connection with a takeover bid.

No agreements have been concluded between the Company and its employees that would bind the Company to render performance in the event that the employment of an employee is terminated in connection with a takeover bid.

Information on option schemes for shares

The Company does not have implemented any schemes on the basis of which the Company's employees or members of its Board of Directors would be entitled to acquire shares or other participation securities in the Company, or options on such securities or other rights thereto, under advantageous terms.

Information about payments for mineral extraction rights to the state

The issuer does not carry on business in the mining industry. The issuer makes no payments to the State for mining rights.

Information about decision-making procedures and the composition of the company's governing body and supervisory body

The Board of Directors is the issuer's governing body. Its position, remit, composition, decision-making and other basic rights and obligations, and also procedural rules, are contained in art. 12–14 of the Company's Articles of Association and in the Board of Director's rules of procedure.

The Company's Articles of Association in the current version are available on the company's website at www.unipetrol.cz and in the Commercial Bulletin.

The Supervisory Board is the issuer's supervisory body. Its position, remit, composition, decision-making and other basic rights and obligations, and also procedural rules, are contained in art. 15–17 of the Company's Articles of Association and in the Supervisory Board's rules of procedure.

The Supervisory Board sets up the following committees:

a) The HR and Corporate Governance Committee
b) The Strategy and Finance Committee

(hereinafter referred to collectively as "Supervisory Board Committees").

The composition of the Supervisory Board Committees is as follows (as of 31 December 2016):

ad a) Krystian Pater (chairman), Zdeněk Černý, Grażyna Baka;

ad b) Sławomir Robert Jędrzejczyk (chairman), Zbigniew Leszczyński (vice-chairman), Ivan Kočárník, Piotr Kearney.

The position, remit, composition, decision-making and also the procedural rules of the Supervisory Board's Committees are contained in art. 15–17 of the Company's Articles of Association and in the Committees' rules of procedure.

In 2009, the company set up an Audit Committee. The position, remit, composition and decision-making are described in chapter VII. of Articles of Association, Audit Committee.

Information about the General Meeting's decision-making and basic remit

The General Meeting's position and remit and also the procedural issues concerning the General Meeting are provided for in art. 8–11 of the Company's Articles of Association.

Information about corporate governance codes

The governance and management of Unipetrol Group follows the recommendations of the Corporate Governance Code, which is based on OECD Principles, the provisions of which the company satisfies in all material respects.

The Code is available, for example, on the Czech National Bank website.

Information about the principles and procedures of internal controls and about the rules related to the financial reporting process

The basic accounting policies set out in the International Financial Reporting Standards and in the Group's internal standards are described in the Notes to the Consolidated and Separate Financial Statements. The Company established its internal regulations in accordance with the Act on Accounting and set up the organizational norms in such a way as to maximize control and limit the possibility of mistakes. In the area of reporting the company implemented the automated system for data transfer from the accounting software to the reporting applications. The reporting application (SW HYPERION) contains a control system ensuring the correctness of the data sent whether for creation of the internal monthly management reports or creation of quarterly consolidated and separate financial statements. Accounting policies and principles are subject to both internal and external audit. In 2009 the company set up an Audit Committee.

The Company has an Internal Audit Department which provides independent assurance audit services to Unipetrol Group.

In 2016 the Internal Audit Department performed audits in the following areas in accordance with the plan approved by the Board of Directors and Audit Committee of UNIPETROL, a.s.:

- Credit risk management
- Sales and pricing of monomers
- Payment process
- Wholesale of fuels
- Major accident prevention
- Logistics and sales via railway
- CAPEX
- Process security
- Personal security
- IT security
- Effectiveness of operational rules
- Sale of electricity

oils and lubricants

Leoš Dostál

The premium motor oils and lubricants Mogul rank among the best known and most popular in our country. The products have a long tradition going back ninety years and are known for their superior quality. They are rigorously tested by the best rally drivers. One should say: Awesome! Just like the Mogul slogan. Such are lasting achievments of Leoš, including development of a product distribution system, thanks to which not only our racers but all motorists have the necessary oils at hand.

Auditor's report on the separate financial statements

KPMG Česká republika Audit, s.r.o.
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Czech Republic
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www.kpmg.cz

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 Shareholders of UNIPETROL, a.s.

Opinion

We have audited the accompanying separate financial statements of UNIPETROL, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the separate statement of financial position as at 31 December 2016, and the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flow for the year then ended, and notes to the separate 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 separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2016, and of its unconsolidated financial performance and its unconsolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

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 separate financial statements and our auditor's report. The statutory body is responsible for the other information.

As described in Note 1 to these separate financial statements, UNIPETROL, a.s. has not prepared an annual report as it included the respective information in a consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Separate Financial Statements

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

In preparing the separate 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 and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Statutory Auditor Responsible for the Engagement

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

Prague
13 March 2017

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

Karel Růžička
Partner
Registration number 1895

Separate financial statements for the year 2016

Translation from the Czech original

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Index

Separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Separate statement of profit or loss and other comprehensive income

	Note	2016	2015
Statement of profit or loss			
Revenues	3.	134	167
Cost of sales	4.1.	(51)	(90)
Gross profit on sales		**83**	**77**
Administrative expenses	4.2.	(120)	(214)
Other operating income	5.1.	-	6
Other operating expenses	5.2.	(2)	(51)
Loss from operations		**(39)**	**(182)**
Finance income	6.1.	103	2,352
Finance costs	6.2.	(7)	(38)
Net finance income		**96**	**2,314**
Profit before tax		**57**	**2,132**
Tax expense	7.	(10)	11
Net profit		**47**	**2,143**
Total net comprehensive income		**47**	**2,143**
Net profit and diluted net profit per share (in CZK per share)	15.6.	0.26	11.82

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 115-148.

Separate financial statements for the year 2016 (in CZK million) 111

Separate statement of financial position

	Note	31/12/2016	31/12/2015
ASSETS			
Non-current assets			
Property, plant and equipment	8.	9	9
Investment property	9.	1,163	1,161
Shares in related parties	10.	17,579	17,582
Other non-current assets	11.	-	24
		18,751	**18,776**
Current assets			
Trade and other receivables	12.	124	142
Other financial assets	13.	9,203	7,217
Current tax receivables		-	16
Cash and cash equivalents	14.	2,552	5,435
		11,879	**12,810**
Total assets		**30,630**	**31,586**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15.1.	18,133	18,133
Revaluation reserve	15.3.	503	503
Retained earnings	15.4.	9,239	10,193
Total equity		**27,875**	**28,829**
LIABILITIES			
Non-current liabilities			
Provisions	17.	50	50
Deferred tax liabilities	7.2.	106	100
		156	**150**
Current liabilities			
Trade and other liabilities	18.	115	145
Current tax liabilities		1	-
Other financial liabilities	19.	2,483	2,462
		2,599	**2,607**
Total liabilities		**2,755**	**2,757**
Total equity and liabilities		**30,630**	**31,586**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 115-148.

Separate financial statements for the year 2016 (in CZK million)

Separate statement of changes in equity

	Share capital	Statutory reserves	Revaluation reserve	Retained earnings	Total equity
Note	15.1.	15.2.	15.3.	15.4.	
01/01/2016	18,133	-	503	10,193	28,829
Net profit	-	-	-	47	47
Total net comprehensive income	**-**	**-**	**-**	**47**	**47**
Dividends	-	-	-	(1,001)	(1,001)
31/12/2016	**18,133**	**-**	**503**	**9,239**	**27,875**
01/01/2015	18,133	1,719	503	6,331	26,686
Net profit	-	-	-	2,143	2,143
Total net comprehensive income	**-**	**-**	**-**	**2,143**	**2,143**
Transfer of statutory reserves to retained earnings	-	(1,719)	-	1,719	-
31/12/2015	**18,133**	**-**	**503**	**10,193**	**28,829**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 115-148.

Separate financial statements for the year 2016 (in CZK million) 113

Separate statement of cash flows

	Note	2016	2015
Cash flows - operating activities			
Profit before tax		**57**	**2,132**
Adjustments for:			
Foreign exchange gain		(2)	(4)
Interest and dividends, net		(85)	(391)
(Profit)/Loss on investing activities		3	(1,928)
Change in provisions		-	50
Change in working capital		(27)	32
receivables		18	22
liabilities		(45)	10
Income tax (paid)		13	(5)
Net cash used in operating activities*		**(41)**	**(114)**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(2)	-
Disposal of property, plant and equipment and intangible assets		-	1
Acquisition of share in ČESKÁ RAFINÉRSKÁ, a.s.		-	(1,118)
Dividends received	10.	30	330
Interest received		60	103
Proceeds/(Outflows) from loans granted		(1,401)	13,473
Proceeds/(Outflows) from cash pool assets		(561)	(4,188)
Net cash provided by/(used in) investing activities		**(1,874)**	**8,601**
Cash flows - financing activities			
Change in loans and borrowings		-	(4,000)
Proceeds/(Outflows) from cash pool liabilities		21	486
Interest paid		-	(52)
Dividends paid		(986)	-
Other		(5)	(6)
Net cash used in financing activities		**(970)**	**(3,572)**
Net increase/(decrease) in cash and cash equivalents		**(2,885)**	**4,915**
Effect of exchange rate changes		2	4
Cash and cash equivalents, beginning of the year		5,435	516
Cash and cash equivalents, end of the year	**14.**	**2,552**	**5,435**

* The Company changed the structure of particular positions presentation within the Separate statement of cash flows from operating activities in 2015. Further information is included in note 25.3.20.

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 115-148.

114 Separate financial statements for the year 2016 (in CZK million)

Description of the company and principles of preparation of the financial statements

1. DESCRIPTION OF THE COMPANY

Establishment of the Company
UNIPETROL, a.s. (the "Company" or "Unipetrol") 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 businesses of the Group include oil and petroleum products processing, production of commodity chemicals, polymer materials, mineral lubricants, plastic lubricants, paraffins, 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.

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

	Position	Name
Board of Directors	Chairman	Andrzej Mikołaj Modrzejewski
	Vice-chairman	Mirosław Kastelik
	Vice-chairman	Krzysztof Zdziarski
	Member	Martin Durčák
	Member	Andrzej Kozłowski
	Member	Lukasz Piotrowski
	Member	Robert Dominik Małłek
Supervisory Board	Chairman	Wojciech Jasiński
	Vice-chairman	Ivan Kočárník
	Vice-chairman	Sławomir Robert Jędrzejczyk
	Member	Piotr Robert Kearney
	Member	Zdeněk Černý
	Member	Krystian Pater
	Member	Grażyna Baka
	Member	Zbigniew Leszczyński
	Member	Bogdan Dzudzewicz

Separate financial statements for the year 2016 (in CZK million) 115

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

Position	Name	Change	Date of change
Member/Vice-chairman	Mirosław Kastelik	Re-elected to the office	6 February 2016 (Vice-chairman with the effect as of 1 July 2016)
Member	Andrzej Kozłowski	Re-elected to the office	9 April 2016
Vice-chairman	Piotr Wielowieyski	Recalled from the office	11 May 2016
Member	Robert Dominik Małłek	Elected to the office	11 May 2016
Member/Vice-chairman/Chairman	Andrzej Mikołaj Modrzejewski	Elected to the office	12 May 2016 (Vice-chairman with the effect as of 25 May 2016, chairman with the effect as of 2 July 2016)
Chairman	Marek Świtajewski	Recalled from the office	1 July 2016
Member/Vice-chairman	Krzysztof Zdziarski	Elected to the office	2 July 2016
Member	Martin Durčák	Resigned from the office	30 November 2016 with the effect as of 31 December 2016

Changes in the Supervisory Board in 2016 were as follows:

Position	Name	Change	Date of change
Chairman	Dariusz Jacek Krawiec	Resigned from the office	21 December 2015 with the effect as of 21 January 2016
Member	Rafał Sekuła	Resigned from the office	11 February 2016 with the effect as of 11 March 2016
Member/Chairman	Wojciech Jasiński	Appointed as substitute member	7 April 2016
Member	Zbigniew Leszczyński	Appointed as substitute member	7 April 2016
Member/Chairman	Wojciech Jasiński	Elected to the office	21 June 2016 (Chairman with the effect as of 21 June 2016)
Member	Zbigniew Leszczyński	Elected to the office	21 June 2016
Member	Grażyna Baka	Elected to the office	21 June 2016 with the effect as of 25 June 2016
Member	Piotr Chełminski	Termination of the office	24 June 2016
Member	Krystian Pater	Re-elected to the office	21 June 2016 with the effect as of 1 July 2016
Member	Zdeněk Černý	Re-elected to the office	21 June 2016 with the effect as of 1 July 2016

UNIPETROL, a.s. has not prepared a separate annual report as it included the respective information in a consolidated annual report.

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

Applied accounting policies are listed in note 25.3.

116 Separate financial statements for the year 2016 (in CZK million)

3. REVENUES

	2016	2015
Fees for use of lands	115	115
Other services	19	52
	134	**167**

3.1. Geographical information

All revenues were realized in the Czech Republic.

3.2. Major customers

The Company has individual customers who accounted for 10% or more of the Company's total revenues. These customers are entities related to UNIPETROL, a.s.

4. OPERATING EXPENSES

4.1. Cost of sales

	2016	2015
Cost of services sold	(51)	(90)
	(51)	**(90)**

4.2. Cost by nature

	2016	2015
Materials and energy	-	(2)
External services	(62)	(100)
Employee benefits	(78)	(148)
Taxes and charges	(19)	(19)
Insurance	(1)	(1)
Other	(13)	(85)
Operating expenses	**(173)**	**(355)**
Administrative expenses	120	214
Other operating expenses	2	51
Cost of sales	**(51)**	**(90)**

4.3. Employee benefits costs

	2016	2015
Wages and salaries	(61)	(107)
Social and health insurance	(12)	(25)
Social expense	(5)	(16)
	(78)	**(148)**

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4.3.1. Employee benefits costs – additional information

2016	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(7)	(2)	(1)	(44)	(7)	(61)
Social and health insurance	(2)	(1)	-	(7)	(2)	(12)
Social expense	-	-	-	(5)	-	(5)
	(9)	**(3)**	**(1)**	**(56)**	**(9)**	**(78)**
Number of employees average per year						6.50
Number of employees as at balance sheet day						10

2015	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(51)	(16)	(1)	(32)	(7)	(107)
Social and health insurance	(15)	(3)	-	(5)	(2)	(25)
Social expense	(8)	(3)	-	(5)	-	(16)
	(74)	**(22)**	**(1)**	**(42)**	**(9)**	**(148)**
Number of employees average per year						46.92
Number of employees as at balance sheet day						47

As of 1 January 2016 selected divisions from the Company were incorporated into the UNIPETROL RPA, s.r.o.

5. OTHER OPERATING INCOME AND EXPENSES

5.1. Other operating income

	2016	2015
Profit on sale of non-current non-financial assets	-	1
Other	-	5
	-	**6**

5.2. Other operating expenses

	2016	2015
Recognition of provisions	-	(50)
Donations	(1)	(1)
Other	(1)	-
	(2)	**(51)**

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6. FINANCE INCOME AND COSTS

6.1. Finance income

	2016	2015
Interest	39	84
Dividends received	30	330
Reversal of impairment of financial assets	-	1 922
Income from guarantees granted	21	16
Other	13	-
	103	**2 352**

During the year 2015 the Company reversed the impairment to the financial investment in BENZINA, s.r.o. due to improved financial result and planned merger with UNIPETROL RPA, s.r.o.

6.2. Finance costs

	2016	2015
Interest	-	(31)
Net foreign exchange loss	(1)	-
Bank fees	(5)	-
Other	(1)	(7)
	(7)	**(38)**

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7. TAX EXPENSE

	2016	2015
Tax expense in the statement of profit or loss		
Current tax	(4)	(2)
Deferred tax	(6)	13
	(10)	**11**

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%.

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

	2016	2015
Profit for the year	47	2,143
Total tax credit/(expense)	(10)	11
Profit before tax	57	2,132
Tax using domestic tax rate	(11)	(405)
Non-deductible expenses	(5)	(11)
Tax exempt income	6	428
Under (over) provided in prior periods	-	(1)
Total tax credit/(expense)	**(10)**	**11**
Effective tax rate	**(17.54)%**	**0.51%**

7.2. Deferred tax

Deferred taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19% in 2017 and onward).

	31/12/2015	Deferred tax recognized in statement of profit or loss	31/12/2016
Deferred tax assets			
Provisions	10	-	10
Unused tax losses carried forward	3	(3)	-
Employee benefit costs	6	(3)	3
	19	**(6)**	**13**
Deferred tax liabilities			
Investment property	(119)	-	(119)
	(119)	**-**	**(119)**
	(100)	**(6)**	**(106)**

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8. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment

	Land	Machinery and equipment	Vehicles and other	Total
01/01/2016				
Net book value				
Gross book value	9	2	3	**14**
Accumulated depreciation and impairment allowances	-	(2)	(3)	**(5)**
	9	**-**	**-**	**9**
increase/(decrease) net				
Investment expenditures	-	-	2	**2**
Reclassifications	-	-	(2)	**(2)**
31/12/2016				
Net book value	**9**	**-**	**-**	**9**
Gross book value	9	-	2	**11**
Accumulated depreciation and impairment allowances	-	-	(2)	**(2)**
	9	**-**	**-**	**9**
01/01/2015				
Net book value				
Gross book value	9	3	9	**21**
Accumulated depreciation and impairment allowances	-	(3)	(9)	(12)
	9	**-**	**-**	**9**
increase/(decrease) net				
Depreciation	-	-	-	-
31/12/2015				
Net book value	**9**	**-**	**-**	**9**

Other information on property, plant and equipment

	31/12/2016	31/12/2015
The gross book value of fully depreciated property, plant and equipment still in use	2	5

9. INVESTMENT PROPERTY

	2016	2015
At the beginning of the year	1,161	1,156
Reclassification from property, plant and equipment	2	5
	1,163	**1,161**

Rental income amounted to CZK 115 million in 2016 (2015: CZK 115 million). Operating costs related to the investment property in reporting period amounted to CZK 22 million in 2016 (2015: CZK 23 million).

9.1. Fair value of investment property measurement

Investment property as at 31 December 2016 included the lands owned by the Company and leased to subsidiaries of the Company and third parties, which fair value was estimated by revenue approach.

In the revenue approach the calculation was based on the discounted cash flow method. 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. The investment property valued under the revenue approach is classified to Level 3 as defined by IFRS 7. The discount rate of 8.52% was used for the calculation of the investment property fair value.

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

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

	Level 3			
	Increase by	Total impact	Decrease by	Total impact
Change in discount rate	+1 p.p.	(91)	-1 p.p.	91

10. SHARES IN RELATED PARTIES

Shares in related parties as at 31 December 2016 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries consolidated in full method						
UNIPETROL RPA, s.r.o.	Litvínov	11,643	100.00	-	11,643	-
ČESKÁ RAFINÉRSKÁ, a.s.	Litvínov	5,541	100.00	-	5,541	-
Unipetrol výzkumně vzdělávací centrum, a.s.	Ústí nad Labem	59	100.00	8	51	-
PARAMO, a.s.	Pardubice	1,251	100.00	1,073	178	-
Joint operations consolidated based on shares in assets and liabilities						
Butadien Kralupy a.s.	Kralupy nad Vltavou	162	51.00	-	162	26
Other investments						
ORLEN MALTA HOLDING	La Valeta	1	-	-	1	-
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.0002	-	-	0.0002	-
UNIPETROL DOPRAVA, s.r.o.	Litvínov	2	0.12	-	2	0.1
UNIPETROL SLOVENSKO s.r.o.	Bratislava	0.1	13.04	-	0.1	4
PETROTRANS, s.r.o.	Prague 4	1	0.63	-	1	-
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	0.1	0.10	-	0.1	-
Total		**18,660**	**-**	**1,081**	**17,579**	**30**

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Changes in the related parties in 2016 were as follows:

- The liquidation of UNIPETROL AUSTRIA HmbH was completed and the company was deleted from Commercial register on 9 September 2016.
- The merger by amalgamation of UNIPETROL RPA, s.r.o. and BENZINA, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 21 December 2015. The legal effects of the merger came into force as at 1 January 2016.
- The merger by amalgamation of UNIPETROL RPA, s.r.o. and UNIPETROL SERVICES, s.r.o., CHEMOPETROL, a.s. and UNIPETROL RAFINÉRIE, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

Shares in related parties as at 31 December 2015 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries consolidated in full method						
UNIPETROL RPA, s.r.o.	Litvínov	7,361	100.00	-	7,361	0.3
ČESKÁ RAFINÉRSKÁ, a.s.	Litvínov	5,541	100.00	-	5,541	-
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59	100.00	8	51	-
BENZINA, s.r.o.	Praha 4	4,181	100.00	-	4,181	-
PARAMO, a.s.	Pardubice	1,251	100.00	1,073	178	-
UNIPETROL SERVICES, s.r.o.	Litvínov	100	100.00	-	100	18
UNIPETROL RAFINÉRIE, s.r.o.	Praha 4	0.4	100.00	-	0.4	-
UNIPETROL AUSTRIA HmbH	Vídeň	3	100.00	-	3	-
Joint operations consolidated based on shares in assets and liabilities						
Butadien Kralupy a.s.	Kralupy nad Vltavou	162	51.00	-	162	306
Other investments						
ORLEN MALTA HOLDING	La Valeta	1	-	-	1	-
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.0002	-	-	0.0002	-
UNIPETROL DOPRAVA, s.r.o.	Litvínov	2	0.12	-	2	0.1
UNIPETROL SLOVENSKO s.r.o.	Bratislava	0.1	13.04	-	0.1	5
PETROTRANS, s.r.o.	Praha 4	1	0.63	-	1	0.1
UNIPETROL DEUTSCHLAND GmbH	Langen/ Hessen	0.1	0.10	-	0.1	-
Total		**18,663**	**-**	**1,081**	**17,582**	**330**

The Company had equity investments of CZK 17,579 million as at 31 December 2016 and CZK 17,582 million as at 31 December 2015 which represent ownership interests in companies 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.

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11. OTHER NON-CURRENT ASSETS

	31/12/2016	31/12/2015
Loans granted	-	24
Financial assets	**-**	**24**

Loans granted to subsidiaries

As at 31 December 2015 the Company had non-current loan in the amount of CZK 24 million granted to its jointly controlled entity Butadien Kralupy a.s. The loan was repayable by regular fixed instalments and interest rates were based on 6M PRIBOR. The fair value of the loan approximated its carrying amount.

12. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
Trade receivables	98	133
Other	19	2
Financial assets	**117**	**135**
Prepayments and deferred costs	7	7
Non-financial assets	**7**	**7**
Receivables, net	**124**	**142**
Receivables impairment allowance	100	100
Receivables, gross	**224**	**242**

Trade receivables result primarily from sales of services. The management considers that the carrying amount of trade receivables approximates their fair value.

The Company exposure to credit and currency risk related to trade and other receivables is disclosed in note 20 and detailed information about receivables from related parties is presented in note 23.

13. OTHER FINANCIAL ASSETS

	31/12/2016	31/12/2015
Loans granted	1,565	142
Cash pool	7,638	7,075
	9,203	**7,217**

Loans and cash pool granted

The Company provided financing to its subsidiaries: UNIPETROL RPA, s.r.o., Butadien Kralupy a.s., PARAMO, a.s., UNIPETROL SLOVENSKO s.r.o., SPOLANA a.s., Unipetrol výzkumně vzdělávací centrum, a.s., HC VERVA LITVÍNOV, a.s. and UNIPETROL RPA Hungary Kft.

The interest rates were based on appropriate inter-bank rates and fair value of loans approximates their carrying amount.

The current loans provided to subsidiaries are not collateralised. The current loans to the subsidiaries as at 31 December 2015 included the portion of non-current loans due within one year in the amount of CZK 48 million.

In 2016 the Company provided a current loan to SPOLANA a.s. in the amount of CZK 200 million. The loan was repaid in July 2016.

The analysis of current loans by currency of denomination is presented in the note 20.

The Company provides its subsidiaries with short term loans within the Group's cash pool. The loans are not collateralized and their fair value approximates the carrying amount. Further information is presented in note 16.

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14. CASH AND CASH EQUIVALENTS

	31/12/2016	31/12/2015
Cash on hand and in bank	2,552	5,435
	2,552	**5,435**

The carrying amount of these assets approximates their fair value

15. SHAREHOLDERS' EQUITY

15.1. Share capital

The issued capital of the Company as at 31 December 2016 amounted to CZK 18,133 million (31 December 2015: CZK 18,133 million). This represents 181,334,764 (2015: 181,334,764) bearer ordinary shares, each with a nominal value of CZK 100. All issued shares have been fully paid and bear equal voting rights. The Company's shares are listed on the Prague Stock Exchange.

Shareholders' structure

	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 notification received on 21 June 2016.

15.2. Statutory reserves

The Annual General Meeting of UNIPETROL, a.s. held on 2 June 2015 approved the cancellation of the reserve fund in the amount of CZK 1,719 million and transfer of that amount to retained earnings.

15.3. Revaluation reserve

Revaluation reserve comprises the difference between the net book value and the fair value of the property as at the date of reclassification of the property occupied by the Company and recognized as an investment property.

15.4. Retained earning

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profits of the parent company. On 21 June 2016 the Annual General Meeting of UNIPETROL, a.s. decided to pay a dividend equal to CZK 5.52 per share to the Company's shareholders.

The decision regarding appropriation of 2016 profit will be made at the annual meeting of shareholders, which will be held in May/June 2017.

15.5. 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 0.00% and -10.31%, 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

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15.5.1. Net debt

	31/12/2016	31/12/2015
Cash and cash equivalents	2,552	5,435
Cash pool liabilities	(2,483)	(2,462)
	69	**2,973**

15.5.2. Net working capital

	Receivables	Liabilities	Working capital
31/12/2015	142	145	(3)
31/12/2016	124	115	9
Change from statement of financial position	**18**	**(30)**	**(12)**
Adjustments:			
Movements in liabilities from dividends	-	(15)	(15)
Change from statement of cash flows	**18**	**(45)**	**(27)**

16. LOANS AND BORROWINGS

Bank loans and cash pool agreements

During the year 2016 the Company had cash pool and loan agreements with the following banks, subsidiaries and related companies:

Banks: ING Bank N.V., organizační složka, Česká spořitelna, a.s., Komerční banka, a.s. and Commerzbank AG.

Subsidiaries and related companies: UNIPETROL RPA, s.r.o., PARAMO, a.s., UNIPETROL DOPRAVA, s.r.o.,PETROTRANS, s.r.o., UNIPETROL SLOVENSKO s.r.o., Butadien Kralupy a.s., ČESKÁ RAFINÉRSKÁ, a.s., Unipetrol výzkumně vzdělávací centrum, a.s., HC VERVA Litvínov, a.s., SPOLANA a.s., UNIPETROL RPA Hungary Kft. and ORLEN Asfalt Česká republika s.r.o.

Cash held at bank accounts of cashpool banks is drawn by the Company and above mentioned subsidiaries. The contracts enable to access bank loans and guarantees not exceeding CZK 10,049 million from all banks together. Interest income/expense is calculated from the drawn amount and consequently divided among the parties involved.

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 20 and are presented jointly with other financial instruments.

17. PROVISIONS

In 2015 following the decision of the Czech inspection of environment, the Company recognized a provision in the amount of CZK 50 million in respect of remediation of historical ecological contamination in the Kralupy location. Based on the decision the remediation works have to be finalized till 21 years after their start.

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18. TRADE AND OTHER LIABILITIES

	31/12/2016	31/12/2015
Trade liabilities	21	35
Dividends	50	35
Other	14	27
Financial liabilities	**85**	**97**
Payroll liabilities	4	6
Value added tax	4	8
Other taxation, duties, social security and other benefits	8	4
Accruals	14	30
holiday pay accrual	-	1
wages accrual	13	29
other	1	-
Non-financial liabilities	**30**	**48**
	115	**145**

The management considers that the carrying amount of trade and other liabilities and accruals approximate their fair value. The currency structure of financial liabilities is presented in note 20.4.1.

19. OTHER FINANCIAL LIABILITIES

The Company had cash pool liabilities to subsidiaries and related entities in the amount of CZK 2,483 million as at 31 December 2016 (31 December 2015: CZK 2,462 million). The description of cash pool agreements is presented in note 16.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

20.1. Financial instruments by category and class

Financial assets

31/12/2016		Financial instruments by category	
Financial instruments by class	Note	Loans and receivables	Total
Trade receivables	12.	98	98
Loans granted	13.	1,565	1,565
Cash pool	13.	7,638	7,638
Cash and cash equivalents	14.	2,552	2,552
Other financial assets	12.	19	19
		11,872	**11,872**

31/12/2015		Financial instruments by category	
Financial instruments by class	Note	Loans and receivables	Total
Trade receivables	12.	133	133
Loans granted	11.,13.	166	166
Cash pool	13.	7,075	7,075
Cash and cash equivalents	14.	5,435	5,435
Other financial assets	12.	2	2
		12,811	**12,811**

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Financial liabilities

31/12/2016 Financial instruments by class	Note	Financial instruments by category Financial liabilities measured at amortised cost	Total
Trade liabilities	18.	21	21
Cash pool	19.	2,483	2,483
Other financial liabilities	18.	64	64
		2,568	**2,568**

31/12/2015 Financial instruments by class	Note	Financial instruments by category Financial liabilities measured at amortised cost	Total
Trade liabilities	18.	35	35
Cash pool	19.	2,462	2,462
Other financial liabilities	18.	62	62
		2,559	**2,559**

20.2. Income, expenses, profit and loss in the separate statement of profit or loss and other comprehensive income

2016	Financial instruments by category		
	Loans and receivables	Financial liabilities measured at amortised cost	Total
Interest income	39	-	39
Foreign exchange gain/(loss)	2	(3)	(1)
Recognition of receivables impairment allowances recognized in:			
Other operating expenses	(1)	-	(1)
Other	34	(6)	28
	74	**(9)**	**65**
other, excluded from the scope of IFRS 7			
Dividends			30
			30

2015	Financial instruments by category		
	Loans and receivables	Financial liabilities measured at amortised cost	Total
Interest income	84	-	84
Interest costs	-	(31)	(31)
Foreign exchange gain/(loss)	4	(4)	-
Other	16	(7)	9
	104	**(42)**	**62**
other, excluded from the scope of IFRS 7			
Dividends			330
Reversal of impairment of financial assets			1,922
			2,252

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20.3. Fair value measurement

	Note	31/12/2016 Fair value	31/12/2016 Carrying amount	31/12/2015 Fair value	31/12/2015 Carrying amount
Financial assets					
Trade receivables	12.	98	98	133	133
Loans granted	11.,13.	1,565	1,565	166	166
Cash pool	13.	7,638	7,638	7,075	7,075
Cash and cash equivalents	14.	2,552	2,552	5,435	5,435
Other	12.	19	19	2	2
		11,872	**11,872**	**12,811**	**12,811**
Financial liabilities					
Trade liabilities	18.	21	21	35	35
Cash pool	19.	2,483	2,483	2,462	2,462
Other	18.	64	64	62	62
		2,568	**2,568**	**2,559**	**2,559**

20.3.1. Methods applied in determining fair value of financial instruments (fair value hierarchy)

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, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2) and data to valuation, which are not based on observable market data (Level 3).

Financial assets and liabilities carried at fair value by the Company belong to Level 2 as defined by IFRS.

In the year ended 31 December 2016 and the comparative period in the Company were no transfers between Levels 1, 2 and 3.

As at 31 December 2016 the Company held unquoted shares in entities amounting to CZK 17,579 million (31 December 2015: CZK 17,582 million), 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 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.

20.4. Financial risks indentification

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 result.

20.4.1. Currency risk

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

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Currency structure of financial instruments denominated in foreign currency

Financial instruments by class	EUR		USD		Total after translation to CZK	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Financial assets						
Loans granted	11	4	-	-	341	95
Cash and cash equivalents	3	-	1	-	111	4
	14	**4**	**1**	**-**	**452**	**99**
Financial liabilities						
Cash pool	3	-	1	-	111	4
Trade and other liabilities	-	-	-	-	2	13
	3	**-**	**1**	**-**	**113**	**17**

Sensitivity analysis for currency changes risk

The Company is mainly exposed to the fluctuation of exchange rates of EUR/CZK.

The influence of changes in carrying amount of financial instruments arising from hypothetical changes in exchange rates of relevant currencies in relation to presentation currency (CZK) on profit before tax is presented below:

	Assumed variation		Influence on profit before tax		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
EUR/CZK	15%	15%	45	12	45	12
			45	**12**	**45**	**12**
EUR/CZK	-15%	-15%	(45)	(12)	(45)	(12)
			(45)	**(12)**	**(45)**	**(12)**

20.4.2. Interest rate risk

The Company is exposed to the risk of volatility of cash flows arising from interest rate loans and cash pool arrangements granted and taken.

Interest rate structure of financial instruments

	PRIBOR		EURIBOR		LIBOR		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Financial assets								
Loans granted	1,224	72	341	94	-	-	1,565	166
Cash pool	7,638	7,075	-	-	-	-	7,638	7,075
	8,862	**7,147**	**341**	**94**	**-**	**-**	**9,203**	**7,241**
Financial liabilities								
Cash pool	2,372	2,458	91	3	20	1	2,483	2,462
	2,372	**2,458**	**91**	**3**	**20**	**1**	**2,483**	**2,462**

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Sensitivity analysis for interest rate risk

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

	Assumed variation		Influence on profit before tax	
	31/12/2016	31/12/2015	2016	2015
PRIBOR	+0.5 p.p.	+0.5 p.p.	32	23
			32	**23**
PRIBOR	-0.5 p.p.	-0.5 p.p.	(32)	(23)
			(32)	**(23)**

The Company does not consider in the sensitivity analysis change of EURIBOR and LIBOR due to their insignificant impact. 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.

20.4.3. 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.	2,483	-	2,483	2,483
Trade and other liabilities	18.	85	-	85	85
		2,568	**-**	**2,568**	**2,568**

			31/12/2015		
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	19.	2,462	-	2,462	2,462
Trade and other liabilities	18.	97	-	97	97
		2,559	**-**	**2,559**	**2,559**

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.

As at 31 December 2016 and as at 31 December 2015, the maximum available credit facilities relating to bank loans and guarantees amounted to CZK 10,049 million and CZK 9,500 million respectively. Unused part of the credit facilities for bank loans or guarantees amounted to CZK 8,031 million and CZK 8,006 million as at 31 December 2016 and as at 31 December 2015. The description of the loans and guarantees drawn from credit facilities is presented in notes 16 and 27.

Credit risk

The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Loans granted (note 11 and note 13) and receivables (note 12) principally consist of amounts due from subsidiaries and joint operations. The Company does not require collateral in respect of these financial assets. The Company's management monitors the most significant debtors and assesses their creditworthiness. 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.

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Division of not past due receivables

	31/12/2016	31/12/2015
Group I	116	135
Group II	-	-
	116	**135**

Ageing analysis of receivables past due, but not impaired

	31/12/2016	31/12/2015
Above 1 year	1	-
	1	**-**

Change in impairment allowances of trade and other receivables

There were no changes in the impairment allowances of trade and other receivables in 2016 and 2015. The impairment allowances amounted to CZK 100 million as at 31 December 2016 and 31 December 2015.

The Company sets impairment charges based on analysis of customers' creditworthiness and ageing of receivables. In determining the recoverability of a 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. 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 financial expense or income.

The carrying amount of financial assets represents the maximum credit exposure.

The maximum credit risk in respect of each class of financial assets is equal to the book value.

21. LEASE

21.1. 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 agreements were as follows:

	31/12/2016	31/12/2015
Less than one year	1	5
Between one and five years	1	9
	2	**14**

The Company leases vehicles and offices under operating leases. The vehicle leases typically run for a two year period. 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	1	6

Finance lease

At the balance sheet date the Company is not a party to finance lease arrangements as a lessee.

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21.2. The Company as a lessor

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

22. PAST ENVIRONMENTAL LIABILITIES

The Company is the recipient of funds provided by the National Property Fund of the Czech Republic for settling environmental liabilities relating to historic environmental damage. Funds up to CZK 10,256 million are provided to cover cost actually incurred in relation to settlement of historic environmental damage.

An overview of funds provided by the National Property Fund (currently administered by the Ministry of Finance) for the environmental contracts is provided below:

	Total amount of funds to be provided	Used funds as at 31/12/2016	Unused funds as at 31/12/2016
UNIPETROL, a.s. / premises in Litvínov	6,012	4,186	1,826
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4,244	52	4,192
	10,256	**4,238**	**6,018**

	Total amount of funds to be provided	Used funds as at 31/12/2015	Unused funds as at 31/12/2015
UNIPETROL, a.s. / premises in Litvínov	6,012	4,014	1,998
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4,244	51	4,193
	10,256	**4,065**	**6,191**

23. RELATED PARTY TRANSACTIONS

23.1. Information on material transactions concluded by the Company with related parties on other than market terms

In 2016 and in 2015 there were no transactions concluded by the Company with related parties on other than market terms

23.2. Transactions with key management personnel

In 2016 and in 2015 the Company did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments or concluded other agreements obliging them to render services to the Company and its related parties. As at 31 December 2016 and as at 31 December 2015 there were no loans granted by the Company to managing and supervising persons and their relatives.

23.3. Transaction with related parties concluded through the key management personnel

In 2016 and in 2015 key management personnel of the Company, based on declaration sent, did not conclude any transaction with related parties.

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

Parent and ultimate controlling party

During 2016 and 2015 a majority (62.99%) of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A.

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2016	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Sales	1	111	-
Purchases	2	22	-
Finance income, including	-	89	-
dividends	-	*30*	-

31/12/2016	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Non-current receivables and loans granted	-	-	-
Current financial assets		9,203	-
Trade and other receivables	-	64	-
Trade and other liabilities, including loans	-	2,312	175

2015	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Sales	-	144	-
Purchases	2	41	-
Finance income, including	-	428	-
dividends	-	*330*	-
Finance costs	30	-	-

31/12/2015	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Non-current receivables and loans granted	-	24	-
Current financial assets		7,217	-
Trade and other receivables	-	93	-
Trade and other liabilities, including loans	-	2,466	1

24. 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 Directors's, the Supervisory Board's and other key executive personnel's remuneration includes short term employee benefits and termination benefits paid, due and potentially due during the period.

	2016		2015	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current period	66	3	74	-
Paid for previous year	12	-	17	-
Potentially due to be paid in the following year	13	1	16	-

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

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24.1. Bonus system for key executive personnel of the Company

In 2016 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The regulations applicable to Management Board, directors directly reporting to 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 results generated by the Company.

24.2. The entitlements upon the termination of employment

The entitlements arising from contracts with key management personnel upon the termination of employment contained both a competition and a stabilization clause. The competition and stabilization clause ranges between three and six average monthly earnings or monthly base salary respectively.

25. ACCOUNTING PRINCIPLES

25.1. Impact of IFRS amendments and interpretations on separate financial statements of the Company

25.1.1. Binding amendments to IFRSs and interpretations

The amendments to 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.

25.1.2. IFRSs, amendments and interpretations to the 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**

25.1.3. 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 or Joint Venture	no impact expected
IFRS 16 Leases	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	impact**
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	no impact expected
Amendments to IFRS 4 Applying IFRS 9 Financial 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.

** Due to limited scope of services provided by the Company is no material impact expected. At the time of the implementation, i.e. on 1 January 2018, the particular 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.

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25.2. Functional currency and presentation currency

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

25.3. Applied accounting policies

25.3.1. 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.

25.3.2. Revenues

Revenues from sales (from operating activity) include revenues that relate to core activities, i.e. activities for which the Company was founded, these revenues being recurring and not of incidental character.

Revenues from sales are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from the sale of goods and services are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods and services decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges.

Revenues are measured at the fair value of the received or due payments. Revenues from sales are adjusted for profit or loss from settlement of cash flow hedging instrumenst 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.

25.3.3. 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.

25.3.4. Other operating income and expenses

Other operating income, in particular, includes 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.

25.3.5. 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 leases, commissions on bank loans, borrowings and guarantees.

25.3.6. Tax expense

Income tax expenses include of current tax and deferred tax.

Current tax expense is determined in accordance with the relevant tax law based on 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.

25.3.7. 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.

25.3.8. Property, plant and equipment

Property, plant and equipment are assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period (one year or the operating cycle, if longer than one year).

Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).

Property, plant and equipment are initially stated at cost, including grants related to assets (IAS20). The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use.

The cost of an item of property, plant and equipment also includes estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment and capitalized borrowing costs.

Property, plant and equipment are stated in the statement of financial position prepared at the end of the reporting period at the carrying amount, including grants related to assets. The carrying amount is the amount at which an asset is initially recognized (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.

25.3.9. 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 Company 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.

25.3.10. 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 recognized 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 recognized 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 recognized initially at fair value.

After initial recognition, an intangible asset shall be presented in the financial statements at its net carrying amount, including grants related to assets.

Intangible assets are measured at acquisition or at construction cost less amortization and impairment allowances. Intangible assets with a finite useful life are amortized when they become available for use, that is when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management over their estimated useful life. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life shall be assumed to be zero.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.

The following standard useful lives are used for intangible assets:

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

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.

25.3.11. 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 CGU.

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 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, impairment tests are carried out. The tests are also carried out annually for intangible assets with an 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 recognized immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard.

25.3.12. Shares in related parties

The investments in subsidiaries, jointly controlled entities and associated, not classified as held for sale (and not included in the group of assets classified as held for sale) in accordance with IFRS 5, are accounted at cost less impairment losses.

25.3.13. Trade and other receivables

Trade and other receivables are recognized initially at 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 the 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.

25.3.14. Cash and cash equivalents

Cash comprises cash on hand and in 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.

25.3.15. 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 reference to the discontinued operation for prior periods presented in the separate financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

If the Company ceases to classify 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.

25.3.16. Equity

Equity is recorded in the accounting records by type, in accordance with statutory regulations and the Company's Articles of Association. Equity includes:

25.3.16.1. Share capital

The share capital is paid by shareholders and is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register.

25.3.16.2. Hedging reserve

The hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting. The Company applies cash flow hedge accounting to hedge commodity risk, exchange rate risk and interest rate risk. Changes in fair value, which are an ineffective part of the hedge relationship, are recognized in the statement of profit or loss.

25.3.16.3. 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 an investment property at the date of reclassification from the property occupied by the Company to an investment property.

25.3.16.4. 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.

25.3.17. 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.

25.3.18. Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is more likely 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.

25.3.18.1. 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.

25.3.18.2. 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 the elapsing 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 and an employee's average remuneration.

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as retirement defined benefit plans.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

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

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

25.3.18.3. Shield programms

Shield programs provision (restructuring provision) is created when the Company iniciates a restructuring plan or announces the main features ofa 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.

25.3.18.4. 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.

25.3.19. 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 grants relate to assets, that are presented net with the related asset and are recognized in the statement of profit or loss on a systematic basis over the useful life of the related asset through decreased depreciation charges.

25.3.20. Separate 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.

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

Interests 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.

The Company changed the structure of particular positions presentation within the Separate statement of cash flows from operating activities in 2015 as follows:

	Previously reported	Changes	Changed presentation
Cash flows - operating activities			
Net profit	**2,143**	**(2,143)**	**-**
Profit before tax	**-**	**2 ,132**	**2,132**
Adjustments for:			
Foreign exchange (gain)/loss	(4)	-	(4)
Interest and dividends, net	(391)	-	(391)
(Profit)/Loss on investing activities	(1 928)	-	(1 928)
Change in provisions	50	-	50
Income tax	(11)	11	-
Change in working capital	32	-	32
receivables	*22*	-	*22*
liabilities	*10*	-	*10*
Income tax (paid)	(5)	-	(5)
Net cash from operating activities	**(114)**	**-**	**(114)**

25.3.21. Financial instruments

25.3.21.1. 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. Effective interest is the rate which discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and for shorter periods 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.

25.3.21.2. Transfers

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

25.3.22. Fair value measurement

The Company maximizes 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.

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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 modelled 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 recognized in the current year profit or loss.

As compared to the previous reporting period, the Company has not changed valuation methods concerning derivative instruments.

25.3.23. 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 recognized 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.

25.3.24. Contingent assets and liabilities

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 they may lead to recognition of 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 recognized 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.

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.

25.3.25. 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).

26. APPLICATION OF PROFESSIONAL JUDGMENT 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 matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.

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

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 7. Tax expense, 9. Investment property, 12. Trade and other receivables, 20. Financial instruments and financial risks. The accounting policies described above have been applied consistently to all periods presented in these separate financial statements.

27. CONTINGENT ASSETS AND LIABILITIES

Purchase of shares of PARAMO, a.s

In January 2009 UNIPETROL, a.s. effected a squeeze out of PARAMO, a.s. shares and became sole shareholder of PARAMO, a.s.

In accordance with the resolutions of the Extraordinary General Meeting of PARAMO, a.s. of 6 January 2009, all other shares in PARAMO, a.s were transferred to the Company and the Company provided to the other shareholders of PARAMO, a.s. monetary consideration of CZK 977 per share of PARAMO, a.s.

In connection with the squeeze-out, certain minority shareholders of PARAMO, a.s. filed a petition with the Regional Court in Hradec Králové for a review of the adequacy of compensation within the meaning of the Czech Commercial Code. The case is now pending at the Regional Court in Hradec Králové.

On 23 June 2015 the court decided to appoint another expert witness - Expert Group s.r.o. having its registered seat at Radniční 133/1, České Budějovice - to provide a valuation of the PARAMO, a.s. shares.

The Expert Group s.r.o. valuation report regarding of PARAMO, a.s. shares received by UNIPETROL, a.s. on 1 December 2016 provided for PARAMO, a.s. share value as at:

a) 6 January 2009 – CZK 1,853/share;
b) 4 March 2009 – CZK 1,691.53/share.

UNIPETROL, a.s. is currently preparing a filling to comment on the recently submitted expert opinion.

Support letter issued in favour of PARAMO, a.s.

The Company has confirmed in a letter of support its commitment to provide loan financing to its subsidiary PARAMO, a.s. for at least 12 months from the date of PARAMO, a.s.'s 2016 financial statements.

Guarantees issued

As part of the operational financing of UNIPETROL, a.s., the bank guarantees in the amount of CZK 2,018 million (2015: CZK 1 215 million) were provided for the companies: UNIPETROL RPA, s.r.o. in the amount of CZK 1,043 million (2015: CZK 995 million), PARAMO, a.s. in the amount of CZK 381 million (2015: CZK 220 million), UNIPETROL SLOVENSKO s.r.o. in the amount of CZK 543 million and SPOLANA a.s. in the amount of CZK 51 million.

Furthermore UNIPETROL, a.s. issued a guarantee for the company UNIPETROL RPA, s.r.o. in favour of ČEPRO, a.s. to ensure the excise tax in the amount of CZK 150 million and in favour of ČESKÁ RAFINÉRSKÁ, a.s. of CZK 3,100 million

28. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

28.1. Organisation of the 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 (information 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 Prague 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, Litvínov, 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 Prague 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 Budaörst, Puskás Tivadar utca 12, Hungary	--	100.00%	Downstream	
UNIPETROL SLOVENSKO s.r.o. Jašíkova 2, Ružinov, 821 03 Bratislava, Slovak Republic	13.04%	86.96%	Downstream	www.unipetrol.sk
Unipetrol výzkumně vzdělávací centrum, a.s. Revoluční 84/č.p. 1521, Ústí nad Labem, Czech Republic	100.00%	--	Corporate Functions	www.vuanch.cz
Joint operations consolidated based on shares in assets and liabilities				
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic	51.00%	--	Downstream	www.butadien.cz

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

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28.2. Subsidiaries

Changes in structure of the Group

Acquisition of SPOLANA a.s

On 10 June 2016 the Group concluded a purchase contract with ANWIL S.A., a Company owned by PKN ORLEN S.A., under which it acquired the production company SPOLANA a.s. The transaction supports Unipetrol's reorganization of activities, which was triggered by taking full control over the refining assets in the Czech Republic and will allow the Group to be more flexible and resilient in terms of production optimization, production and sales of ethylene as well as facilitate better coordination and extension of the Group's value chain.

Liquidation of UNIPETROL AUSTRIA HmbH

The liquidation of UNIPETROL AUSTRIA HmbH was completed and the company was deleted from Commercial register on 9 September 2016.

Merger between UNIPETROL RPA, s.r.o. and BENZINA, s.r.o.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and BENZINA, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 21 December 2015. The legal effects of the merger came into force as at 1 January 2016.

Merger between UNIPETROL RPA, s.r.o. and UNIPETROL SERVICES, s.r.o.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and UNIPETROL SERVICES, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

Merger between UNIPETROL RPA, s.r.o. and CHEMOPETROL, a.s.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and CHEMOPETROL, a.s. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2August 2016.

Merger between UNIPETROL RPA, s.r.o. and UNIPETROL RAFINÉRIE, s.r.o.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and UNIPETROL RAFINÉRIE, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

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 26 September 2016. The legal effects of the merger came into force as at 1 January 2017.

Merger between UNIPETROL SLOVENSKO s.r.o. and MOGUL SLOVAKIA s.r.o.

The merger by amalgamation of UNIPETROL SLOVENSKO s.r.o. and MOGUL SLOVAKIA s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL SLOVENSKO s.r.o. on 21 December 2015. The legal effects of the merger came into force as at 1 January 2016.

Foundation Unipetrol

Foundation Unipetrol was registered in the Register of Foundation on 27 December 2016. Start of the foundation activities is planned in 2017. It is planned that the foundation will focus mainly on promotion of education, supporting young people and their educational development and popularization of science and technology.

Change in the official name of Výzkumný ústav anorganické chemie, a.s.

As of 1 January 2016 the company Výzkumný ústav anorganické chemie, a.s. was changed to the name of Unipetrol výzkumně vzdělávací centrum, a.s. Other requirements listed in the Commercial Register as well as the company's registered office remain unchanged.

29. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

The Supervisory Board of UNIPETROL, a.s. at its meeting held on 18 January 2017 approved the resignation of Mr. Bogdan Dzudzewicz from the position of the Member of the Supervisory Board of UNIPETROL, a.s. with the effect as of 18 January 2017.

The Company's management is not aware of any other events that have occurred since end of the reporting period that would have any material impact on the financial statements as at 31 December 2016.

30. STATEMENT OF THE BOARD OF DIRECTORS AND APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors of UNIPETROL, a.s. hereby declares that to the best of its knowledge the foregoing separate financial statements and comparative data were prepared in compliance with the accounting principles adopted by the Company in force (disclosed in note 25.3.) and that they reflect a true and fair view on the financial position and financial results, including basic risks and exposures.

These separate financial statements were authorized by the Board of Directors' meeting held on 13 March 2017.

Signature of statutory representatives

Andrzej Mikołaj Modrzejewski

Chairman of the Board of Directors

Mirosław Kastelik

Vice-chairman of the Board of Directors

hockey

Ondřej Jurčík

The premium fuel brand in the name of our ice-hockey club underscores the fact that success in this sport requires unwavering commitment. Only with this approach can one fight for 56 years in the first division and train 23 world champions. We take pride in supporting the most popular sport in the Czech Republic and we follow the performance of HC Verva Litvínov. Ondřej Jurčík has played ice-hockey with passion since his junior days and has remained loyal to the club to this day.

Auditor’s report on the consolidated financial statements

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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 Shareholders of UNIPETROL, a.s.

Opinion

We have audited the accompanying consolidated financial statements of UNIPETROL, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company and the consolidated group ("the Group") is set out in Note 1 and 36 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2016, and of its consolidated financial performance and its consolidated 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 Consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Property, plant and equipment

Refer to Accounting principles note 33.3.14 and note 15 of the consolidated financial statements

The key audit matter	How the audit matter was addressed
During 2016 the Group prepared new mid-term plan for 2017-2021 based on the new financial projections and assumptions approved by the directors in January 2017. As the projections have improved since the last approved mid-term plan, the directors assessed this as an indication that an impairment loss recognized in prior periods may have decreased and estimated the recoverable amount. This assessment resulted in a reversal of impairment which was recorded in the current period. Determining the recoverable amounts of assets requires a number of significant judgments and estimates, especially in respect of the amount of future cash flows and the applied discount rate. Therefore, this is one of the key judgmental areas that our audit is concentrated on.	Our audit procedures included, among others: - Evaluating appropriateness of the Group's judgment regarding identification of assets or cash generating units which may be impaired; - Critically assessing the Group's assumptions and estimates used to determine the recoverable amount of property, plant and equipment and any impairment losses recognized, using our internal valuations specialist. This included: • Assessing the reasonableness of key macroeconomic assumptions applied by the Group (including those relating to discount rates and exchange rates) against market data; • Testing Group's discounted cash flows model in terms of its compliance with the relevant accounting standards; - Evaluating the Group's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results, e.g. those relating to discount rates and operating earnings before deduction of depreciation and impairment allowances (EBITDA margin); - Evaluating the adequacy of disclosures in respect of impairment.

Compensation related to accident on installation for ethylene production in subsidiary UNIPETROL RPA, s.r.o.

Refer to Accounting principles note 33.3.27 and note 35.1 of the consolidated financial statements

The key audit matter	How the audit matter was addressed
In August 2015, an accident occurred at the ethylene production plant in Litvinov. The accident resulted in substantial damage and forced a complete halt to production at the facility. The facility was gradually put into normal modes of operation during the fourth quarter of 2016. The Group's entities are protected by insurance policies with the coverage including *inter alia* the replacement cost of the damaged plant and compensation for lost profits. The Group expects the insurance to cover the cost of rebuilding the installation as well as lost profits. Compensation for insurance recoveries is recognized in statement of profit or loss and other comprehensive income when the Group has an unconditional contractual right to receive the compensation. The assessment of the recognition and disclosure criteria involves significant management judgment.	Our audit procedures included, among others: Critical evaluation of the estimate of expected compensation and the related assumptions by: - inspection of the memorandum prepared for the Group by an external attorney assessing aspects of the insurance proceedings, - inquiry of the Group's legal department and assessing responses for consistency with recognised amounts and disclosed information; - reading and evaluating the correspondence and Payment agreements with the insurers; - Reconciling the receipts from insurers to the bank statements; - Evaluating the appropriateness of the Group's distinction between the recognition of the receivable and disclosure of the contingent asset by assessment of probability of the inflow of income - Evaluating the completeness and adequacy of the related disclosures.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated financial statements is, in all material respects, consistent with the consolidated 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, Supervisory Board and Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated 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 and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Statutory Auditor Responsible for the Engagement

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

Prague
13 March 2017

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

Karel Růžička
Partner
Registration number 1895

Consolidated financial statements for the year 2016

Translation from the Czech original

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

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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	2016	2015
Statement of profit or loss			
Revenues	4.	87,813	108,907
Cost of sales	5.1.	(83,226)	(96,144)
Gross profit on sales		**4,587**	**12,763**
Distribution expenses	5.2.	(2,563)	(2,140)
Administrative expenses	5.2.	(1,468)	(1,302)
Other operating income	6.1.	10,331	616
Other operating expenses	6.2.	(990)	(1,221)
Profit from operations		**9,897**	**8,716**
Finance income	7.1.	685	1,260
Finance costs	7.2.	(554)	(1,307)
Net finance income/(costs)		**131**	**(47)**
Profit before tax		**10,028**	**8,669**
Tax expense	8.	(2,053)	(1,633)
Net profit		**7,975**	**7,036**
Other comprehensive income			
items which will not be reclassified into profit or loss		**(2)**	**7**
Actuarial gains and losses		*(2)*	*9*
Deferred tax		*-*	*(2)*
items which will be reclassified into profit or loss under certain conditions		**(807)**	**4**
Hedging instruments		*(998)*	*9*
Foreign exchange differences on subsidiaries from consolidation		*1*	*(3)*
Deferred tax		*190*	*(2)*
		(809)	**11**
Total net comprehensive income		**7,166**	**7,047**
Net profit attributable to		**7,975**	**7,036**
equity owners of the parent		*7,975*	*7,036*
non-controlling interest		*-*	*-*
Total comprehensive income attributable to		**7,166**	**7,047**
equity owners of the parent		*7,166*	*7,047*
non-controlling interest		*-*	*-*
Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share)		43.98	38.80

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 164-221.

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Consolidated statement of financial position

	Note	31/12/2016	31/12/2015
ASSETS			
Non-current assets			
Property, plant and equipment	10.	30,080	19,398
Investment property	11.	432	433
Intangible assets	12.	1,492	1,514
Financial assets available for sale	13.	2	1
Deferred tax assets	8.2.	143	1,204
Other non-current assets	14.	121	25
		32,270	**22,575**
Current assets			
Inventories	16.	13,725	10,390
Trade and other receivables	17.	16,175	11,258
Other financial assets	18.	3,416	4,281
Current tax receivables	8.	133	107
Cash and cash equivalents	19.	2,933	5,888
		36,382	**31,924**
Total assets		**68,652**	**54,499**

EQUITY AND LIABILITIES			
EQUITY			
Share capital	20.1.	18,133	18,133
Statutory reserves	20.2.	33	34
Hedging reserve	20.3.	(263)	545
Revaluation reserve	20.4.	10	10
Foreign exchange differences on subsidiaries from consolidation	20.5.	16	15
Retained earnings	20.6.	23,701	16,781
Total equity attributable to equity owners of the parent		**41,630**	**35,518**
Non-controlling interest		**(9)**	**(9)**
Total equity		**41,621**	**35,509**
LIABILITIES			
Non-current liabilities			
Provisions	22.	997	678
Deferred tax liabilities	8.2.	859	809
Other non-current liabilities	23.	170	166
		2,026	**1,653**
Current liabilities			
Trade and other liabilities	24.	22,984	15,707
Loans, borrowings	21.	1	-
Current tax liabilities	8.	445	602
Provisions	22.	652	892
Deferred income	25.	8	8
Other financial liabilities	26.	915	128
		25,005	**17,337**
Total liabilities		**27,031**	**18,990**
Total equity and liabilities		**68,652**	**54,499**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 164-221.

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Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent								
	Share capital	Statutory reserves	Hedging reserve	Revaluation reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Non-controlling interest	Total equity
Note	20.1.	20.2.	20.3.	20.4.	20.5.	20.6.			
01/01/2016	18,133	34	545	10	15	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 *	-	-	-	-	-	(53)	(53)	-	(53)
Transfer of statutory reserves to retained earnings	-	(1)	-	-	-	1	-	-	-
31/12/2016	**18,133**	**33**	**(263)**	**10**	**16**	**23,701**	**41,63**	**(9)**	**41,621**
01/01/2015	18,133	2,703	538	10	18	7,069	28,471	(9)	28,462
Net profit	-	-	-	-	-	7,036	7,036	-	7,036
Items of other comprehensive income	-	-	7	-	-3	7	11	-	11
Total net comprehensive income	**-**	**-**	**7**	**-**	**-3**	**7,043**	**7,047**	**-**	**7,047**
Transfer of statutory reserves to retained earnings	-	(2,669)	-	-	-	2,669	-	-	-
31/12/2015	**18,133**	**34**	**545**	**10**	**15**	**16,781**	**35,518**	**(9)**	**35,509**

* Further described in note 36.2.

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 164-221.

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Consolidated statement of cash flows

	Note	2016	2015
Cash flows - operating activities			
Profit before tax		**10,028**	**8,669**
Adjustments for:			
Depreciation and amortisation	5.2.	2,031	1,927
Foreign exchange (gain)/loss		(1)	(7)
Interest and dividends, net		2	31
(Profit)/Loss on investing activities*		(2,294)	523
Change in provisions		457	985
Gain on bargain purchase		-	(429)
Change in receivables and liabilities from insurance		(1,345)	276
Other adjustments including change in financial instruments and deferred income		234	(262)
Change in working capital	20.7.3.	(183)	3,368
inventories		(2,843)	234
receivables		(1,755)	3,827
liabilities		4,415	(693)
Income tax (paid)		(933)	(150)
Net cash from operating activities**		**7,996**	**14,931**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(10,133)	(3,357)
Disposal of property, plant and equipment and intangible assets		97	11
Acquisition of Spolana	36.2.	(28)	-
Cash and cash equivalents acquired in acquisition of Spolana		84	-
Acquisition of share in Česká rafinérská		-	(661)
Cash and cash equivalents acquired in acquisition of share in Česká rafinérská		-	426
Settlement of financial derivatives		436	286
Proceeds/(outflows) from loans granted		(200)	4
Outflows from cash pool assets		(49)	(3,054)
Other		4	5
Net cash used in investing activities		**(9,789)**	**(6,340)**
Cash flows - financing activities			
Proceeds/(outflows) from loans and borrowings		1	(4,329)
Proceeds/(outflows) from cash pool liabilities		(171)	1
Interest paid		(2)	(49)
Dividends paid		(986)	-
Other		(7)	(8)
Net cash used in financing activities		**(1,165)**	**(4,385)**
Net increase/(decrease) in cash and cash equivalents		**(2,958)**	**4,206**
Effect of exchange rate changes		3	-
Cash and cash equivalents, beginning of the year		5,888	1,682
Cash and cash equivalents, end of the year	19.	**2,933**	**5,888**

* (Profit)/Loss on investing activities contain mainly recognition and reversal of impairment allowances of property plant and equipment and intangible assets in amount of CZK (1,928) million in 2016 and CZK 749 million in 2015.

** The Group changed the structure of particular positions presentation within the Consolidated statement of cash flows from operating activities in 2015. Further information is included in note 33.3.23.

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 164-221.

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

1. DESCRIPTION OF THE COMPANY

Establishment of the 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.

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

	Position	Name
Board of Directors	Chairman	Andrzej Mikołaj Modrzejewski
	Vice-chairman	Mirosław Kastelik
	Vice-chairman	Krzysztof Zdziarski
	Member	Martin Durčák
	Member	Andrzej Kozłowski
	Member	Lukasz Piotrowski
	Member	Robert Dominik Małłek
Supervisory Board	Chairman	Wojciech Jasiński
	Vice-chairman	Ivan Kočárník
	Vice-chairman	Sławomir Jędrzejczyk
	Member	Piotr Kearney
	Member	Zdeněk Černý
	Member	Krystian Pater
	Member	Grażyna Baka
	Member	Zbigniew Leszczyński
	Member	Bogdan Dzudzewicz

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

Position	Name	Change	Date of change
Member/Vice-chairman	Mirosław Kastelik	Re-elected to the office	6 February 2016 (Vice-chairman with the effect as of 1 July 2016)
Member	Andrzej Kozłowski	Re-elected to the office	9 April 2016
Vice-chairman	Piotr Wielowieyski	Recalled from the office	11 May 2016
Member	Robert Dominik Małłek	Elected to the office	11 May 2016
Member/Vice-chairman/Chairman	Andrzej Mikołaj Modrzejewski	Elected to the office	12 May 2016 (Vice-chairman with the effect as of 25 May 2016, Chairman with the effect as of 2 July 2016)
Chairman	Marek Świtajewski	Recalled from the office	1 July 2016
Member/Vice-chairman	Krzysztof Zdziarski	Elected to the office	2 July 2016
Member	Martin Durčák	Resigned from the office	30 November 2016 with the effect as of 31 December 2016

Changes in the Supervisory Board in 2016 were as follows:

Position	Name	Change	Date of change
Chairman	Dariusz Jacek Krawiec	Resigned from the office	21 December 2015 with the effect as of 21 January 2016
Member	Rafał Sekuła	Resigned from the office	11 February 2016 with the effect as of 11 March 2016
Member/Chairman	Wojciech Jasiński	Appointed as substitute member	7 April 2016
Member	Zbigniew Leszczyński	Appointed as substitute member	7 April 2016
Member/Chairman	Wojciech Jasiński	Elected to the office	21 June 2016 (Chairman with the effect as of 21 June 2016)
Member	Zbigniew Leszczyński	Elected to the office	21 June 2016
Member	Grażyna Baka	Elected to the office	21 June 2016 with the effect as of 25 June
Member	Piotr Chełminski	Termination of the office	24 June 2016
Member	Krystian Pater	Re-elected to the office	21 June 2016 with the effect as of 1 July
Member	Zdeněk Černý	Re-elected to the office	21 June 2016 with the effect as of 1 July

2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated 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 consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2016, results of its operations and cash flows for the year ended 31 December 2016.

The consolidated financial statements of the Group for the year ended 31 December 2016 include the Company and its subsidiaries and the Group's interest in jointly controlled entities.

These consolidated 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 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, are prepared on the accrual basis of accounting.

Applied accounting policies are listed in note 33.3.

Consolidated financial statements for the year 2016 (in CZK million) 165

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

3. OPERATING SEGMENTS

3.1. Financial results and investment expenditures by operating segments

2016	Note	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	4.	78,543	9,105	165	-	87,813
Transactions with other segments		7,392	61	688	(8,141)	-
Total segment revenue		85,935	9,166	853	(8,141)	87,813
Operating expenses		(85,961)	(8,526)	(911)	8,141	(87,257)
Other operating income	6.1.	10,291	23	25	(8)	10,331
Other operating expenses	6.2.	(901)	(24)	(73)	8	(990)
Segment operating profit/(loss)		**9,364**	**639**	**(106)**	**-**	**9,897**
Net finance income	7.					131
Profit before tax						**10,028**
Tax expense	8.					(2,053)
Net profit						**7,975**
Depreciation and amortisation	**10.,12.**	**(1,662)**	**(318)**	**(51)**	**-**	**(2,031)**
EBITDA*		**11,026**	**957**	**(55)**	**-**	**11,928**
CAPEX**	**10.,11,.12.**	**10,247**	**472**	**69**	**-**	**10,788**

2015	Note	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	4.	99,314	9,491	102	-	108,907
Transactions with other segments		7,770	87	324	(8,181)	-
Total segment revenue		107,084	9,578	426	(8,181)	108,907
Operating expenses		(98,171)	(9,066)	(530)	8,181	(99,586)
Other operating income	6.1.	582	11	23	-	616
Other operating expenses	6.2.	(1,133)	(22)	(66)	-	(1,221)
Segment operating profit/(loss)		**8,362**	**501**	**(147)**	**-**	**8,716**
Net finance costs	7.					(47)
Loss before tax						**8,669**
Tax expense	8.					(1,633)
Net profit						**7,036**
Depreciation and amortisation	**10.,12.**	**(1,568)**	**(328)**	**(31)**	**-**	**(1,927)**
EBITDA*		**9,930**	**829**	**(116)**	**-**	**10,643**
CAPEX**	**10.,11.,12.**	**2,989**	**222**	**133**	**-**	**3,344**

* Operating profit/(loss) + depreciation and amortisation

** Additions to non-current assets (investment expenditures in property, plant and equipment + investment expenditures in internally generated intangible assets + investment expenditures in intangible assets - investment expenditures in CO_2 emission allowances)

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3.2. Other segment data

3.2.1. Assets by operating segments

	31/12/2016	31/12/2015
Downstream Segment	54,841	37,652
Retail Segment	6,043	5,597
Segment assets	**60,884**	**43,249**
Corporate Functions	8,026	12,091
Adjustments	(258)	(841)
	68,652	**54,499**

3.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	2016	2015	2016	2015
Downstream Segment	(668)	(1,541)	2,125	92
Retail Segment	(6)	(19)	5	3
Impairment allowances by segments	**(674)**	**(1,560)**	**2,130**	**95**
Corporate Functions	(1)	-	-	-
Impairment allowances in operating activities	**(675)**	**(1,560)**	**2,130**	**95**
	(675)	**(1,560)**	**2,130**	**95**

The impairment allowances of assets by segment include items recognized in the consolidated statement of profit or loss and other comprehensive income i.e. receivables allowances, inventories allowances, non-current assets impairment allowances.

Impairment allowances of property, plant and equipment and intangible assets

	Recognition		Reversal	
	2016	2015	2016	2015
Downstream Segment	(97)	(732)	1,923	17
Retail Segment	(4)	(17)	5	3
Impairment allowances by segments	**(101)**	**(749)**	**1,928**	**20**
	(101)	**(749)**	**1,928**	**20**

The information relating to the impairment analysis is presented in note 15.

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

4. REVENUES

	2016	2015
Sales of finished goods	68,181	98,433
Sales of services	2,686	3,754
Revenues from sales of finished goods and services, net	**70,867**	**102,187**
Sales of merchandise	16,213	6,243
Sales of raw materials	733	477
Revenues from sales of merchandise and raw materials, net	**16,946**	**6,720**
	87,813	**108,907**

4.1. Revenues by assortments

	2016	2015
Downstream Segment	**78,543**	**99,314**
Light distillates	17,394	20,676
Medium distillates	36,794	40,116
Heavy fractions	2,782	4,587
Monomers	1,195	3,486
Polymers	7,020	15,371
Aromas	568	2,513
Fertilizers	257	-
Plastics	1,314	800
Others	9,110	8,446
Services	2,109	3,319
Retail Segment	**9,105**	**9,491**
Light distillates	2,982	3,089
Medium distillates	5,683	6,045
Others	21	24
Services	419	332
Corporate Functions	**165**	**102**
	87,813	**108,907**

4.2. Revenues by geographical division

	2016	2015
Czech Republic	59,833	69,358
Germany	8,421	14,366
Poland	2,760	1,750
Slovakia	6,526	7,694
Austria	1,786	4,549
Hungary	4,387	5,912
Other countries	4,100	5,278
	87,813	**108,907**

No other country than the Czech Republic and Germany accounted for more than 10% of consolidated revenues. Revenues are based on the country in which the customer is located.

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4.3. Information about major customers

Revenues from 1 individual customer in the amount of CZK 10,325 million represented more than 10% of the Group's total revenues of the downstream segment (2015: CZK 11,795 million).

5. OPERATING EXPENSES

5.1. Cost of sales

	2016	2015
Cost of finished goods and services sold	(66,412)	(89,590)
Cost of merchandise and raw materials sold	(16,814)	(6,554)
	(83,226)	**(96,144)**

5.2. Cost by nature

	2016	2015
Materials and energy	(60,257)	(79,958)
Cost of merchandise and raw materials sold	(16,814)	(6,554)
External services	(5,686)	(7,423)
Employee benefits	(3,019)	(2,617)
Depreciation and amortization	(2,031)	(1,927)
Taxes and charges	(344)	(425)
Other	(1,695)	(1,631)
	(89,846)	**(100,535)**
Change in inventories	1,410	(355)
Cost of products and services for own use	189	83
Operating expenses	**(88,247)**	**(100,807)**
Distribution expenses	2,563	2,140
Administrative expenses	1,468	1,302
Other operating expenses	990	1,221
Cost of sales	**(83,226)**	**(96,144)**

5.3. Employee benefits costs

	2016	2015
Payroll expenses	(2,163)	(1,885)
Future benefits expenses	(14)	(7)
Social security expenses	(707)	(617)
Other employee benefits expenses	(135)	(108)
	(3,019)	**(2,617)**

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2016	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(1,970)	(141)	(1)	(44)	(7)	(2,163)
Social and health insurance	(663)	(35)	-	(7)	(2)	(707)
Social expense	(113)	(17)	-	(5)	-	(135)
Change of employee benefits provision	(14)	-	-	-		(14)
	(2,760)	**(193)**	**(1)**	**(56)**	**(9)**	**(3,019)**
Number of employees average per year*						4,178
Number of employees as at balance sheet day*						4,566

2015	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(1,722)	(123)	(1)	(32)	(7)	(1,885)
Social and health insurance	(580)	(30)	-	(5)		(617)
Social expense	(94)	(10)	-	(4)	-	(108)
Change of employee benefits provision	(7)	-	-	-	-	(7)
	(2,403)	**(163)**	**(1)**	**(41)**	**(9)**	**(2,617)**
Number of employees average per year*						3,827
Number of employees as at balance sheet day*						3,820

* In case of joint operations the relevant share is used.

6. OTHER OPERATING INCOME AND EXPENSES

6.1. Other operating income

	2016	2015
Penalties and compensations earned	7,965	61
Reversal of impairment allowances of property, plant and equipment and intangible assets	1,928	20
Revaluation of provision to CO_2 consumption	207	-
Profit on sale of non-current non-financial assets	91	9
Revaluation of investment properties	48	6
Reversal of provisions	27	13
Reversal of receivables impairment allowances	1	-
Gain on bargain purchase	-	429
Other	64	78
	10,331	**616**

In 2016 the Group recognized compensation from insurance in the amount of CZK 7,922 million (in connection with the Steam cracker accident). Further information regarding the insurance claim and recoveries is presented in note 35.1.

The information with regard to the impairment reversal is presented in note 15.

The Group reversed part of the provision created in 2015 in respect of CO_2 allowances consumption due to lower price of the CO_2 allowances in 2016. Detailed information is presented in note 12.4.

The line "Gain on bargain purchase" relates to the settlement of ČESKÁ RAFINÉRSKÁ, a.s. shares acquisition in 2015.

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6.2. Other operating expenses

	2016	2015
Penalties, damages and compensation	(617)	(156)
Recognition of provisions	(159)	(196)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(101)	(749)
Revaluation of investment properties	(34)	(1)
Loss on sale of non-current non-financial assets	(31)	(27)
Recognition of receivables impairment allowances	(15)	(81)
Donations	(7)	(6)
Other	(26)	(5)
	(990)	**(1,221)**

The other operating expenses included under Penalties, damages and compensation 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 490 million in 2016 and CZK 156 million in 2015 and in connection with the accident on Fluid Catalytic Cracking unit which occurred on 17 May 2016 at the Kralupy refinery amounted to CZK 121 million.

In 2016 in connection with closing of the mercury electrolysis unit in Neratovice and based on new expert calculation of estimated costs of liquidation from December 2016 the Group recognized the provision in the amount of CZK 130 million.

Following the decision of the Czech inspection of environment, the Group recognized in the year 2015 a provision in amount of CZK 160 million in respect of remediation of historical ecological contamination in the Kralupy location.

The information regarding the impairment charge recognized in 2016 is presented in note 15. In 2015 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 the year 2015 an estimated impairment charge in the amount of CZK 597 million in relation to damaged assets. Impairment charges of CZK 508 million were allocated to machinery and equipment, and CZK 89 million to buildings and constructions and these were recorded in other operating costs.

7. FINANCE INCOME AND COSTS

7.1. Finance income

	2016	2015
Settlement and valuation of financial instruments	667	1,229
Interest	17	30
Other	1	1
	685	**1,260**

7.2. Finance costs

	2016	2015
Net foreign exchange loss	(294)	(273)
Settlement and valuation of financial instruments	(231)	(968)
Interest	(2)	(32)
Other	(27)	(34)
	(554)	**(1,307)**

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8. TAX EXPENSE

	2016	2015
Tax expense in the statement of profit or loss		
Current tax	(752)	(709)
Deferred tax	(1,301)	(924)
	(2,053)	**(1,633)**
Deferred tax recognized in other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	190	(2)
Actuarial gains or losses	-	(2)
	190	**(4)**
	(1,863)	**(1,637)**

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%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2016	2015
Profit for the year	7,975	7,036
Total tax expense	(2,053)	(1,633)
Profit before tax	10,028	8,669
Income tax using domestic income tax rate	(1,905)	(1,647)
Effect of tax rates in foreign jurisdictions	8	9
Non-deductible expenses	(168)	(87)
Tax exempt income	100	15
Changes in estimates related to prior periods	-	(43)
Change in not recognized deferred tax assets	5	134
Under (over) provided in prior periods	(65)	(5)
Gain on bargain purchase		82
Other differences	(28)	(91)
Total tax expense	**(2,053)**	**(1,633)**
Effective tax rate	**(20.5%)**	**(18.84%)**

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).

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The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) recognized by the Group during the year is as follows:

	31/12/2015	Deferred tax recognized in statement of profit or loss	Deferred tax recognized in other comprehensive income	Transfers	31/12/2016
Deferred tax assets					
Property, plant and equipment	1,126	(737)	-	(92)	297
Provisions	311	(49)	-	(6)	256
Unused tax losses carried forward	60	124	-	(4)	180
Derivative instruments	-	-	62		62
Inventories	-	(73)	-	102	29
Other	93	(49)	-	63	107
	1,590	**(784)**	**62**	**63**	**931**
Deferred tax liabilities					
Property, plant and equipment	(1,066)	(572)	-	-	(1,638)
Inventories	63	-	-	(63)	-
Finance lease	(11)	2	-	2	(7)
Derivative instruments	(126)	-	128	(2)	-
Other	(55)	53	-	-	(2)
	(1,195)	**(517)**	**128**	**(63)**	**(1,647)**
	395	**(1,301)**	**190**	**-**	**(716)**

The above positions of deferred tax assets and liabilities are netted of on the level of particular financial statements of the Group's companies for presentation purposes in the consolidated financial statement of UNIPETROL, a.s. As at 31 December 2016 deferred tax assets and liabilities amounted to CZK 143 million (31 December 2015: CZK 1,204 million) and CZK 859 million (31 December 2015: CZK 809 million).

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 Group has not recognized tax losses carried forward in amount of CZK 1,964 million due to the unpredictability of future taxable income (31 December 2015: CZK 1,221 million). These unrecognized tax losses will expire by the end of 2021.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION

	2016	2015
Czech Republic	31,995	21,336
Germany	1	1
Slovakia	8	8
	32,004	**21,345**

Non-current assets by geographical location consist of property, plant and equipment, intangible assets and investment property.

No other country than the Czech Republic accounted for more than 10% of consolidated assets.

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10. PROPERTY, PLANT AND EQUIPMENT

10.1. 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	1,172	26,029	45,025	2,854	2,229	**77,309**
Accumulated depreciation and impairment allowances	(351)	(16,989)	(37,617)	(2,334)	(121)	**(57,413)**
Government grants	-	(246)	(251)	(1)	-	**(498)**
	821	**8,793**	**7,157**	**519**	**2,108**	**19,398**
increase/(decrease) net						
Investment expenditures	25	573	3,221	396	6,401	**10,616**
Depreciation	-	(478)	(1,205)	(228)	-	**(1,911)**
Change in Group structure*	246	1,190	1,401	5	116	**2,958**
Impairment allowances	(134)	(524)	240	146	(42)	**(314)**
Reclassifications	(2)	82	(35)	-	14	**59**
Sale	-	(16)	(68)	(42)	(5)	**(131)**
Liquidation	-	(3)	(396)	(120)	-	**(519)**
Government grants - received, settled	-	1	13	-	-	**14**
Other increases/(decreases)	-	(9)	(73)	-	(8)	**(90)**
31/12/2016 Net book value	**956**	**9,609**	**10,255**	**676**	**8,584**	**30,080**
Gross book value	1,442	28,911	50,125	2,907	8,738	**92,123**
Accumulated depreciation and impairment allowances	(486)	(19,057)	(39,632)	(2,230)	(154)	**(61,559)**
Government grants	-	(245)	(238)	(1)	-	**(484)**
	956	**9,609**	**10,255**	**676**	**8,584**	**30,080**
01/01/2015 Net book value						
Gross book value	1,171	25,442	43,881	2,928	1,270	**74,692**
Accumulated depreciation and impairment allowances	(351)	(16,326)	(36,055)	(2,344)	(340)	**(55,416)**
Government grants	-	(60)	(170)	(2)	(151)	**(383)**
	820	**9,056**	**7,656**	**582**	**779**	**18,893**
increase/(decrease) net						
Investment expenditures	1	657	1,422	156	961	3,197
Depreciation	-	(470)	(1,136)	(157)	-	(1,763)
Impairment allowances	-	(241)	(634)	44	219	(612)
Reclassifications	-	(10)	1	-	(5)	(14)
Sale	-	(1)	(5)	(43)	-	(49)
Liquidation	-	(9)	(4)	(61)	-	(74)
Government grants - received, settled	-	(186)	(81)	1	151	(115)
Other increases/(decreases)	-	(3)	(62)	(3)	3	(65)
31/12/2015 Net book value	**821**	**8,793**	**7,157**	**519**	**2,108**	**19,398**

* Further information is presented in note 36.2.

Material additions

In 2016 the major additions to non-current assets were the capitalized repairs of the steam cracker unit following to 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 periodical turnaround in Litvínov premises in amount of CZK 1,250 million.

Borrowing costs

According to IAS 23, the Group capitalizes those borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in the year ended 31 December 2016 amounted to less than CZK 1 million (31 December 2015: less than CZK 1 million).

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10.2. Changes in impairment allowances of property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2016	351	5,676	7,811	259	121	14,218
Recognition	-	72	21	-	8	101
Reversal	-	(735)	(1,192)	-	(1)	(1,928)
Disposal	-	(19)	(449)	(152)	-	(620)
Reclassifications	-	18	35	1	(58)	(3)
Change in Group structure*	134	1,187	1,345	5	93	2,765
Other decreases	-	-	-	-	(9)	(9)
	485	**6,199**	**7,572**	**113**	**154**	**14,522**
increase/(decrease) net	134	524	(240)	(146)	42	314
01/01/2015	351	5,435	7,177	303	340	13,606
Recognition	-	93	531	46	72	742
Reversal	-	(4)	(15)	-	-	(19)
Disposal	-	(7)	(7)	(91)	-	(105)
Reclassifications	-	159	125	1	(291)	(6)
	351	**5,676**	**7,811**	**259**	**121**	**14,218**
increase/(decrease) net	-	241	634	(44)	(219)	612

* Further information is presented in note 36.2.

Detailed information regarding impairment recognized in 2016 is presented in note 15.

The Group 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 81 million.

10.3. 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	17,822	12,503

The Group obtained in 1994 a government grant from the German Ministry for Environmental Protection and Safety of Reactors in amount of CZK 260 million. This environmental project targeted at limiting cross-border pollution, in connection with thereconstruction of the T-700 power station and its desulphurization. The carrying amount of the assets financed from the grant was CZK 29 million as at 31 December 2016 (31 December 2015: CZK 32 million).

The Group obtained in 2010 a support grant from the European Regional Development Fund (ERDF) and the Czech national budget for the new research and education centre UniCRE construction for CZK 592 million. The resources provided will be used mainly for restoration of research laboratories, conference and education areas and the purchase of modern equipment and laboratory equipment. The carrying amount of the assets financed from the grant was CZK 386 million (in 2015: CZK 417 million).

11. INVESTMENT PROPERTY

	2016	2015
At the beginning of the year	433	419
Reclassification to property, plant and equipment	(90)	-
Transfer from property, plant and equipment	4	9
Fair value measurement	14	5
increase	25	5
decrease	(11)	-
Change in Group structure*	71	-
	432	**433**

* Further information is presented in note 36.2.

Rental income amounted to CZK 55 million in 2016 (2015: CZK 48 million). Operating costs related to investment property amounted to CZK 5 million in 2016 (2015: CZK 4 million).

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11.1. Fair value of investment property measurement

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

The comparison approach was applied assuming, that the value of the assessed property was equal to the market price of similar property (such assets belong to Level 2 as defined by IFRS 7).

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 8.52% 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	432	432	116	316
31/12/2015	433	433	116	317

11.2. 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 p.p.	(17)	-1 p.p.	17

12. INTANGIBLE ASSETS

As at 31 December 2016 the net book value of internally generated intangible assets amounted to CZK 67 million (31 December 2015: CZK 65 million), which included studies under development in amount of CZK 49 million (31 December 2015: CZK 43 million). In 2016 investment expenditures amounted CZK 14 million (2015: CZK 27 million), amortization CZK 12 million (2015: CZK 12 million).

12.1. Changes in intangible assets

	Software	Licences, patents and trade marks	Goodwill	Assets under development	CO_2 emission allowance	Other intangible assets	Total
01/01/2016 Net book value							
Gross book value	1,192	2,030	51	441	287	428	**4,429**
Accumulated depreciation and impairment allowances	(1,072)	(1,381)	(51)	(27)	(16)	(413)	**(2,960)**
Government grants	(20)	-	-	-	-	-	**(20)**
	100	**649**	**-**	**414**	**271**	**15**	**1,449**
increase/(decrease) net							
Investment expenditures	35	-	-	98	199	0	**332**
Amortization	(37)	(67)	-	-	-	(4)	**(108)**
Change in Group structure*	18	1	-	1	-	7	**27**
Impairment allowances	(21)	(8)	-	17	6	8	**2**
Reclassifications	21	10	-	(14)	-	(8)	**9**
Liquidation	-	-	-	-	-	(8)	**(8)**
Government grants - received, settled	2	-	-	-	-	-	**2**
Other increases/(decreases)	(2)	-	-	-	(278)	-	**(280)**

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31/12/2016 Net book value	**116**	**585**	**-**	**516**	**198**	**10**	**1,425**
Gross book value	1,263	2,044	51	526	208	383	**4,475**
Accumulated depreciation and impairment allowances	(1,129)	(1,459)	(51)	(10)	(10)	(373)	**(3,032)**
Government grants	(18)	-	-	-	-	-	**(18)**
	116	**585**	**-**	**516**	**198**	**10**	**1,425**
01/01/2015 Net book value							
Gross book value	1,146	2,027	51	376	541	458	4,599
Accumulated depreciation and impairment allowances	(1,022)	(1,317)	(51)	(29)	(21)	(399)	(2,839)
Government grants	(17)	-	-	(1)	-	-	(18)
	107	**710**	**-**	**346**	**520**	**59**	**1,742**
increase/(decrease) net							
Investment expenditures	45	5	-	65	-	-	115
Amortization	(42)	(66)	-	-	-	(44)	(152)
Change in Group structure*	-	-	-	-	64	-	64
Impairment allowances	(9)	(4)	-	2	6	-	(5)
Reclassifications	5	-	-	-	-	-	5
Government grants - received, settled	(3)	-	-	1	-	-	(2)
Other increases/(decreases)	(3)	4	-	-	(319)	-	(318)
31/12/2015 Net book value	**100**	**649**	**-**	**414**	**271**	**15**	**1,449**

* Further information is presented in note 36.2.

12.2. Changes in impairment allowances of intangible assets

	Software	Licences, patents and trade marks	Goodwill	Assets under development	CO_2 emission allowance	Other intangible assets	Total
01/01/2016	87	216	51	27	15	43	439
Disposal	-	-	-	-	(6)	(8)	(14)
Reclassifications	3	7	-	(18)	-	(7)	(15)
Change in Group structure*	18	1	-	1	-	7	27
	108	**224**	**51**	**10**	**9**	**35**	**437**
increase/(decrease) net	21	8	-	(17)	(6)	(8)	(2)
01/01/2015	78	212	51	29	21	43	434
Recognition	3	4	-	-	-	-	7
Reversal	-	-	-	(1)	-	-	(1)
Disposal	-	-	-	-	(6)	-	(6)
Reclassifications	6	-	-	(1)	-	-	5
	87	**216**	**51**	**27**	**15**	**43**	**439**
increase/(decrease) net	9	4	-	(2)	(6)	-	5

* Further information is presented in note 36.2.

Recognition and reversal of impairment allowances for intangible assets are recognized in other operating activities. Detailed information regarding impairment recognized in 2016 is presented in note 15.

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12.3. Other information on intangible assets

	31/12/2016	31/12/2015
The gross book value of all fully depreciated intangible assets still in use	1,416	1,437
The net book value of intangible assets with indefinite useful life	10	10

The increase of assets under development in 2016 includes AspenTech licence of CZK 63 million.

The Group 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 6 million.

12.4. CO_2 emission allowances

Based on the Czech National Allocation Scheme for the years 2013-2020 the Group was to obtain CO_2 emission allowances free of charge. During the year ended 31 December 2016 the Group obtained CO_2 emission allowances in the amount of 2 147 937 tons.

	Value	Quantity (in tonnes)
01/01/2016	272	1,363,716
Granted free of charge for 2016	290	2,147,937
Settlement for 2015	(568)	(3,766,667)
Purchase	199	1,503,220
Impairment allowances	6	-
	199	**1,248,206**
Estimated annual consumption 2016	553	3,517,490

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 Group are included in the statement of consolidated 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.

13. FINANCIAL ASSETS AVAILABLE FOR SALE

	31/12/2016	31/12/2015
Unquoted shares		
Orlen Holding Malta LTD	1	-
TIU-PLAST a.s.	1	1
	2	**1**

The Group had equity investments of CZK 1.6 million as at 31 December 2016 (31 December 2015: CZK 0.5 million) which represent ownership interests in companies 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.

14. OTHER NON-CURRENT ASSETS

	31/12/2016	31/12/2015
Loans granted	-	1
Other non-current receivables	20	20
Financial assets	**20**	**21**
Prepayments	101	4
Non-financial assets	**101**	**4**
	121	**25**

The non-current prepayments in amount of CZK 70 million as at 31 December 2016 related to the purchase of filling stations.

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

As at 31 December 2016 in accordance with International Accounting Standard 36 "Impairment of assets" the Group has verified the existence of impairment indicators in relation to Cash Generating Units (CGUs) i.e. the smallest identifiable group of assets that generate cash inflows largely independent from other assets. In the Group, CGUs are established at the level of operating activities: refining, petrochemical and retail.

As at 31 December 2016 the Group identified the external impairment indicators – change in macro-economic conditions on petrochemical and refinery markets comparing to previously approved mid-term plan. Based on that conditions, the new projections for the years 2017-2021 were prepared and the impairment test was carried out for all CGUs.

During development of assumptions to impairment tests the possibility of estimation of the fair value and value in use of individual assets was considered. Lack of number of market transactions for similar assets to those held by the Group which would allow to reliably estimate their fair value makes this method of valuation not possible to implement.

As a result, it was concluded that the best estimate of the actual values of individual assets of the Group will be its value in use.

The recoverable amounts of CGUs were estimated based on their value in use. The analyses were performed based on available financial projections for the years 2017-2021 adjusted to exclude the impact of capital expenditures enhancing the assets' performance.

The anticipated fixed annual growth rate of cash flows after 2021 year period is assumed at the level of the long term inflation rate for the Czech Republic.

For determining the value in use as at given balance sheet date forecasted cash flows are discounted to their present value using the discount rates which reflect the current market value and the specific risks to the valued assets.

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

Impact of the impairment allowances of non-current assets on consolidated statement of profit or loss and other comprehensive income for the year 2016

	Recognition	Reversal	Total
Buildings and constructions	(72)	735	663
Machinery and equipment	(21)	1,192	1,171
Construction in progress	(8)	1	(7)
	(101)	**1,928**	**1,827**

Information about recognitions and reversals of impairment allowances for each category of non-current non-financial assets is presented in notes 10 and 12.

The discount rate is calculated as the weighted average cost of capital. The sources of macroeconomic indicators necessary to determine the discount rate were the publications of prof. Aswath Damodoran (source: http://pages.stern.nyu.edu), the officially listed government bonds and rating of agencies available at 31 December 2016.

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

	Refining CGU	Petrochemical CGU	Retail CGU
Cost of equity	11.88%	11.21%	14.07%
Cost of debt after tax	1.56%	1.56%	1.56%
Capital structure	62.44%	77.55%	47.10%
Nominal discount rate	**8.00%**	**9.04%**	**7.45%**
Long term inflation rate	1.98%	1.98%	1.98%

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

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Periods of analysis adopted for the analysis of the individual CGUs as at 31 December 2016

	31/12/2016
Refining CGU	25
Petrochemical CGU	16
Retail CGU	15

Based on the results of the analysis performed as at 31 December 2016 an impairment allowance of CZK 1,919 million was reversed in relation to non-current assets of ČESKÁ RAFINÉRSKÁ, a.s., of the refining CGU. The amount of CZK 1,187 million was allocated to machinery and equipment, and the amount of CZK 732 million was allocated to buildings and constructions and these were recorded in other operating income.

Sensitivity analysis of the value in use as at 31 December 2016

The crucial elements influencing the value in use of assets within individual units responsible for generating cash flows are: operating profit excluding depreciation and amortization (known as EBITDA, as defined in note 3.1.) and the discount rate.

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

		EBITDA	
DISCOUNT RATE change	-5%	0%	5%
-0.5 p.p.	decrease of impairment 576	decrease of impairment 3,688	decrease of impairment 5,493
0.0 p.p.	increase of impairment 1,106	-	decrease of impairment 4,757
+0.5 p.p.	increase of impairment 2,671	decrease of impairment 226	decrease of impairment 3,122

16. INVENTORIES

	31/12/2016	31/12/2015
Raw materials	6,013	4,567
Work in progress	1,983	1,347
Finished goods	4,152	2,999
Merchandise	315	254
Spare parts	1,262	1,223
Inventories, net	**13,725**	**10,390**
Impairment allowances of inventories to net realizable value	472	864
Inventories, gross	**14,197**	**11,254**

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

	2016	2015
At the beginning of the year	864	957
Recognition	559	730
Usage	(851)	(826)
Reversal	(202)	(75)
Reclassification	11	-
Change in Group structure*	91	78
	472	**864**

* Further information is presented in note 36.2.

Changes in the net realizable value allowances for inventories amount to CZK 357 million and are included in cost of sales (2015: CZK 655 million) presented in note 5.

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17. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
Trade receivables	11,620	9,437
Receivables due to insurance compensations	1,355	10
Other	57	7
Financial assets	**13,032**	**9,454**
Excise tax and fuel charge receivables	111	312
Other taxation, duty, social security receivables	178	19
Advances for construction in progress	2,261	1,033
Prepayments and deferred costs	593	440
Non-financial assets	**3,143**	**1,804**
Receivables, net	**16,175**	**11,258**
Receivables impairment allowance	692	646
Receivables, gross	**16,867**	**11,904**

Trade receivables result primarily from sales of finished goods and sales of merchandise. The management considers that the carrying amount of trade receivables approximates their fair value. The average credit period on sales of goods is 34 days. Trade receivables overdue bear a interest based on terms agreed in the selling contracts.

The Group exposure to credit and currency risk related to trade and other receivables is disclosed in note 27.5.4. and detailed information about receivables from related parties is presented in note 31.1.

18. OTHER FINANCIAL ASSETS

	31/12/2016	31/12/2015
Cash flow hedge instruments	146	700
currency forwards	*2*	*30*
commodity swaps	*144*	*670*
Derivatives not designated as hedge accounting	33	14
currency forwards	*33*	*14*
Cash pool	3,135	3,086
Receivables on settled cash flow hedge instruments	102	481
	3,416	**4,281**

Information regarding cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 27.4.

The Group had assets in the PKN group's cash pool system in the amount of CZK 3,135 million as at 31 December 2016 (CZK 3,086 million as at 31 December 2015). The interest rates were based on appropriate inter-bank rates and the fair value of the assets approximates their carrying amount.

The Group provided current loans to related entities and to operators of fuel stations. The carrying amount of the loans amounted to less than CZK 1 million as at 31 December 2016 (31 December 2015: less than CZK 1 million). The interest rates are variable and are based on appropriate inter-bank rates. The fair value of the loans approximates the carrying amount as at 31 December 2016.

19. CASH AND CASH EQUIVALENTS

	31/12/2016	31/12/2015
Cash on hand and in bank	2,933	5,888
	2,933	**5,888**

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20. SHAREHOLDERS' EQUITY

20.1. Share capital

The issued capital of the Company as at 31 December 2016 amounted to CZK 18,133 million (31 December 2015: CZK 18,133 million). This represents 181,334,764 (31 December 2015: 181,334,764) bearer ordinary shares, each with a nominal value of CZK 100. All issued shares have been fully paid and bear equal voting rights. The Company's shares are listed on the Prague Stock Exchange.

Shareholders' structure:

	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 notification received on 21 June 2016.

20.2. Statutory reserves

The Group established a reserve fund for possible future losses. The balance of the Statutory reserve fund as at 31 December 2016 amounted to CZK 33 million (31 December 2015: CZK 34 million).

20.3. Hedging reserve

The amount of the hedging reserve of CZK (263) million as at 31 December 2016 resulted from the valuation of derivatives meeting the requirements of cash flow hedge accounting (31 December 2015: CZK 545 million).

20.4. Revaluation reserve

Revaluation reserve comprises the difference between the net book value and the fair value of the property as at the date of reclassification of the property occupied by the Group and recognized as an investment property.

20.5. Foreign exchange differences on subsidiaries from consolidation

The amount of reserve is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into CZK. The balance of this reserve as at 31 December 2016 amounted to CZK 16 million (31 December 2015: CZK 15 million).

20.6. Retained earnings

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

On 21 June 2016 the Annual General Meeting of Unipetrol decided to pay a dividend equal to CZK 5.52 per share to the Company's shareholders.

The decision regarding appropriation of 2016 profit will be made at the annual meeting of shareholders, which will be held in May/ June 2017.

20.7. 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 Group monitors the equity debt ratio (net financial leverage). As at 31 December 2016 and as at 31 December 2015 the Group's financial leverage amounted to -6.62% and -16.49%, 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

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20.7.1. Net debt

	31/12/2016	31/12/2015
Cash and cash equivalents	**2,933**	**5,888**
Loans and borrowings	**(1)**	**-**
Loans and borrowings current	(1)	-
Cash pool liabilities	**(175)**	**(31)**
	2,757	**5,857**

20.7.2. Changes in net debt

	Note	31/12/2016	31/12/2015
At the beginning of the year		**5,857**	**(2,699)**
Cash changes in net debt			
Cash and cash equivalents	19.	(3,043)	3,780
Loans and borrowings	21.	(1)	4,350
Cash pool liabilities	26.	(144)	-
Non-cash changes in net debt			
Foreign exchange		3	-
Acquisitions	36.2.	84	426
		2,757	**5,857**

20.7.3. Net working capital

	Inventories	Receivables	Trade and other liabilities	Working capital
31/12/2015	10,390	11,258	15,707	5,941
31/12/2016	13,725	16,175	22,984	6,916
Net working capital change in Statement of financial position	**(3,335)**	**(4,917)**	**(7,277)**	**(975)**
Adjustments				
Change in Group structure*	492	589	739	342
Movements in prepayments for construction in progress	-	1,228	-	1,228
Receivables from insurance	-	1,345	-	1,345
Movements in investing liabilities	-	-	2,107	(2,107)
Movements in dividends liabilities	-	-	15	(15)
Foreign exchange	-	-	1	(1)
Change in working capital in Cash flow statement	**(2,843)**	**(1,755)**	**(4,415)**	**(183)**

* Further information is presented in note 36.2.

21. LOANS AND BORROWINGS

	Non-current		Current		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Bank loans	-	-	1	-	1	-
	-	**-**	**1**	**-**	**1**	**-**

21.1. Bank loans

by currency (translated into CZK)/by interest rate

	31/12/2016	31/12/2015
CZK/PRIBOR	1	-
	1	**-**

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

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22. 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	877	571	4	3	881	574
Jubilee bonuses and retirement benefits provision	97	76	7	7	104	83
Provision for CO_2 emission allowances	-	-	553	772	553	772
Other provision	23	31	88	110	111	141
	997	**678**	**652**	**892**	**1,649**	**1,570**

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	574	83	772	141	1,570
Recognition	146	27	538	18	729
Reclassification	-	(2)	-	-	(2)
Discounting	5	-	-	-	5
Usage	(1)	(7)	(568)	(21)	(597)
Reversal	-	(4)	(207)*	(27)	(238)
Change in Group structure**	157	7	18	-	182
	881	**104**	**553**	**111**	**1,649**

* Information regarding revaluation of provision for CO_2 allowances consumption is presented in note 6.1.

** Further information is presented in note 36.2.

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	350	76	707	106	1,239
Recognition	169	4	754	27	954
Discounting	6	-	-	-	6
Usage	(3)	(3)	(707)	-	(713)
Reversal	(1)	(3)	-	(12)	(16)
Change in Group structure	53	9	18	20	100
	574	**83**	**772**	**141**	**1,570**

22.1. Environmental provision

As at 31 December 2016 the Group had under environmental provisions:

- provision for land restoration created as a result of the legal obligation to restore the fly-ash dump in Litvínov after it is discontinued, which is expected after 2043. The provision amounted to CZK 343 million (31 December 2015: CZK 339 million),
- provision in the amount of CZK 214 million in respect of remediation of historical ecological contamination in the Kralupy location recognized following the decision of the Czech inspection of environment (31 December 2015: CZK 214 million),
- 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,
- provision for land restoration created as a result of the legal obligation to restore the fly-ash deposits and toxic waste dump in Neratovice 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,
- provision for the compensation of damages to Lesy České republiky, s.p. in the amount of CZK 24 million (31 December 2015: CZK 18 million).

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The environmental provisions increased by CZK 307 million in 2016 mainly due to following facts:

- acquisition of SPOLANA a.s. with an impact of CZK 157 million,
- recognition of additional 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 130 million.

22.2. Provision for jubilee bonuses and retirement benefits

The companies of the Group realize 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 Group 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% p.a. in 2016 (2015: 0.54% - 2.3%), assumptions used were based on the Collective Agreement.

Should the prior year's assumptions be used, the provision for the jubilee bonuses and retirement benefits would be higher by CZK 1 million.

22.2.1. 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	8	3	75	73	83	76
Current service costs	1	1	3	3	4	4
Interest expenses	-	-	-	1	-	1
Actuarial gains and losses arising from changes	(1)	5	2	(9)	1	(4)
demographic assumptions	-	-	(1)	-	(1)	-
financial assumptions	-	-	-	1	-	1
other	(1)	5	3	(10)	2	(5)
Past employment costs	20	-	(2)	-	18	-
Change in Group structure*	7	-	-	9	7	9
Payments under program	(4)	(1)	(3)	(2)	(7)	(3)
Other	(2)	-	-	-	(2)	-
	29	**8**	**75**	**75**	**104**	**83**

* Further information is presented in note 36.2

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

22.2.2. 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	104	83	-	-	104	83
					104	**83**

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22.2.3. 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	29	8	75	75	104	83
					104	**83**

22.2.4. 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	Influence on retirement benefits 2016
Demographic assumptions (+)	+0.5 p.p.	(1)	(3)
staff turnover rates, disability and early retirement	*+0.5 p.p.*	*(1)*	*(3)*
Financial assumptions (+)	+0.5 p.p.	(1)	(4)
discount rate	*+0.5 p.p.*	*(1)*	*(4)*
		(2)	**(7)**
Demographic assumptions (-)	-0.5 p.p.	1	3
staff turnover rates, disability and early retirement	*-0.5 p.p.*	*1*	*3*
Financial assumptions (-)	-0.5 p.p.	1	4
discount rate	*-0.5 p.p.*	*1*	*4*
		2	**7**

Actuarial assumptions	Assumed variations as at 31/12/2016	Czech Republic	
		Influence on provision for jubilee bonuses 2016	Influence on retirement benefits 2016
Demographic assumptions (+)	+0.5 p.p.	-	(3)
staff turnover rates, disability and early retirement	*+0.5 p.p.*	*-*	*(3)*
Financial assumptions (+)	+0.5 p.p.	-	(4)
discount rate	*+0.5 p.p.*	*-*	*(4)*
		-	**(7)**
Demographic assumptions (-)	-0.5 p.p.	-	4
staff turnover rates, disability and early retirement	*-0.5 p.p.*	*-*	*4*
Financial assumptions (-)	-0.5 p.p.	-	5
discount rate	*-0.5 p.p.*	*-*	*5*
		-	**9**

22.2.5. Employee benefits maturity and payments of liabilities analysis

22.2.5.1. Maturity of employee benefits analysis

	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
Less than 1 year	3	1	5	6	8	7
Between 1 and 3 years	5	1	8	6	13	7
Between 3 and 5 years	4	1	7	8	11	9
Later than 5 years	17	5	55	55	72	60
	29	**8**	**75**	**75**	**104**	**83**
Weighted average duration of liability (years)		13	13		13	13

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22.2.5.2. Ageing of employee benefits payments analysis

	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
Less than 1 year	3	1	5	6	8	7
Between 1 and 3 years	6	2	9	7	15	9
Between 3 and 5 years	6	2	9	10	15	12
Later than 5 years	75	23	224	219	299	242
	90	**28**	**247**	**242**	**337**	**270**

22.2.6. 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		
Current service costs	(4)	(4)
Interest expenses	-	(1)
Actuarial gains and losses arising from changes	1	(5)
other	1	(5)
Past employment costs	(18)	-
Payments under program	7	3
	(14)	**(7)**
In components of other comprehensive income		
Gains and losses arising from changes	(2)	9
demographic assumptions	1	-
financial assumptions	-	(1)
other	(3)	10
	(2)	**9**
	(16)	**2**

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

	31/12/2016	31/12/2015
Cost of sales	(13)	(5)
Distribution expenses	(2)	-
Administrative expenses	(1)	(2)
	(14)	**(7)**

Based on current legislation, the Group is obliged to pay contributions to the national pension insurance. These costs are recognized as expenses for social security and health insurance. The Group does not have any other commitments in this respect. Additional information about the retirement benefits is in note 33.3.21.2.

22.3. Provision for CO_2 emission allowances

The provision for CO_2 emission allowances is created for estimated CO_2 emission allowances consumption in the reporting period. Further information regarding CO_2 emission allowances is presented in note 12.4.

22.4. Other provision

The Group created other provisions in respect of future liabilities related to dismantling costs connected with liquidation of unused assets and in respect of expected future outflows arising from legal disputes with third parties where the Group is the defendant.

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23. OTHER NON-CURRENT LIABILITIES

	31/12/2016	31/12/2015
Investment liabilities	-	1
Other	3	-
Financial liabilities	**3**	**1**
Guarantee payment received	167	165
Non-financial liabilities	**167**	**165**
	170	**166**

The Group received cash advances from business partners presented as Guarantee payments received in connection with operation of fuel stations.

24. TRADE AND OTHER LIABILITIES

	31/12/2016	31/12/2015
Trade liabilities	10,444	7,574
Investment liabilities	3,590	1,482
Dividends	50	35
Other	31	325
Financial liabilities	**14,115**	**9,416**
Prepayments for deliveries	70	102
Prepayments for fixed assets	-	8
Payroll liabilities	305	280
Excise tax and fuel charge	6,502	4,786
Value added tax	1,728	918
Other taxation, duties, social security and other benefits	112	99
Accruals	152	98
holiday pay accrual	28	17
wages accrual	117	80
other	7	1
Non-financial liabilities	**8,869**	**6,291**
	22,984	**15,707**

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

25. DEFERRED INCOME

	31/12/2016	31/12/2015
Grants received	2	4
Other	6	4
	8	**8**

26. OTHER FINANCIAL LIABILITIES

	31/12/2016	31/12/2015
Cash flow hedge instruments	470	27
commodity swaps	470	27
Derivatives not designated as hedge accounting	24	5
currency forwards	24	5
Cash pool	175	31
Liabilities on settled cash flow hedge instruments	246	65
	915	**128**

Information about cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 27.4.

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EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

27. FINANCIAL INSTRUMENTS

27.1. Financial instruments by category and class

Financial assets

31/12/2016

Financial instruments by class	Note	Financial instruments by category				
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Unquoted shares		-	-	1	-	1
Trade receivables	17.	-	11,620	-	-	11,620
Cash pool	18.	-	3,135	-	-	3,135
Financial derivatives	18.	33	-	-	146	179
Cash and cash equivalents	19.	-	2,933	-	-	2,933
Receivables on settled cash flow hedge instruments	18.	-	102	-	-	102
Receivables due to insurance compensations	17.	-	1,355	-	-	1,355
Other	14.,17.	-	77	-	-	77
		33	**19,222**	**1**	**146**	**19,402**

31/12/2015

Financial instruments by class	Note	Financial instruments by category			
		Financial assets at fair value through profit or loss	Loans and receivables	Hedging financial instruments	Total
Trade receivables	17.	-	9,437	-	9,437
Loans granted	14.,18.	-	1	-	1
Cash pool	18.	-	3,086	-	3,086
Financial derivatives	18.	14	-	700	714
Cash and cash equivalents	19.	-	5,888	-	5,888
Receivables on settled cash flow hedge instruments	18.	-	481	-	481
Receivables due to insurance compensations	18.	-	10	-	10
Other	14.,17.	-	27	-	27
		14	**18,930**	**700**	**19,644**

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Financial liabilities

31/12/2016

Financial instruments by class	Note	Financial instruments by category			
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Total
Loans	21.	-	1	-	1
Trade liabilities	24.	-	10,444	-	10,444
Investment liabilities	24.	-	3,590	-	3,590
Cash pool	26.	-	175	-	175
Financial derivatives	26.	24	-	470	494
Liabilities on settled cash flow hedge instruments	26.	-	246	-	246
Other	23.,24.	-	84	-	84
		24	**14,540**	**470**	**15,034**

31/12/2015

Financial instruments by class	Note	Financial instruments by category			
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Total
Trade liabilities	24.	-	7,574	-	7,574
Investment liabilities	23.,24.	-	1,483	-	1,483
Cash pool	26.	-	31	-	31
Financial derivatives	26.	5	-	27	32
Liabilities on settled cash flow hedge instruments	26.	-	65	-	65
Other	23.,24.	-	360	-	360
		5	**9,513**	**27**	**9,545**

27.2. Income, costs, gain and loss in the consolidated 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	-	17	-	17
Interest costs	-	-	(2)	(2)
Foreign exchange gain/(loss)	-	42	(336)	(294)
(Recognition)/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	-	(14)	-	(14)
Settlement and valuation of financial instruments	436	-	-	436
Other	-	-	(20)	(20)
	436	**45**	**(358)**	**123**
other, excluded from the scope of IFRS 7				
Provisions discounting				(6)
				(6)

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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	-	30	-	30
Interest costs	-	-	(32)	(32)
Foreign exchange gain/(loss)	-	(47)	(226)	(273)
(Recognition)/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	-	(81)	-	(81)
Settlement and valuation of financial instruments	261	-	-	261
Other	-	1	(28)	(27)
	261	**(97)**	**(286)**	**(122)**
other, excluded from the scope of IFRS 7				
Provisions discounting				(6)
				(6)

27.3. Fair value measurement

31/12/2016

	Note	Carrying amount	Fair value	Fair value hierarchy	
				Level 1	Level 2
Financial assets					
Financial derivatives	15.	179	179	-	179
		179	**179**	**-**	**179**
Financial liabilities					
Loans	22.	1	1	-	1
Financial derivatives	27.	494	494	-	494
		495	**495**	**-**	**495**

31/12/2015

	Note	Carrying amount	Fair value	Fair value hierarchy	
				Level 1	Level 2
Financial assets					
Loans granted	15.	1	1	-	1
Financial derivatives	29.	714	714	-	714
		715	**715**	**-**	**715**
Financial liabilities					
Financial derivatives	26.	32	32	-	32
		32	**32**	**-**	**32**

For other classes (except for unquoted shares) of financial assets and liabilities presented in note 27.1. fair value approximates their carrying amount.

27.3.1. Methods applied in determining fair value of financial instruments (fair value hierarchy)

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, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2) and data to valuation, which are not based on observable market data (Level 3).

The Group 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. As compared to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

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The fair value of derivative instruments is based on discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction. Forward exchange rate is not modelled as a separate risk factor, but is derived from the relevant spot rate and forward interest rate for foreign currencies 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 the fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in the current year statement of profit or loss.

In the year ended 31 December 2016 and the comparative period there were no transfers between Levels 1, 2 and 3 in the Group.

As at 31 December 2016 the Group held unquoted shares in entities amounting to CZK 1.6 million (31 December 2015: CZK 0.5 million), 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 financial assets available for sale 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.

27.4. Hedge accounting

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/CZK for sale and USD/CZK for purchases and sale). Foreign exchange forwards are used as hedging instruments.

The Group has derivative financial instruments, which serve as a hedging instrument pursuant to the Group's risk management strategy. Changes in the fair value of derivatives that do not meet the hedge accounting criteria are included in derivatives held for trading and their fair value changes are reported in profit or loss.

The fair value of derivative instruments are designated as hedging instruments according to the hedging cash flow planned realization date and the planned date of the influence on the result of the hedged cash flow as well as the net fair value which will be recognized in the profit or loss at the realization date:

Cash flows hedge instruments	31/12/2016	31/12/2015	Hedging strategies
currency forwards	2	30	operating and investing activity; sales of products and purchase of crude oil
commodity swaps	(326)	643	operational inventories, refining margin, time mismatch occurring on purchases of crude oil by sea
	(324)	**673**	

Planned period of the influence on the result of the hedge cash flow:

Planned realization date of hedged cash flows	31/12/2016	31/12/2015
Currency operating exposure		
2016	-	30
2017	2	-
Commodity risk exposure		
2016	-	643
2017	(326)	-
	(324)	**673**

27.5. Financial risks management

The Group'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 Group's financial results.

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the risks outlined below relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including commodity risk, foreign currency risk, interest rate risk and other market price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using natural hedging and derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign currency risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess funds. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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27.5.1. Commodity risks

As part of its operating activity the Group is exposed mainly to the following commodity risks:

- risk of changes in refining and petrochemical margins on the sale of products and Ural/Brent differential fluctuations-hedges on an irregular basis as a part of hedging strategies;
- risk of changes in crude oil and products prices related to the time mismatch between the date of the crude oil and/or products, as well as future sales transactions-identified and hedged in a systematic and regular manner;
- risk of changes in CO_2 emission allowances prices-hedged on regular basis through periodic verification of numbers of owned and required rights to CO_2 emission with determining the method of balancing of the future shortages or surpluses. In 2016 and in 2015, the Group concluded forward and spot transactions for purchase of rights which in the future will be amortized as a settlement of CO_2 emissions. Valuations of these transactions are no subject to recognition in the financial statements, as purchased emission rights will be used for own purposes;
- risk of changes in crude oil and refinery product prices related to the obligation to maintain mandatory reserves of crude oil and fuels-is not hedged on purpose due to the permanent exposure and non-cash impact on the Group's results.

Sensitivity analysis for commodity risk

Analysis of the influence of potential changes in the book values of financial instruments on the hedging reserve in relation to a hypothetical change in prices of crude oil:

31/12/2016

	Influence on hedging reserve			
	Increase of price by	Influence	Decrease of price by	Influence
Crude oil USD/BBL	5 USD/BBL	(274)	5 USD/BBL	274

31/12/2015

	Influence on hedging reserve			
	Increase of price by	Influence	Decrease of price by	Influence
Crude oil USD/BBL	5 USD/BBL	(309)	5 USD/BBL	309

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

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

Financial instruments by class	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	155	34	5,057
Cash pool	115	1	3,135
Financial derivatives	-	7	179
Receivables on settled cash flow hedge instruments	-	4	102
Cash and cash equivalents	6	2	213
Receivables due to insurance compensation	-	53	1,355
	276	**101**	**10,041**
Financial liabilities			
Trade liabilities	57	243	7,767
Investment liabilities	109	3	3,007
Financial derivatives	-	19	494
Liabilities on settled cash flow hedge instruments	-	10	246
Other	-	-	1
	166	**275**	**11,515**

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

Financial instruments by class	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	114	25	3,695
Cash pool	95	21	3,086
Financial derivatives	-	28	684
Receivables from settled cash flow hedge instruments	-	19	481
Cash and cash equivalents	7	2	243
	216	**95**	**8,189**
Financial liabilities			
Cash pool	1	-	30
Trade liabilities	61	117	4,534
Investment liabilities	21	1	575
Financial derivatives	-	1	32
Liabilities from settled cash flow hedge instruments	-	3	65
	83	**122**	**5,236**

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 and hedging reserve:

	EUR/CZK		USD/CZK		Total	
	2016	2015	2016	2015	2016	2015
	variation of exchange rates +15%					
Influence on profit before tax	446	542	157	315	603	857
Influence on hedging reserve	(264)	(132)	15	122	(249)	(10)
Total influence	**182**	**410**	**172**	**437**	**354**	**847**

In case of decrease 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.

27.5.3. Interest rate risk

The Group 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		EURIBOR		LIBOR		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Financial assets								
Loans granted	-	1	-	-	-	-	-	1
Cash pool	-	-	3,112	2,571	23	515	3,135	3,086
	-	**1**	**3,112**	**2,571**	**23**	**515**	**3,135**	**3,087**
Financial liabilities								
Loans	1	-	-	-	-	-	1	-
Cash pool	175	1	-	30	-	-	175	31
	176	**1**	**-**	**30**	**-**	**-**	**176**	**31**

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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		Influence on profit before tax	
	31/12/2016	31/12/2015	2016	2015
PRIBOR	+0.5 p.p.	+0.5 p.p.	(1)	-
EURIBOR	+0.5 p.p.	+0.5 p.p.	16	13
LIBOR	+0.5 p.p.	+0.5 p.p.	-	3
			15	**16**
PRIBOR	-0.5 p.p.	-0.5 p.p.	1	-
EURIBOR	-0.5 p.p.	-0.5 p.p.	(16)	(13)
LIBOR	-0.5 p.p.	-0.5 p.p.	-	(3)
			(15)	**(16)**

The above interest rate variations were calculated based on observations of interest rate 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 rate changes was presented on annual basis.

27.5.4. Liquidity and credit risk

Liquidity risk

The following tables detail the Group'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 Group 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
Loans - undiscounted value	21.	1	-	1	1
Cash pool - undiscounted value	26.	175	-	175	175
Trade liabilities	24.	10,444	-	10,444	10,444
Investment liabilities	24.	3,590	-	3,590	3,590
Financial derivatives	26.	494	-	494	494
Liabilities on settled cash flow hedge instruments	26.	246	-	246	246
Other	23.,24.	81	3	84	84
		15,031	**3**	**15,034**	**15,034**

			31/12/2015		
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	26.	31	-	31	31
Trade liabilities	24.	7,574	-	7,574	7,574
Investment liabilities	24.	1,482	1	1,483	1,483
Financial derivatives	26.	32	-	32	32
Liabilities on settled cash flow hedge instruments	26.	65	-	65	65
Other	24.	360	-	360	360
		9,544	**1**	**9,545**	**9,545**

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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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.

The Group concluded agreements with banks, based on which may draw loans and bank guarantees. As at 31 December 2016 and as at 31 December 2015 the maximum available credit facilities amounted to CZK 10,123 million and CZK 11,631 million respectively.

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Unused part of the credit facilities for bank loans or guarantees amounted to CZK 8,467 million as at 31 December 2016 and CZK 8,620 million as at 31 December 2015 respectively. The description of the loans and guarantees drawn from credit facilities is presented in notes 21 and 30.

Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group'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 Group's management based on prior experience and their assessment of the credit status of its customers.

The Group 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 Group. The Group 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 Group uses other publicly available financial information and its own trading records to rate its major customers.

The Group'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 Group 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, the Group had 1 customer with balance of the trade receivables that represented more than 10% of the total balance of the consolidated trade receivables.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and, where appropriate, credit guarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Based on the analysis of receivables the counterparties were divided into two groups:

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

The division of not past due receivables

	31/12/2016	31/12/2015
Group I	12,762	8,492
Group II	-	767
	12,762	**9,259**

The ageing analysis of receivables past due, but not impaired

	31/12/2016	31/12/2015
Up to 1 month	265	157
From 1 to 3 months	6	5
From 3 to 6 months	3	16
From 6 to 12 months	6	3
Above 1 year	10	34
	290	**215**

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Change in impairment allowances of trade and other receivables

	31/12/2016	31/12/2015
At the beginning of the year	646	623
Recognition	15	81
Change in Group structure	58	18
Reversal	(1)	-
Usage	(28)	(74)
Foreign exchange differences	2	(2)
	692	**646**

Group management believes that the risk of impaired financial assets is reflected by recognition of an impairment. Information about impairment allowances of particular classes of assets is disclosed in notes 15 and 17.

The Group sets impairment charges based on analysis of customers' creditworthiness and ageing of receivables. In determining the recoverability of trade receivable, the Group considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management considers that there is no further credit risk allowance required in excess of the allowance for impairment charges.

Increases and reversals of impairment allowances in respect of the principal amount of trade and other receivables are included in other operating expense or income and in respect of interest for delayed payments in finance costs or income.

27.5.5. Emission allowances risk

The Group monitors the emission allowances granted to the Group under the National Allocation Plan and CO_2 emissions planned. The Group 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.

OTHER EXPLANATORY NOTES

28. LEASE

28.1. The Group as a lessee

Operating lease

At the balance sheet date, the Group 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 1 year	57	53
Between 1 and 5 years	137	133
Later than 5 years	281	215
	475	**401**

The Group leases land, vehicles, filling stations and offices under operating leases. The vehicle leases typically run for a two year period. 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	59	57

Finance lease

As at 31 December 2016 the Group did not possess any active finance lease agreements as a lessee (31 December 2015: less than CZK 1 million).

28.2. The Group as a lessor

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

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

The total value of investment expenditures including borrowing costs amounted to CZK 10,788 million as at 31 December 2016 and CZK 3,344 million as at 31 December 2015, including environmental expenditures in the amount of CZK 123 million and CZK 305 million, respectively.

As at 31 December 2016 the value of future commitments resulting from contracts signed to this date amounted to CZK 5,833 million (31 December 2015: CZK 11,121 million). As at 31 December 2016 the major item related to the new polyethylene unit (PE3) at the Litvínov plant in the amount of CZK 4,721 million (31 December 2015: CZK 6,646 million).

30. GUARANTEES AND SECURITIES

Guarantees

Based on 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 balance of guarantees related to excise tax amounted to CZK 2,988 million as at 31 December 2016 (31 December 2015: CZK 2,415 million) and to other purposes amounted to CZK 105 million (31 December 2015: CZK 37 million).

The Group is the beneficiary of guarantees amounted CZK 770 million as at 31 December 2016 (31 December 2015: CZK 621 million).

Past environmental liabilities

The Group is the recipient of funds provided by the National Property Fund of the Czech Republic for settling environmental liabilities relating to historic environmental damage. Funds up to CZK 22,912 million are provided to cover cost actually incurred in relation to settlement of historic environmental damage.

An overview of funds provided by the National Property Fund (currently administered by the Ministry of Finance) for the environmental contracts is provided below:

	Total amount of funds to be provided	Used funds as at 31/12/2016	Unused funds as at 31/12/2016
UNIPETROL, a.s. / premises in Litvínov	6,012	4,186	1,826
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4,244	52	4,192
UNIPETROL RPA, s.r.o. - BENZINA odštěpný závod	1,349	481*	868
PARAMO, a.s. / premises in Pardubice	1,241	524	717
PARAMO, a.s. / premises in Kolín	1,907	1,860	47
SPOLANA a.s.	8,159	5,595	2,564
	22,912	**12,698**	**10,214**

	Total amount of funds to be provided	Used funds as at 31/12/2015	Unused funds as at 31/12/2015
UNIPETROL, a.s. / premises in Litvínov	6,012	4,014	1,998
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4,244	51	4,193
BENZINA s.r.o.	1,349	476*	873
PARAMO, a.s. / premises in Pardubice	1,241	512	729
PARAMO, a.s. / premises in Kolín	1,907	1,762	145
	14,753	**6,815**	**7,938**

* Without the costs of the already completed rehabilitation of the petrol stations network of the former K-Petrol 1995-1999 of CZK 40 million and clean-up costs spent before 1997 in amount of approximately of CZK 500 million.

31. RELATED PARTY TRANSACTIONS

31.1. Material transactions concluded by the Group companies with related parties

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

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31.2. Transactions with key management personnel

In 2016 and in 2015 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. As at 31 December 2016 and as at 31 December 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.

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

As at 31 December 2016 and as at 31 December 2015 members of the key management personnel of the parent company and the Group companies submitted statements that they have not concluded any transaction with related parties.

31.4. Transactions and balances of settlements of the Group companies with related parties

Parent and ultimate controlling party

During 2016 and 2015 a majority (62.99%) of the Company's shares were hold by POLSKI KONCERN NAFTOWY ORLEN S.A.

2016	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Sales	1,650	179	4,731
Purchases	45,743	147	1,618
Finance income	-	13	3
Finance costs	-	-	11

31/12/2016	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Other financial assets		-	3,135
Trade and other receivables	439	94	519
Trade and other liabilities	6,086	77	57

2015	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Výnosy	532	882	7,641
Nákupy	63,072	1,159	1,629
Finanční výnosy, zahrnující	-	150	-
dividendy	-	*150*	-
Finanční náklady	30	-	11

31/12/2015	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Other financial assets		-	3,086
Trade and other receivables	190	1	541
Trade and other liabilities	2,580	4	95

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32. REMUNERATION PAID AND DUE OR POTENTIALLY DUE TO THE BOARD OF DIRECTORS, THE SUPERVISORY BOARD AND OTHER MEMBERS OF KEY EXECUTIVE PERSONNEL OF THE PARENT COMPANY AND THE GROUP COMPANIES

The Board of Directors'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.

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

	2016		2015	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current year (costs)	254	5	212	1
Paid for previous year	56	-	42	2
Potentially due to be paid in the following year	59	1	42	1

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

32.2. Bonus system for key executive personnel of the Group

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 Group. 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 Group.

33. ACCOUNTING PRINCIPLES

33.1. Impact of IFRS amendments and interpretations on consolidated financial statements of the Group

33.1.1. 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 consolidated financial statements had no impact on the foregoing consolidated financial statements.

33.1.2. 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**

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33.1.3. 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 or Joint Venture	no impact expected
IFRS 16 Leases	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	impact**
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	no impact expected
Amendments to IFRS 4 Applying IFRS 9 Financial 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.

** The Group has started to analyse how the key concepts of IFRS 15 would affect the sales revenues recognized in 2016. The sales revenues were split into particular main revenue streams (refinery, petrochemical and retail) for which typical contractual relationships are analysed from the point of view of existing performance obligations, allocation of the transaction price between the identified performance obligations and moment of revenue recognition. The Group expects to have the result of the analysis available in the first half of 2017. At the time of the new standard implementation, i.e. on 1 January 2018, the impact of the new IFRS 15 will depend on the specific facts and conditions of the contracts with customers, to which the Group 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 Group will be a party.

33.2. Functional currency and presentation currency of financial statements and methods applied to translation of financial data for consolidation purposes

These consolidated financial statements are presented in Czech crowns (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.

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 on subsidiaries from consolidation.

	Average exchange rate for the reporting period		Exchange rate as at the end of reporting period	
Currency	2016	2015	2016	2015
CZK/EUR	27.030	27.283	27.020	27.025
CZK/USD	25.641	24.600	25.639	24.824
CZK/100 HUF	8.682	8.807	8.721	8.630

33.3. Applied accounting policies

33.3.1. 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.

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At the end of the reporting period:

- foreign currency monetary items including units of currency held by the Group 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.

Additional information is presented in note 33.2.

33.3.2. Principles of consolidation

The consolidated financial statements of the Group include financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent company and its subsidiaries and joint arrangements (jointly controlled entities) are presented as those of a single economic entity and are prepared as at the same reporting period as separate financial statements of the parent and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

The subsidiaries are consolidated using the full consolidation method and joint operations by recognition of respective share in assets, liabilities, revenues and cost. The joint ventures as well as investments in associates are accounted for under the equity method.

In preparing consolidated financial statements using the full consolidation method, the Group combines the assets, liabilities, revenue and cost of the parent company and its subsidiaries line by line and then performs adequate consolidation procedures, in particular:

- the carrying amount at the day of acquisition of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated;
- non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;
- non-controlling interests in the net assets of consolidated subsidiaries are identified and presented separately from the parent's ownership interests in them;
- intra group balances are eliminated;
- unrealized profits or losses from intra group transactions are eliminated;
- intra group revenues and expenses are eliminated;
- intra group cash flow are eliminated.

A joint operator recognizes:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenues from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost and the carrying amount is increased or decreased in order to recognize the investor's share of the profit or loss of the investee from the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss as other operating activity.

33.3.2.1. Investments in subsidiaries

Subsidiaries are entities under the parent's control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.

Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

33.3.2.2. Investments in joint arrangements (jointly controlled entities)

A joint arrangement (jointly controlled entity) is a joint venture or a joint operation, in which the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Such an entity operates on the same basis as other entities, except that the contractual arrangements between the operators of the arrangement establish joint control over the economic activity of the entity.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

33.3.2.3. Investments in associates

Investments in associates relate to entities over which the investor has significant influence and that are neither controlled nor jointly controlled.

Significant influence is the ability to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

If an entity holds directly or indirectly (e.g. through subsidiaries), 20% or more of the voting rights of the investee, it is presumed that the investor has significant influence, unless it can be clearly stated otherwise.

33.3.3. Business combinations

Business combinations under common control, including the acquisition of an organized part of the enterprise is settled by adding together, the particular items of assets and liabilities, revenues and costs of the combined companies, as at the date of the merger or acquisition.

Other business combinations are accounted for by applying the acquisition method. Applying the acquisition method requires:

- identifying the acquirer,
- determining the acquisition date,
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire, and
- recognising and measuring goodwill or a gain from a bargain purchase.

Assets, liabilities and contingent liabilities for the purpose of allocating the acquisition cost are determined at the fair value at the acquisition date with the following exceptions:

- deferred assets and liabilities arising from the assets acquired and liabilities assumed in a business combination are recognized according to general principles of deferred tax,
- assets and liabilities related to the acquiree's employee benefit arrangements are recognized according to general principles of IAS 19 Employee benefits,
- non-current assets (or disposal group) that are classified as held for sale at the acquisition date are recognized according to the general principles for non-current assets held for sale

33.3.4. Operating segments

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

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 comprises 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.

Segment revenues are revenues from sales to external customers and revenues from transactions with other operating segments, which are directly attributable to the segment.

Segment expenses are expenses relating to sales to external customers and expenses relating to transactions with other operating segments, which result from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Group's expenses that can be allocated on a reasonable basis to a segment.

Segment expenses do not include: income tax expense, interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature, losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature, administrative expenses and other expenses arising at the level of the Group as a whole, unless they are directly attributable to the segment and can be allocated to the segment on a reasonable basis. The segment result is determined at the level of operating result.

Segment assets are those operating assets that are employed by that segment in operating activity and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. In particular income tax items are not allocated to reportable segments.

Sales prices used in transactions between segments are close to market prices.

33.3.5. Revenues

Revenues from sales (from operating activity) include revenues that relate to core activities, i.e. activities for which the Group was founded, these revenues being recurring and not of incidental character.

Revenues from sales are recognized 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 Group 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 Group has transferred to the buyer the significant risks and rewards of ownership and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods and services decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges.

Revenues are measured at the fair value of the received or due payments. Revenues from sale are adjusted for profit or loss from settlement of cash flows hedging instruments related to the above mentioned revenues.

Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Group 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 Group.

33.3.6. Costs

Costs (relating to operating activity) include costs that relate to core activities, i.e. activities for which the Group 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 Group as a whole.

33.3.7. 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.

33.3.8. 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.

33.3.9. 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 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.

33.3.10. 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 Group has no potential dilutive shares.

33.3.11. Property, plan and equipment

Property, plant and equipment are assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period (one year or the operating cycle, if longer than one year).

Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).

Property, plant and equipment are initially stated at cost, including grants related to assets (IAS20). The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use.

The cost of an item of property, plant and equipment also includes estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment and capitalized borrowing costs.

Property, plant and equipment are stated in the statement of financial position prepared at the end of the reporting period at the carrying amount, including grants related to assets. The carrying amount is the amount at which an asset is initially recognized (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.

33.3.12. 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 Group, 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 Group determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

If the Group determines that the fair value of an investment property is not reliably determinable on a continuing basis, the Group 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.

33.3.13. 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 Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Group intends to do so, or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group 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 Group 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 recognized if, and only if, the Group 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 Group 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 recognized 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 recognized initially at fair value.

After initial recognition, an intangible asset shall be presented in the financial statements at its net carrying amount, including grants related to assets.

Intangible assets are measured at acquisition or at construction cost less amortization and impairment allowances. Intangible assets with a finite useful life are amortized when they become available for use that is when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management over their estimated useful life.
The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life shall be assumed to be zero.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.

The following standard useful lives are used for intangible assets:

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

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.

33.3.13.1. Goodwill

Goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, (or groups of cash-generating units), that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The acquirer shall recognize goodwill as of the acquisition date measured as the excess of a) over b) where:

the value of a) corresponds to the aggregate of:

- the consideration transferred, which generally requires acquisition date fair value,
- the amount of any non-controlling interest in the acquiree, and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;

the value of b) corresponds to: the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount at (b) above exceeds the aggregate of the amounts specified at (a) above. If that excess remains, after reassessment of correct identification of all acquired assets and liabilities, the acquirer shall recognize the resulting gain in profit or loss on the acquisition date as other operating profit for the period.

The acquirer shall measure goodwill in the amount recognized at the acquisition date less any accumulated impairment allowances.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired. The annual impairment test may be performed at any time during an annual period, provided that the test is performed at the same time every year.

A cash-generating unit to which no goodwill has been allocated shall be tested for impairment only when there are indicators that the cash-generating unit might be impaired.

An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

33.3.13.2. 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 recognized 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).

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

Consumption of allowances is recognized 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).

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

At the end of the reporting period the Group 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 CGU.

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 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, impairment tests are carried out. The tests are also carried out annually for intangible assets with an 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 recognized immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard.

33.3.15. 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 realizable 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 realizable value, the materials are written down to net realizable value.

Expenses and revenues connected with inventory write-offs or establishment and release of allowances are included in cost of sales.

33.3.16. Trade and other receivables

Trade and other receivables are recognized initially at 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.

33.3.17. Cash and cash equivalents

Cash comprises cash on hand and in 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.

33.3.18. 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 Group'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 Group'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 Group shall re-present the disclosures presented with reference to the discontinued operation for prior periods presented in the consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

If the Group ceases to classify 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.

33.3.19. 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:

33.3.19.1. 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.

33.3.19.2. Hedging reserve

The hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting. The Group applies cash flow hedge accounting to hedge commodity risk, exchange rate risk and interest rate risk. Changes in fair value, which are an ineffective part of the hedge relationship, are recognized in the statement of profit or loss.

33.3.19.3. Revaluation reserve

The revaluation reserve includes revaluation of items, which, according to the Group'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 an investment property at the date of reclassification from the property occupied by the Group to an investment property.

33.3.19.4. Foreign exchange differences on subsidiaries from consolidation

Foreign exchange differences on subsidiaries from consolidation result mainly from translation of financial statements of subsidiaries into the presentation currency of the Group.

33.3.19.5. 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.

33.3.20. 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.

33.3.21. Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Group 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

33.3.21.1. Environmental provision

The Group 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.

33.3.21.2. Jubilee bonuses and retirement benefits

Under the Group's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. Jubilee bonuses are paid to employees after the elapsing 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 and an employee's average remuneration.

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as retirement defined benefit plans.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

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

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

33.3.21.3. Shield programs

Shield programs provision (restructuring provision) is created when the Group initiates a restructuring plan or announces the main features of a 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.

33.3.21.4. CO_2 emissions costs

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

33.3.21.5. 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 Group 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 Group discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

33.3.22. Government grant

Government grants are transfers of resources to the Group 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 Group 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 CO_2 emission allowances granted is described in note 33.3.13.2.

33.3.23. Consolidated statement of cash flows

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

Cash and cash equivalents presented in the consolidated statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Group'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 the 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.

The Group changed the structure of particular positions presentation within the Consolidated statements of cash flows from operating activities in 2015 as follows:

	Note	Previously reported	Changes	Changed presentation
Cash flows - operating activities				
Net profit		**7,036**	**(7,036)**	**-**
Profit before tax		**-**	**8,669**	**8,669**
Adjustments for:				
Depreciation and amortization	5.2.	1,927	-	1,927
Foreign exchange (gain)/loss		(7)	-	(7)
Interest and dividends, net		31	-	31
(Profit)/Loss on investing activities		523	-	523
Change in provisions		985	-	985
Income tax		1,633	(1,633)	-
Gain on bargain purchase		(429)	-	(429)
Change in receivables and liabilities from insurance		-	276	276
Other adjustments including change in financial instruments and deferred income		(262)	-	(262)
Change in working capital	20.7.3.	3,644	-	3,368
inventories		*234*	-	*234*
receivables		*3,827*	-	*3,827*
liabilities		*(417)*	*(276)*	*(693)*
Income tax (paid)		(150)	-	(150)
Net cash from operating activities		**14,931**	**-**	**14,931**

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33.3.24. Financial instruments

33.3.24.1. Measurement of financial assets and liabilities

At initial recognition, the Group 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 Group 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 Group measures its financial liabilities at amortized cost using the effective interest rate method.

33.3.24.2. Transfers

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

33.3.24.3. Hedge accounting

Derivatives designated as hedging instruments for which cash flows are expected to offset changes in cash flows of a hedged item are accounted for in accordance with cash flow hedge accounting, if all of the following conditions are met:

- at the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately impact profit or loss,
- the effectiveness of the hedge can be reliably measured,
- the hedge is assessed on an ongoing basis and actually determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group does not apply hedge accounting in the case when an embedded derivative instrument is separated from the host contract.

The Group assesses effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Group assesses a hedge as effective, for external reporting purposes only if the actual results of the hedge are within a range of 80% - 125%. The Group uses statistical methods, in particular regression analysis, to assess the effectiveness of the hedge. The Group uses simplified analytical methods, when a hedged item and a hedging instrument are of the same nature i.e. maturity dates, amounts, changes affecting fair value risk or cash flow changes.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could impact profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

If a cash flow hedge is used, it is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, and
- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss. However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies the amount that is not expected to be recovered to profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes the associated gains and losses that were recognized in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.

If a hedge of a forecast transaction results in recognition of revenues from sales of finished goods, merchandise, materials and services, the Group removes the associated gains and losses that were recognized in other comprehensive income and adjusts these revenues.

The Group discontinues cash flow hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains separately recognized in equity until the forecast transaction occurs,
- the hedge no longer meets the criteria for hedge accounting - in this case, the cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains separately recognized in equity until the forecast transaction occurs,
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognized in other comprehensive income is recognized in profit or loss,
- the designation is revoked – in this case the cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains separately recognized in equity until the forecast transaction occurs or is no longer expected to occur.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment on disposal of foreign operations.

33.3.25. Fair value measurement

The Group maximizes 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 Group 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 modelled 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 recognized in the current year profit or loss.

As compared to the previous reporting period, the Group has not changed valuation methods concerning derivative instruments.

33.3.26. 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 recognized as assets of the lessor. Determining whether the transfer or risks and rewards exist depends on the assessment of the essence of the economic substance of the transaction.

33.3.27. Contingent assets and liabilities

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 Group.

Contingent assets are not recognized in the statement of financial position as it may lead to recognition of 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 Group 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 recognized 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.

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 Group 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.

33.3.28. 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).

34. APPLICATION OF PROFESSIONAL JUDGMENT AND ASSUMPTION

The preparation of consolidated 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 matters of considerable weight, the Group'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 expense, 10. Property, plant and equipment, 11. Investment property, 12. Intangible assets, 15. Impairment of property, plant and equipment and intangible assets, 16.1. Changes in impairment allowances of inventories to net realizable value, 27. Financial instruments and 35. Contingent assets and liabilities.

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

35. CONTINGENT ASSETS AND LIABILITIES

35.1. 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 the 3rd quarter 2015 an impairment charge of CZK 597 million in relation to damaged assets. During the 4th quarter 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 it should be in a position to recover repair costs estimated at approximately CZK 3.9 billion, as well as recoverable lost business profits estimated at CZK 10.1 billion.

Out of these amounts in the period ended 31 December 2016, the Group has already recognized CZK 7.9 billion in Other operating income.

The Group estimates the value of the contingent asset from an insurance claim in the amount of CZK 6.1 billion as at 31 December 2016. The final amount of compensation will depend on the final agreement with insurers.

The Group has received CZK 6.6 billion, CZK 1.3 billion is presented in Trade and other receivables in the Consolidated statement of financial position and in position of Change in receivables and liabilities from insurance of the Consolidated statement of cash flows.

Fluid Catalytic Cracking unit accident

Following the accident of the Fluid Catalytic Cracking unit at the Kralupy refinery which occurred on 17 May 2016, crude oil processing in the Kralupy refinery was suspended. The assets damaged in the accident at the Kralupy refinery had already been fully impaired in June 2014. In October 2016 the Kralupy refinery achieved full standard processing capacity.

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 2016, it should be in a position to recover repair costs estimated at approximately CZK 0.3 billion, as well as recoverable lost business profits estimated at CZK 0.9 billion. The Group estimates the value of the contingent asset from the insurance claim in the amount of CZK 1.2 billion as at 31 December 2016. In February 2017 the Group signed with the insurer and reinsures the Payment on Account Agreement related to the claim of Fluid Catalytic Cracking unit accident from 17 May 2016 in the amount of USD 40 million which will be recognized in the financial statements in the first quarter of the year 2017. The final amount of compensation will depend on the final agreement with insurers.

Tax proceeding

UNIPETROL RPA, s.r.o., acting as legal successor of CHEMOPETROL, a.s., is a party in a tax proceeding related to the validity of investment tax relief for 2005. UNIPETROL RPA, s.r.o. claims the return of income tax paid in 2006 for the fiscal year 2005 by CHEMOPETROL, a.s. The claim concerns unused investment relief attributable to CHEMOPETROL, a.s. The total value of the claim amounts to approximately CZK 325 million.

On 14 October 2015, the Czech Supreme Administrative Court annulled the Regional Court in Ústí nad Labem judgment and decided to return the case back to the Regional Court in Ústí nad Labem for re-examination. The Supreme Administrative Court commented that the Regional Court did not correctly deal with the legitimate expectations objection raised by UNIPETROL RPA, s.r.o. On 30 November 2016 the Regional Court in Ústí nad Labem resolved to annul the Appellate Tax Authority decision dated 27 October 2010. The case is now pending with the Appellate Tax Authority.

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

On 31 August 2015 UNIPETROL RPA, s.r.o., as petitioner, submitted its action to the District Court in Děčín requesting issuance of a payment order ordering ČEZ Distribuce, a.s., as respondent, to pay an unjustified enrichment to UNIPETROL RPA, s.r.o. in the amount of CZK 303 million including interest and legal fees. The unjustified enrichment of ČEZ Distribuce, a.s. results from ČEZ Distribuce, a.s., during the period from 1 January 2013 until 30 September 2013, charging UNIPETROL RPA, s.r.o. a monthly fee for renewable sources of energy and combined heat and power production with respect to the electricity produced and distributed by UNIPETROL RPA, s.r.o. itself. The Group is of the opinion that ČEZ Distribuce, a.s., as distribution system provider, is not entitled to charge a fee to its customers with respect to electricity which was produced and consumed by the customers themselves, i.e. for electricity for which no distribution service was provided.

On 25 November 2016 UNIPETROL RPA, s.r.o. filed action, same as the one filed against ČEZ Distribuce, a.s., against OTE, a.s. (Czech operator of energy market responsible for, among others collecting (POZE) fees from energy distributors including ČEZ Distribuce, a.s.) The action was filed as a precaution.

35.2. Contingent liabilities

Purchase of shares of PARAMO, a.s.

In January 2009 UNIPETROL, a.s. effected a squeeze out of PARAMO, a.s. shares and became sole shareholder of PARAMO, a.s.

In accordance with the resolutions of the Extraordinary General Meeting of PARAMO, a.s. of 6 January 2009, all other shares in PARAMO, a.s were transferred to the Company and the Company provided to the other shareholders of PARAMO, a.s. monetary consideration of CZK 977 per share of PARAMO, a.s.

In connection with the squeeze-out, certain minority shareholders of PARAMO, a.s. filed a petition with the Regional Court in

Hradec Králové for a review of the adequacy of compensation within the meaning of the Czech Commercial Code. The case is now pending at the Regional Court in Hradec Králové.

On 23 June 2015 the court decided to appoint another expert witness - Expert Group s.r.o. having its registered seat at Radniční 133/1, České Budějovice - to provide a valuation of the PARAMO, a.s. shares.

The Expert Group s.r.o. valuation report regarding of PARAMO, a.s. shares received by UNIPETROL, a.s. on 1 December 2016 provides for PARAMO, a.s. share value as at:

a) 6 January 2009 – CZK 1,853/share;
b) 4 March 2009 – CZK 1,691.53/share.

UNIPETROL, a.s. is currently preparing a filing to comment on the recently submitted expert opinion.

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

On 23 May 2012 UNIPETROL RPA, s.r.o., the subsidiary of UNIPETROL, a.s., received a petition from the District Court Ostrava, by which the claimant – I.P.-95, s.r.o. is claiming compensation of damages totalling CZK 1,789 million. I.P.-95, s.r.o. claims that it incurred damages as a result of an unjustified insolvency filing against I.P.-95, s.r.o. made by UNIPETROL RPA, s.r.o. on 24 November 2009. I.P.-95, s.r.o. assigned part of the receivable of CZK 1,742 million, to NESTARMO TRADING LIMITED, Cyprus; following the assignment, I.P.-95, s.r.o. filed a motion regarding NESTARMO TRADING LIMITED joining the proceedings as a claimant. UNIPETROL RPA, s.r.o. is one of eight respondents against whom the petition was filed.

In related court proceedings, the Upper Court in Olomouc ruled that receivable of UNIPETROL RPA, s.r.o., which was claimed by UNIPETROL RPA, s.r.o. in the bankruptcy against I.P.-95, s.r.o., was rightfull, justified and existing at the time of making the insolvency filing. On the basis of applicable jurisprudence – claiming of a justified receivable within a bankruptcy proceedings cannot cause any damage to the debtor. Hence it can be reasonably expects that the damages compensation claim against UNIPETROL RPA, s.r.o. will be rejected by the relevant court.

On 31 July 2015, the Regional Court resolved to annul the resolution of District Court in Ostrava allowing for the Cypriot company, NESTARMO TRADING LIMITED, to accede the court proceedings as plaintiff. On 12 January 2016 the District Court in Ostrava dismissed the motion of I.P.-95, s.r.o. to allow for the Cypriot company, NESTARMO TRADING LIMITED, to accede the court proceedings as plaintiff.

Management of the Group does not recognize the alleged claim and considers the claim as unjustified and unfounded.

Claims regarding award for employees' intellectual work

In the year 2001 the court case commenced regarding the award for the employees' intellectual work between UNIPETROL RPA, s.r.o. and its two employees. Employees demanded an award of approximately CZK 1.8 million. UNIPETROL RPA, s.r.o. as a defendant did not agree and offered the award amounting to approximately CZK 1.4 million, based on experts' valuations. In 2005 Employees plaintiffs filed the next petition to the court to extend the action to an amount of approximately CZK 82 million. The first court hearing was held on 18 October 2011. The claimants have decreased the claimed amount to CZK 68 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 valuation ordered by the court, however the former employees have not withdrawn their claim.

36. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

36.1. Organisation of the 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 Prague 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. Litvínov, S.K. Neumanna 1598, 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 Prague 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 Budaörst, Puskás Tivadar utca 12, Hungary	--	100.00%	Downstream	
UNIPETROL SLOVENSKO s.r.o. Jašíkova 2, Ružinov, 821 03 Bratislava, Slovak Republic	13.04%	86.96%	Downstream	www.unipetrol.sk
Unipetrol výzkumně vzdělávací centrum, a.s. Revoluční 84/č.p. 1521,Ústí nad Labem, Czech Republic	100.00%	--	Corporate Functions	www.vuanch.cz
Joint operations consolidated based on shares in assets and liabilities				
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic	51.00%	--	Downstream	www.butadien.cz

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

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36.2. Subsidiaries

Changes in structure of the Group

Acquisition of SPOLANA a.s.

On 10 June 2016 the Group concluded a purchase contract with ANWIL S.A., a Company owned by PKN ORLEN S.A., under which it acquired the production company SPOLANA a.s. The transaction supports Unipetrol's reorganization of activities, which was triggered by taking full control over the refining assets in the Czech Republic and will allow the Group to be more flexible and resilient in terms of production optimization, production and sales of ethylene as well as facilitate better coordination and extension of the Group's value chain.

The Group accounted for this transaction as an acquisition under common control and presented assets of SPOLANA a.s. at gross book values based on historical values of the previous owner in respective positions of the note 10 Property, plant and equipment and note 12 Intangible assets.

The net book value of assets and liabilities of SPOLANA a.s. as at the acquisition date:

	Book value as at the acquisition day
ASSETS	
Non-current assets	
Property, plant and equipment	185
Investment property	70
Financial assets available for sale	1
	256
Current assets	
Inventories	493
Trade and other receivables	438
Cash and cash equivalents	84
	1,015
Total assets	**1,271**
LIABILITIES	
Non-current liabilities	
Provisions	164
	164
Current liabilities	
Trade and other liabilities	588
Loans, borrowings	200
Provisions	18
Deferred income	11
Other financial liabilities	316
	1,133
Total liabilities	**1,297**
Net assets	**(26)**
Share acquired	100%
Share on net assets	**(26)**
Cash paid/outflows on acquisition of shares	**27**
Equity resulting from acquisition under common control	**(53)**

Equity resulting from acquisition under common control is presented in the consolidated statement of changes in equity as at 31 December 2016.

Liquidation of UNIPETROL AUSTRIA HmbH

The liquidation of UNIPETROL AUSTRIA HmbH has been completed and the company was deleted from Commercial register on 9 September 2016.

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Merger between UNIPETROL RPA, s.r.o. and BENZINA, s.r.o.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and BENZINA, s.r.o was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 21 December 2015. The legal effects of the merger came into force as at 1 January 2016.

Merger between UNIPETROL RPA, s.r.o. and UNIPETROL SERVICES, s.r.o.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and UNIPETROL SERVICES, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

Merger between UNIPETROL RPA, s.r.o. and CHEMOPETROL, a.s.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and CHEMOPETROL, a.s. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

Merger between UNIPETROL RPA, s.r.o. and UNIPETROL RAFINÉRIE, s.r.o.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and UNIPETROL REFINÉRIE, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

Merger between UNIPETROL SLOVENSKO s.r.o. and MOGUL SLOVAKIA s.r.o.

The merger by amalgamation of UNIPETROL SLOVENSKO s.r.o. and MOGUL s.r.o was approved by the companies' General Meetings with legal succession of UNIPETROL SLOVENSKO s.r.o. on 21 December 2015. The legal effects of the merger came into force as at 1 January 2016.

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 26 September 2016. The legal effects of the merger came into force as at 1 January 2017.

Foundation Unipetrol

Foundation Unipetrol was registered in the Register of Foundation on 27 December 2016. Start of the foundation activities is planned in 2017. It is planned that the foundation will focus mainly on promotion of education, supporting young people and their educational development and popularization of science and technology.

Change in the official name of Výzkumný ústav anorganické chemie, a.s.

As of 1 January 2016 the company Výzkumný ústav anorganické chemie, a.s. was changed to the name of Unipetrol výzkumně vzdělávací centrum, a.s. Other requirements listed in the Commercial Register as well as the company's registered office remain unchanged.

36.3. Joint operations

	Place of business	Ownership interest of the parent company in share capital	Principal activities	Method of consolidation
Butadien Kralupy a.s.	Czech Republic	51.00%	Production of butadiene	Share in assets and liabilities

The Group in accordance with IFRS 11 classified Butadien Kralupy a.s. in as joint operations. Detailed information is described in note 33.3.2.2.

37. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

The Supervisory Board of UNIPETROL, a.s. at its meeting held on 18 January 2017 approved the resignation of Mr. Bogdan Dzudzewicz from the position of the Member of the Supervisory Board of UNIPETROL, a.s. with the effect from 18 January 2017.

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 or would be required to be included in the financial statements as at 31 December 2016.

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38. STATEMENT OF THE BOARD OF DIRECTORS AND APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors of UNIPETROL, a.s. hereby declares that to the best of its knowledge the consolidated financial statements and comparative data were prepared in compliance with the applicable accounting principles adopted by in the Group (disclosed in note 33.3.) and that they reflect true and fair view on the financial position and financial result of the Group, including basic risks and exposures.

The consolidated financial statements were authorized by the Board of Directors meeting held on 13 March 2017.

Signature of statutory representatives

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

Significant post financial statements events

Change in the composition of Supervisory Board

Mr. Bogdan Dzudzewicz resigned from his office of the Member of Supervisory Board of UNIPETROL, a.s. At its meeting the Supervisory Board approved his resignation with effect from 18 January 2017.

Preventive steam cracker unit shutdown

On 14 February 2017 Unipetrol informed about the upcoming shutdown of the steam cracker unit for maintenance reasons for 9-10 days. As a result the ethylene supplies were reduced to Spolana in Neratovice and to polyethylene units in Litvínov.

On 24 February 2017 Unipetrol informed about the prolonged shutdown of the steam cracker unit for maintenance reasons estimated for approx. 14 days and therefore a continuation of reduced supplies of ethylene to Spolana and polyethylene units in Litvínov.

Payment from insurers for the FCC unit accident

On 28 February 2017 Unipetrol informed that the Payment on Account Agreement was signed by Unipetrol RPA, the insurer and reinsurers related to claim of Fluid Catalytic Cracking (FCC) unit accident at Kralupy refinery from May 2016 in the amount of USD 40 million. The payment will be recognized in the financial statements for the first quarter of the year 2017.

Report on relations between the controlling person and the controlled person and between the controlled person and other persons controlled by the same controlling person in 2016

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

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

The structure of relations between the entities

Controlled Person

UNIPETROL, a.s., with registered office at Na Pankráci 127, 140 00 Praha 4, Corporate ID: 616 72 190, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Enclosure 3020 (hereinafter „UNIPETROL, a.s.").

Controlling Persons

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

Other Controlled Persons

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

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

The role of the Controlled Person

- strategic management of the development of the group of directly or indirectly controlled companies,
- coordination and facilitation of matters of common interest of the group of directly or indirectly controlled companies,
- arranging of financing and development of financing systems in the companies within the concern,
- development of human resources and a system of human resource management in the companies within the concern,
- administration, acquisition of and disposal with ownership interests and other assets of the Company, in particular:
  - (i) establishing of business corporations, participation in their foundation and other acquisitions of ownership interests in business of other legal entities,
  - (ii) exercising of shareholder's and similar rights within directly or indirectly controlled companies,
  - (iii) renting of real estate and provision of basic services for due functioning of real estate.

The method and means of controlling

Polski Koncern Naftowy Spólka Akcyjna is the majority shareholder (associate) of UNIPETROL, a.s. and has direct influence in UNIPETROL, a.s.

The list of actions undertaken in the last financial period made on instigation or in the interest of the Controlling Person 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 Person and the Controlling Person or between the Controlled Persons

The mutual agreements between UNIPETROL, a.s. and Polski Koncern Naftowy Spólka Akcyjna and Other Controlled Persons were concluded on the standard terms, while agreed and provided performances or counter-performances were based on the standard terms of business relations.

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

The conclusion

The Board of Directors of UNIPETROL, a.s. based on available information declares that UNIPETROL, a.s. incurred no detriment, special advantage or disadvantage in accordance with the article 82 (4) of the Act of Business Corporations as a result of any contracts, acts or measures taken between entities in business group. No risks arise from the relations between entities in business group to UNIPETROL, 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.

Prague, 13 March 2017

On behalf of the Board of Directors of UNIPETROL, a.s.

Andrzej Mikołaj Modrzejewski

Chairman of the Board of Directors

Mirosław Kastelik

Vice-chairman of the Board of Directors

Appendix No. 1

Capital group of UNIPETROL, a.s. - controlled companies

1 January 2016 – 31 December 2016

Companies controlled by UNIPETROL, a.s.	Residence	Shares in directly and indirectly controlled companies Share in % of the capital		Note
Companies with direct share of UNIPETROL, a.s. Companies with indirect share of UNIPETROL, a.s.		**1. 1.**	**31. 12.**	
1. UNIPETROL RPA, s.r.o., IČ 275 97 075	Litvínov, Záluží 1	100.00	100.00	
1.1 HC VERVA Litvínov, a.s., IČ 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., IČ 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., IČ 640 49 701	Litvínov, Růžodol 4	99.88	99.88	0.12% owned by UNIPETROL, a.s.
1.4 UNIPETROL DEUTSCHLAND GmbH, IČ 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., IČ 357 77 087	Bratislava - mestská časť Ružinov, Jašíkova 2, Slovakia	86.96	86.96	13.04% owned by UNIPETROL, a.s.
1.6 UNIPETROL RPA Hungary Kft., IČ 13-09-181774	2040 Budaörs, Puskás Tivadar utca 12, Hungary	100.00	100.00	
1.7 SPOLANA a.s., IČ 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., IČ 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., IČ 622 43 136	Ústí nad Labem, Revoluční 1521/84	100.00	100.00	As at 1.1.2016 the Company change the name from Výzkumný ústav anorganické chemie, a.s.
4. BENZINA, s.r.o., IČ 601 93 328	Prague 4, Na Pankráci 127	100.00	-	Company merged to UNIPETROL RPA, s.r.o. on 1.1.2016
4.1 PETROTRANS, s.r.o., IČ 251 23 041	Prague 8, Libeň, Střelničná 2221/50	99.37	99.37	0.63% owned by UNIPETROL, a.s.
5. UNIPETROL RAFINÉRIE, s.r.o. IČ 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., IČ 627 41 772	Litvínov, Záluží 2	100.00	100.00	Company merged to UNIPETROL RPA, s.r.o. on 1.1.2017
7. UNIPETROL AUSTRIA, HmbH, in liquidation, IČ 43 551	Vienna, Apfelgasse 2, Austria	100.00	-	UNIPETROL AUSTRIA, HmbH ceased to exist and was deleted from respective Commercial Register with effect as of 9.9.2016.
8. PARAMO, a.s., IČ 481 73 355	Pardubice, Svítkov, Přerovská 560	100.00	100.00	
8.1 MOGUL SLOVAKIA, s.r.o., IČ 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., IČ 246 87 341	Pardubice, Přerovská 560	100.00	100.00	
9. Butadien Kralupy a.s., IČ 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, IČ 482 64 865	Prague 1, Senovážné náměstí 1588/4	16.45	16.45	12.24% shares owned by UNIPETROL RPA, s.r.o.
2. ORLEN HOLDING MALTA LIMITED, IČ C 39945	Level 3, Triq ir-Rampa ta' San Giljan, Balluta Bay, St Julians, STJ1062 Malta	0.5	0.5	99.5% shares owned by PKN ORLEN S.A.

Appendix No. 2

Capital Group of PKN ORLEN S.A. - controlled companies

1 January 2016 - 31 December 2016

Company controlled by PKN ORLEN S.A.	Residence	Shares in directly and undirectly controlled company		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 Česká 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. in liquidation	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. in liquidation	Toruń	51.00%	51.00%	
28. Ship - Service S.A.	**Warszawa**	**60.86%**	**60.86%**	
29. ORLEN Finance AB	**Stockholm**	**100.00%**	**100.00%**	
30. ORLEN Capital AB	**Stockholm**	**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. 3

The list of agreements between the controlling and controlled entity or between the controlled entities

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
137-2007	Supplier	Loan agreement	provision of loan	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	20.3.2007	indefinite	20.3.2007
405-2008	Supplier	CLA agreement, as amended	provision of services	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	1.1.2008	indefinite	1.1.2008
128-2008	Supplier	Contract on ensuring development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group	provision of services	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	1.1.2008	indefinite	21.4.2008
75-2009	Supplier	Agreement on provision of licenses (sublicenses) for SAP Software usage and maintenance the support, as amended	provision of licence	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	15.5.2009	indefinite	15.5.2009
118-2010	Supplier	Contract on future easement agreement	establishment of easement	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	9.8.2010	indefinite	9.8.2010
0014-2016	Supplier	Contract no. 0014-2016 on insurance and its administration	insurance	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	9.5.2016	31.10.2016	9.5.2016
0143-2015 (BEN)	Supplier	Framework agreement on usage of BENZINA cards	sales of fuel and service on cards	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	1.4.2015	indefinite	1.4.2015
0293-2014 (BEN)	Supplier	Agreement on issuance and usage of OPEN DRIVE card, as aamended	sales of fuel and service on cards	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	2.12.2014	2.12.2017	2.12.2014
134-2007	Supplier	Agreement on provision of loan	provision of loan	UNIPETROL RPA, s.r.o. - BENZINA, odštěpný závod (initially BENZINA, s.r.o.)	10.7.2007	indefinite	10.7.2007
42-2010	Supplier	Contract on ensuring development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group, as amended	monitoring of Group's surroundings	Butadien Kralupy a.s.	1.5.2010	indefinite	21.4.2010
179-2008	Supplier	Loan agreement, as amended	provision of loan	Butadien Kralupy a.s.	15.5.2008	indefinite	15.5.2008

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
0092 - 2015	Supplier	Contract no. 0092-2015 on insurance and its administration -liability insurance – 2. layer	liability insurance	Butadien Kralupy a.s.	1.5.2015	30.4.2016	23.9.2015
0074 - 2015	Supplier	Contract no. 0074-2015 on insurance and its administration -liability insurance – 1. layer	liability insurance	Butadien Kralupy a.s.	1.5.2015	30.4.2016	14.9.2015
0015-2016	Supplier	Agreement no. 0015-2016 on insurance and its administration - liability insurance of statutory bodies member	liability insurance of statutory bodies member	Butadien Kralupy a.s.	1.10.2015	31.10.2016	9.5.2016
0066-2016	Supplier	Agreement no. 0066-2016 on insurance and its administration - liability insurance – 1. layer	liability insurance	Butadien Kralupy a.s.	1.5.2016	30.4.2017	30.8.2016
0083-2016	Supplier	Agreement no. 0083-2016 on insurance and its administration - liability insurance – 2. layer	liability insurance	Butadien Kralupy a.s.	1.5.2016	30.4.2017	2.11.2016
0173-2009 (31-2009 BUT)	Supplier	Agreement about settlement of liabilities - guarantees of services	provision of cash as guaranties for tax warehouse	Butadien Kralupy a.s.	30.12.2009	indefinite	30.12.2009
135-2008	Supplier	Contract on ensuring development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group, as amended	monitoring of Group's surroundings	ČESKÁ RAFINÉRSKÁ, a.s.	1.1.2008	indefinite	1.1.2008
204-2008	Supplier	Agreement on contracts of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	15.5.2007	indefinite	15.5.2007
334-2008	Supplier	Agreement on cancelation and establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	30.10.2000	indefinite	30.10.2000
92-2008	Supplier	Agreement on cancelation and establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	8.4.2008	indefinite	8.4.2008
200-2008	Supplier	Agreement on cancelation of easement	real estate usage	ČESKÁ RAFINÉRSKÁ, a.s.	20.8.2006	indefinite	20.8.2006
89-2007	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	10.7.2007	indefinite	10.7.2007
337-2008	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	10.4.2000	indefinite	10.4.2000
332-2008	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	30.1.2001	indefinite	30.1.2001
327-2008	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	25.3.2003	indefinite	25.3.2003
312-2008	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	10.4.2000	indefinite	10.4.2000

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
202-2008	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	31.8.2006	indefinite	31.8.2006
163-2007	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	16.10.2007	indefinite	16.10.2007
349-2008	Supplier	Agreement on establishment and cancelation of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	11.3.2003	indefinite	11.3.2003
421-2008	Supplier	Agreement on free use of drill holes in the area of interest of UNIPETROL, a.s. in Kralupy nad Vltavou, as amended	free use of drill holes	ČESKÁ RAFINÉRSKÁ, a.s.	10.12.2008	indefinite	10.12.2008
60-2009	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	1.3.2009	indefinite	1.3.2009
97-2009	Supplier	Agreement on establishment of easement	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	30.6.2009	indefinite	30.6.2009
0089 - 2015	Supplier	Corporate level agreement	provision of consulting and professional services	ČESKÁ RAFINÉRSKÁ, a.s.	1.8.2015	indefinite	21.9.2015
0065 - 2015	Customer	Agreement on cash pool B	provision of loan	ČESKÁ RAFINÉRSKÁ, a.s.	3.6.2015	indefinite	26.6.2015
0064 - 2015	Supplier	Agreement on cash pool A	provision of loan	ČESKÁ RAFINÉRSKÁ, a.s.	3.6.2015	indefinite	26.6.2015
0063 - 2015	Supplier	Loan agreement	provision of loan	ČESKÁ RAFINÉRSKÁ, a.s.	3.6.2015	indefinite	26.6.2015
0099 - 2016 rev. 0 dod. 0	Supplier	Agreement no. 0099-2016 on insurance and its administration - liability insurance – 2. layer	liability insurance	ČESKÁ RAFINÉRSKÁ, a.s.	16.9.2016	30.4.2017	16.9.2016
0093 - 2016 rev. 0 dod. 0	Supplier	Agreement no. 0093-2016 on insurance and its administration - liability insurance – 1. layer	liability insurance	ČESKÁ RAFINÉRSKÁ, a.s.	16.9.2016	30.4.2017	20.12.2016
SLU_2005_055_00	Supplier	Agreement on cancelation of easement - Chvatěruby, Veltrusy	cancelation of easement	ČESKÁ RAFINÉRSKÁ, a.s.	10.3.2003	indefinite	10.3.2003
SLU_2005_052_00	Supplier	Agreement on cancelation of easement	cancelation of easement	ČESKÁ RAFINÉRSKÁ, a.s.	10.4.2000	indefinite	10.4.2000
SLU_2005_060_00	Supplier	Agreement on cancelation and establishment of easement - Dolní Jiřetín, Záluží u Litvínova	cancelation and establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	1.1.2004	indefinite	1.1.2004
SLU_2007_017_00	Supplier	Agreement on cancelation and establishment of easement - Dolní Jiřetín, Záluží u Litvínova	cancelation and establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	1.1.2006	indefinite	1.1.2006
SLU_2006_015_00	Supplier	Agreement on easement - Veltrusy	establishment of easement	ČESKÁ RAFINÉRSKÁ, a.s.	1.1.2006	indefinite	1.1.2006
01296	Supplier	Fee for maintenance of software PIMS	fee for maintenance of software	ČESKÁ RAFINÉRSKÁ, a.s.	23.6.1996	23.6.2021	23.6.1996

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
PVS_2007_001_00	Supplier	Agreement on development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group	provision of services - monitoring of Group's surroundings	ČESKÁ RAFINÉRSKÁ, a.s.	31.1.2001	indefinite	31.1.2001
x	Supplier	Financial guaranty issued for liability of UNIPETROL RPA, s.r.o. in favour of Company	financial guaranty	ČESKÁ RAFINÉRSKÁ, a.s.	20.5.2015	indefinite	20.5.2015
24-2012	Supplier	Loan agreement	provision of loan	UNIPETROL SLOVENSKO, s.r.o. (initially MOGUL SLOVAKIA, s.r.o.)	22.7.2010	indefinite	22.7.2010
30-2008	Supplier	Contract on ensuring development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group, as amended	monitoring of Group's surroundings	PARAMO, a.s.	1.1.2008	indefinite	28.4.2008
404-2008	Supplier	CLA Agreement, as amended	provision of services	PARAMO, a.s.	1.1.2008	indefinite	1.1.2008
196-2007	Supplier	Framework Agreement for sharing of costs	reinvoicing of costs	PARAMO, a.s.	6.12.2007	indefinite	6.12.2007
139-2007	Supplier	Agreement on provision of loan	provision of loans	PARAMO, a.s.	23.7.2007	indefinite	23.7.2007
243-2008	Supplier	Loan agreement	provision of loans	PARAMO, a.s.	24.6.2008	indefinite	24.6.2008
77-2009	Supplier	Agreement on provision of licences (sublicence) for SAP Software and maintenance SAP, as amended	provision of licence	PARAMO, a.s.	15.5.2009	21.6.2016	15.5.2009
0091 - 2015	Supplier	Agreement no. 0091-2015 on insurance and its administration - liability insurance – 2. layer	liability insurance	PARAMO, a.s.	1.5.2015	30.4.2016	20.7.2015
0073 - 2015	Supplier	Agreement no. 0073-2015 on insurance and its administration - liability insurance – 1. layer	liability insurance	PARAMO, a.s.	1.5.2015	30.4.2016	14.9.2015
030-2016	Supplier	Agreement no. 0030-2016 on insurance and its administration - insurance of non-technological equipment	insurance of non-technological equipment	PARAMO, a.s.	1.1.2016	31.12.2016	9.5.2016
017-2016	Supplier	Agreement no. 0017-2016 on insurance and its administration - liability insurance of statutory board members	liability insurance of statutory board members	PARAMO, a.s.	1.10.2015	31.12.2016	9.5.2016
68-2016	Supplier	Agreement no. 0068-2016 on insurance and its administration - liability insurance – 1. layer	liability insurance	PARAMO, a.s.	1.5.2016	30.4.2017	2.11.2016

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
84-2016	Supplier	Agreement no. 0084-2016 on insurance and its administration - liability insurance – 2. layer	liability insurance	PARAMO, a.s.	1.5.2016	30.4.2017	2.11.2016
137-2015	Supplier	CLA Agreement - area of internal audit	services - internal audit	PARAMO, a.s.	1.1.2016	indefinite	1.3.2016
0136-2015	Supplier	CLA Agreement - area of internal audit	services - internal audit	PETROTRANS, s.r.o.	1.1.2016	indefinite	29.2.2016
S200/133/07 133-2007	Supplier	Loan agreement	provision of loan	PETROTRANS, s.r.o.	13.8.2007	indefinite	13.8.2007
S200/184/07 118-2017	Supplier	Agreement on loans B - cashpooling	provision of loan	PETROTRANS, s.r.o.	15.11.2007	indefinite	15.11.2007
S200/185/07 117-2017	Supplier	Agreement on loans A - cashpooling	provision of loan	PETROTRANS, s.r.o.	15.11.2007	indefinite	15.11.2007
0020-2016	Supplier	Agreement no. 0020-2016 on insurance and its administration - liability insurance of statutory board members	liability insurance of statutory board members	PETROTRANS, s.r.o.	1.10.2015	31.10.2016	9.5.2016
417-2008	Supplier	CLA Agreement, as amended	provision of services	PETROTRANS, s.r.o.	1.1.2008	indefinite	1.1.2008
97-2011	Supplier	Agreement on provision of loan	provision of loans	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	1.10.2011	indefinite	1.10.2011
98-2011	Supplier	Agreement on provision of loans (overdraft)	provision of loans	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	1.10.2011	indefinite	1.10.2011
81-2009	Supplier	Agreement on provision of licences (sublicence) for SAP Software and maintenance SAP, as amended	provision of licence	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	15.5.2009	indefinite	15.5.2009
76-2008	Supplier	Framework Agreement for development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group	monitoring of Group's surroundings	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	1.1.2008	indefinite	1.1.2008
0031-2016	Supplier	Agreement on insurance and its administration	insurance of non-technological equipment	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	1.1.2016	31.12.2016	9.5.2016

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
0069-2016	Supplier	Agreement no. 0069-2015 on insurance and its administration - insurance of non-technological equipment	insurance of non-technological equipment	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	1.5.2016	30.4.2017	1.9.2016
0021-2016	Supplier	Agreement no. 0021-2015 on insurance and its administration - liability insurance of statutory board members	liability insurance of statutory board members	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	1.11.2015	31.10.2016	9.5.2016
0076 - 2015	Supplier	Agreement no. 0076-2015 on insurance and its administration - liability insurance – 1. layer	liability insurance	UNIPETROL RPA, s.r.o. - POLYMER INSTITUTE BRNO - odštěpný závod (initially POLYMER INSTITUTE BRNO, spol. s r.o.)	1.5.2015	30.4.2016	14.9.2015
204-2007	Supplier	Agreement on provision of loans	provision of loans	UNIPETROL DOPRAVA, s.r.o.	17.4.2007	indefinite	17.4.2007
143-2007	Supplier	Agreement on provision of loans	provision of loans	UNIPETROL DOPRAVA, s.r.o.	10.8.2007	indefinite	10.8.2007
203-2007	Supplier	Loan agreement	provision of loans	UNIPETROL DOPRAVA, s.r.o.	16.7.2007	indefinite	16.7.2007
408-2008	Supplier	CLA Agreement, as amended	provision of services	UNIPETROL DOPRAVA, s.r.o.	1.1.2009	indefinite	1.1.2009
167-2009	Supplier	Framework contract on ensuring development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group, as amended	provision of services	UNIPETROL DOPRAVA, s.r.o.	1.1.2010	indefinite	1.1.2010
76-2009	Supplier	Agreement on provision of licences (sublicence) for SAP Software and maintenance SAP, as amended	provision of licence	UNIPETROL DOPRAVA, s.r.o.	15.5.2009	30.6.2016	15.5.2009
15-2010	Supplier	Agreement on use of UNIPETROL goodwill, as amended	use of UNIPETROL goodwill	UNIPETROL DOPRAVA, s.r.o.	1.1.2009	indefinite	11.2.2010
92-2013	Supplier	Agreement on cancelation and establishment of easement	establishment of easement	UNIPETROL DOPRAVA, s.r.o.	13.9.2013	indefinite	13.9.2013
108-2011	Supplier	Agreement on establishment of easement - right of construction	establishment of easement	UNIPETROL DOPRAVA, s.r.o.	29.9.2011	indefinite	29.9.2011
107-2011	Supplier	Agreement on establishment of easement - right of construction	establishment of easement	UNIPETROL DOPRAVA, s.r.o.	29.9.2011	indefinite	29.9.2011
106-2011	Supplier	Agreement on establishment of easement - right of construction	establishment of easement	UNIPETROL DOPRAVA, s.r.o.	29.9.2011	indefinite	29.9.2011
40-2012	Supplier	Agreement on establishment of easement Chvatěruby	establishment of easement	UNIPETROL DOPRAVA, s.r.o.	8.6.2012	indefinite	8.6.2012

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(2008-119)	Supplier	Agreement on use of Framework agreement with DELL	possibility of IT goods supply	UNIPETROL DOPRAVA, s.r.o.	30.3.2000	indefinite	30.3.2000
(2010-26)	Supplier	Agreement on cooperation - HSE	cooperation	UNIPETROL DOPRAVA, s.r.o.	5.10.2009	indefinite	5.10.2009
(2010-53)	Supplier	Agreement on cooperation - HSE	cooperation	UNIPETROL DOPRAVA, s.r.o.	23.10.2009	indefinite	23.10.2009
(2010-55)	Supplier	Agreement on cooperation in order to strengthen trade results	cooperation	UNIPETROL DOPRAVA, s.r.o.	2.11.2009	indefinite	2.11.2009
(2011-100)	Supplier	Agreement on conditions of construction - modernization of security equipment of siding in Kralupy nad Vltavou	right construction works	UNIPETROL DOPRAVA, s.r.o.	29.8.2011	indefinite	29.8.2011
(2011-113)	Supplier	Agreement on establishment of easement - extension of siding in Kralupy nad Vltavou	right construction works in form of easement	UNIPETROL DOPRAVA, s.r.o.	5.10.2011	indefinite	5.10.2011
29-2016	Supplier	Insurance Agreement - insurance of non-technological equipment no. 29-2016	property insurance	UNIPETROL DOPRAVA, s.r.o.	1.1.2016	31.12.2016	9.1.2016
24-2016	Supplier	Insurance agreement - liability insurance of statutory board members	liability insurance	UNIPETROL DOPRAVA, s.r.o.	1.11.2015	31.10.2016	9.5.2016
0133-2015	Supplier	CLA Agreement - area of internal audit	services - internal audit	UNIPETROL DOPRAVA, s.r.o.	1.1.2016	indefinite	14.3.2016
14-2010	Supplier	Agreement on use of UNIPETROL goodwill, a.s.	use of patents, logos and other Unipetrol brands	UNIPETROL RPA, s.r.o.	1.12.2009	indefinite	23.1.2010
0033-2016	Supplier	Agreement no. 0033-2016 on insurance and its administration - insurance of non-technological equipment	insurance of non-technological equipment	UNIPETROL RPA, s.r.o.	1.1.2016	31.12.2016	30.8.2016
0025-2016	Supplier	Agreement no. 0025-2016 on insurance and its administration - liability insurance of statutory board members	liability insurance of statutory board members	UNIPETROL RPA, s.r.o.	1.10.2015	31.10.2016	28.4.2016
0085-2016	Supplier	Agreement no. 0085-2016 on insurance and its administration - liability insurance – 2. layer	liability insurance	UNIPETROL RPA, s.r.o.	1.5.2016	30.4.2017	24.11.2016
135-2015	Customer	provision of internal audit services	provision of services	UNIPETROL RPA, s.r.o.	1.1.2016	indefinite	15.7.2016
75-2016	Customer	Agreement on rental	provision of services	UNIPETROL RPA, s.r.o.	1.8.2016	indefinite	1.8.2016
0070-2016	Supplier	Agreement no. 0070-2016 on insurance and its administration - liability insurance – 1. layer	liability insurance	UNIPETROL RPA, s.r.o.	1.5.2016	30.4.2017	9.8.2016

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
0032-2016	Supplier	Agreement no. 0032-2016 on insurance and its administration - insurance of non-technological equipment	insurance of non-technological equipment	UNIPETROL RPA, s.r.o.	1.1.2016	31.12.2016	12.4.2016
x	Customer	Agreement on assigment of service agreement	assigment of the agreement within UNIPETROL group's companies	UNIPETROL RPA, s.r.o.	1.12.2016	3.12.2016	12.4.2016
x	Customer	Agreement on contract assignment on provision of services	assigment of the agreement within UNIPETROL group's companies	UNIPETROL RPA, s.r.o.	1.1.2016	indefinite	12.4.2016
0022-2016	Supplier	Agreement no. 0022-2016 on insurance and its administration - liability insurance of statutory board members	liability insurance of statutory board members	UNIPETROL RPA, s.r.o.	1.10.2015	31.10.2016	29.3.2016
135-2015	Customer	Agreement on provision of comprehensive services	provision of services	UNIPETROL RPA, s.r.o.	1.1.2016	indefinite	15.3.2016
002-20106	Supplier	Agreement on provision of services	provision of services	UNIPETROL RPA, s.r.o.	1.1.2016	indefinite	23.2.2016
x	Customer	Agreement on water supply	organization change	UNIPETROL RPA, s.r.o.	1.8.2015	indefinite	21.3.2016
x	Customer	Agreement on electricity services	provision of services	UNIPETROL RPA, s.r.o.	1.8.2015	indefinite	23.10.2016
0090-2016	Supplier	Agreement no. 0090-2015 on insurance and its administration - liability insurance – 2. layer	liability insurance	UNIPETROL RPA, s.r.o.	1.5.2015	30.4.2016	1.9.2015
0072-2015	Supplier	Agreement no. 0072-2015 on insurance and its administration - liability insurance – 1. layer	liability insurance	UNIPETROL RPA, s.r.o.	1.5.2015	30.4.2016	30.6.2015
x	Supplier	Agreement on provision of services	provision of services	UNIPETROL RPA, s.r.o.	1.1.2015	indefinite	
x	Customer	Agreement on energetic services and water supply, as amended	provision of services	UNIPETROL RPA, s.r.o.	1.1.2014	indefinite	5.2.2014
x	Supplier	Agreement on termination and establishment of easement	termination and establishment of easement	UNIPETROL RPA, s.r.o.	9.4.2016	indefinite	
14-2010	Supplier	Agreement on use of UNIPETROL goodwill, as amended	usage of brands	UNIPETROL RPA, s.r.o.	1.1.2009	indefinite	11.2.2010
126-2010	Supplier	Agreement on cancelation and establishment of easement	establishment of easement	UNIPETROL RPA, s.r.o.	27.8.2010	indefinite	11.11.2010
313-2008	Supplier	Agreement on establishment of easement	establishment of easement	UNIPETROL RPA, s.r.o.	10.1.2001	indefinite	10.1.2001
339-2008	Supplier	Agreement on establishment of easement	termination and establishment of easement	UNIPETROL RPA, s.r.o.	27.12.1999	indefinite	27.12.1999

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79-2009	Supplier	Agreement on provision of licences (sublicence) for SAP Software and maintenance SAP, as amended	licence SAP	UNIPETROL RPA, s.r.o.	1.5.2009	indefinite	30.6.2009
63-2009	Customer	Agreement on lease and provision of services	provision of services	UNIPETROL RPA, s.r.o.	1. 4. 2009	indefinite	6. 7. 2009
392-2008	Customer	Agreement on real estate management no. S400/250/99, as amended	property management	UNIPETROL RPA, s.r.o.	1.1.2000	indefinite	1.1.2000
402-2008	Supplier	Corporate Level Agreement, as amended	provision of services	UNIPETROL RPA, s.r.o.	18.12.2008	indefinite	19.12.2008
1017-2008 rev. 0 dod. 0	Supplier	Agreement on cancelation and establishment of easement	change of the price	UNIPETROL RPA, s.r.o.	12.5.2008	indefinite	26.8.2008
763-2008 rev. 0 dod. 0	Supplier	Loan agreement, as amended	provision of loan	UNIPETROL RPA, s.r.o.	25.6.2008	indefinite	25.6.2008
548-2008 rev. 0 dod. 0	Customer	Agreement on rental and provision of services (rental of st. 2838), as amended	provision of services	UNIPETROL RPA, s.r.o.	1.3.2008	indefinite	6.3.2008
471-2008 rev. 0 dod. 0	Customer	Agreement on cancelation and establishment of easement	establishment of easement	UNIPETROL RPA, s.r.o.	1.1.2008	indefinite	11.7.2008
21-2008	Supplier	Framework Agreement for development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group-sales	provision of services	UNIPETROL RPA, s.r.o.	1.1.2008	indefinite	1.4.2008
895-2006 rev. 0 dod. 0	Supplier	Agreement on cancelation and establishment of easement	adjustment of price and scope	UNIPETROL RPA, s.r.o.	1.12.2006	indefinite	20.12.2006
873-2006 rev. 0 dod. 0	Supplier	Agreement on protection of business and personal data secret	protection of information	UNIPETROL RPA, s.r.o.	22.11.2006	indefinite	22.11.2006
402-2006 rev. 0 dod. 0	Supplier	Agreement on cancelation and establishment of easement (swap with Dopravní podnik)	swap of lands	UNIPETROL RPA, s.r.o.	1.4.2006	indefinite	1.4.2006
01656 / 2004	Supplier	Agreement on cancelation and establishment of easement	cancelation of easement	UNIPETROL RPA, s.r.o.	8.12.2004	indefinite	8.12.2004
S 400/020/03	Supplier	Agreement on cancelation and establishment of easement	establishment and cancelation of easement	UNIPETROL RPA, s.r.o.	11.3.2003	indefinite	11.3.2003
204-2008	Supplier	Agreement to Contracts for easement	provision of services	UNIPETROL RPA, s.r.o.	15.5.2007	indefinite	15.5.2007
x	Customer	Arrangements for credentials	establishment of credentials	UNIPETROL RPA, s.r.o.	15.5.2007	indefinite	15.5.2007

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
186-2004 rev. 0 dod. 0	Customer	Agreement - shared information environment for monitoring of surroundings of the UNIPETROL Group - 2004	monitoring of Group's surroundings	UNIPETROL RPA, s.r.o.	1.1.2004	indefinite	1.1.2004
0049-2016	Supplier	Loan Agreement	provision of loan	UNIPETROL RPA Hungary Korlátolt Felelősségű Társaság, Kft.	11.5.2016	indefinite	11.5.2016
16-2010	Supplier	Agreement on use of UNIPETROL goodwill, as amended	provision of goodwill	UNIPETROL SERVICES, s.r.o.	1.1.2009	indefinite	1.1.2009
401-2008	Supplier	CLA Agreement, as amended	provision of services	UNIPETROL SERVICES, s.r.o.	1.1.2008	indefinite	1.1.2008
27-2009	Mutual cooperation	Agreement on cooperation - HSE	mutual provision of information	UNIPETROL SERVICES, s.r.o.	1.2.2009	indefinite	1.2.2009
207–2007	Supplier	Agreement on provision of services, as amended	provision of services	UNIPETROL SERVICES, s.r.o.	1.4.2007	indefinite	1.4.2007
16-2008	Supplier	Framework Agreement for development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group	monitoring of Group's surroundings	UNIPETROL SERVICES, s.r.o.	1.1.2008	indefinite	1.1.2008
18-2009	Customer	Agreement on rentals and services from 1.2.2009	provision of services	UNIPETROL SERVICES, s.r.o.	1.2.2009	31.12.2018	1.2.2009
188-2007	Supplier	Agreement on provision of loans - Cash Pooling	provision of loans	UNIPETROL SERVICES, s.r.o.	3.9.2007	indefinite	3.9.2007
78-2009	Supplier	Agreement on provision of licences (sublicence) for SAP Software and maintenance SAP, as amended	provision of licence	UNIPETROL SERVICES, s.r.o.	15.5.2009	28.7.2016	15.5.2009
190-2007	Supplier	Loan agreement	provision of loans	UNIPETROL SERVICES, s.r.o.	3.9.2007	indefinite	3.9.2007
0025-2016	Supplier	Agreement on insurance and its management - liability insurance of statutory board members	liability insurance	UNIPETROL SERVICES, s.r.o.	1.10.2015	31.10.2016	28.4.2016
033-2016	Supplier	Agreement on insurance and its administration - insurance of non-technological equipment	insurance of non-technological equipment	UNIPETROL SERVICES, s.r.o.	1.1.2016	31.12.2016	28.4.2016
134-2016	Supplier	CLA - internal audit	services - internal audit	UNIPETROL SERVICES, s.r.o.	1.1.2016	indefinite	24.3.2016
(72-2008)	Customer	Agreement on assigment of rights and obligation	rental agreement	UNIPETROL SERVICES, s.r.o.	1.2.2009	indefinite	13.2.2009
2-2011	Supplier	Agreement on utilization of trade marks, logos and other brands	provision of trade marks	UNIPETROL SLOVENSKO, s.r.o.	1.1.2010	indefinite	1.1.2010
406-2008	Supplier	CLA Agreement, as amended	provision of services	UNIPETROL SLOVENSKO, s.r.o.	1.1.2014	indefinite	1.1.2008

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
0054 - 2015	Supplier	Framawork Contract on ensuring development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group, as amended	provision of services	UNIPETROL SLOVENSKO, s.r.o.	1.7.2014	indefinite	9.6.2015
115-2015	Supplier	Agreement 160-2009 on loan	provision of loan	UNIPETROL SLOVENSKO, s.r.o.	9.12.2009	indefinite	9.12.2009
0080-2009	Supplier	Agreement on provision of licences (sublicence) for SAP Software and maintenance SAP, as amended	provision of licence	UNIPETROL SLOVENSKO, s.r.o.	1.10.2008	27.6.2016	15.5.2009
0026 - 2016	Supplier	Agreement no. 0026-2016 on insurance and its administration - liability insurance of statutory board members	liability insurance of statutory board members	UNIPETROL SLOVENSKO s.r.o.	1.10.2015	31.10.2016	1.10.2015
0034-2016	Supplier	Agreement no. 0034-2016 on insurance and its administration - insurance of non-technological equipment	property insurance	UNIPETROL SLOVENSKO, s.r.o.	1.1.2016	31.12.2016	1.1.2016
0022 - 2015	Supplier	Frame contract on ensuring development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group	provision of services	Unipetrol Deutschland GmbH	1.7.2014	indefinite	9.7.2015
72-2016	Supplier	Agreement no. 0072-2016 on insurance and its administration - liability insurance – 1. layer	liability insurance	Unipetrol výzkumně vzdělávací centrum, a.s.	1.5.2016	30.4.2017	29.7.2016
31-2008	Supplier	Framework Agreement for development and use of the shared information environment for monitoring of surroundings of the UNIPETROL Group	monitoring of Group's surroundings	Unipetrol výzkumně vzdělávací centrum a.s. (initially Výzkumný ústav anorganické chemie, a.s.)	1.1.2008	indefinite	1.1.2008
0078 - 2015	Supplier	Agreement no. 0078-2015 on insurance and its administration - liability insurance – 1. layer	liability insurance	Unipetrol výzkumně vzdělávací centrum, a.s. (initially Výzkumný ústav anorganické chemie, a.s.)	1.5.2015	30.4.2016	28.8.2015
0005 - 2016 rev. 0 dod. 0	Supplier	Agreement on provision of loans B	provision of loan	Unipetrol výzkumně vzdělávací centrum, a.s.	1.2.2016	indefinite	1.2.2016
0004 - 2016 rev. 0 dod. 0	Supplier	Agreement on provision of loans A, as amended	provision of loan	Unipetrol výzkumně vzdělávací centrum, a.s.	1.2.2016	indefinite	1.2.2016

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
0027-2016	Supplier	Agreement no. 0027-2016 on insurance and its administration - liability insurance of statutory board members	liability insurance	Unipetrol výzkumně vzdělávací centrum, a.s. (initially Výzkumný ústav anorganické chemie, a.s.)	1.10.2015	31.10.2016	28.6.2016
0075 - 2015	Supplier	Agreement no. 0075-2015 on insurance and its administration - liability insurance – 1. layer	liability insurance	ORLEN Asfalt Česká republika s.r.o.	1.5.2015	30.4.2016	14.9.2015
0006-2016	Supplier	Agreement on provision of loan - A	provision of loan	ORLEN Asfalt Česká republika s.r.o.	1.2.2016	indefinite	12.4.2016
0007-2016	Supplier	Agreement on provision of loan - B	provision of loan	ORLEN Asfalt Česká republika s.r.o.	1.2.2016	indefinite	12.4.2016
57-2012	Mutual cooperation	Agreement on accesion, as amended	accesion to company	ORLEN FINANCE AB	30.6.2012	indefinite	30.6.2012
0129 - 2015	Customer	Accesion agreement regarding the Internal Agreement on Group Accounts System dated 12 April 2010 as amended, supplemented or restated from time to time	accesion to company	ORLEN FINANCE AB	31.12.2015	indefinite	20.11.2015
100-2010	Customer	Agreement on health services provision	provision of services	ORLEN Medica, Sp. z o.o.	1.2.2010	indefinite	1.2.2010
225-2007	Supplier	Agreement on cooperation in area of internal audit	provision of services	Polski Koncern Naftowy ORLEN S.A.	31.8.2007	indefinite	31.8.2007
20-2009	Supplier	Framework agreement	provision of services	Polski Koncern Naftowy ORLEN S.A.	1.1.2009	indefinite	1.1.2009
112-2011	Supplier	Agreement on mutual provision of personnel	provision of personnel	Polski Koncern Naftowy ORLEN S.A.	1.1.2011	indefinite	1.1.2011
61-2013	Mutual cooperation	Agreement on cooperation in internal audit	provision of information	Polski Koncern Naftowy ORLEN S.A.	1.7.2013	indefinite	1.7.2013
13-2010	Mutual cooperation	Agreement on cooperation	cooperation	Polski Koncern Naftowy ORLEN S.A.	1.2.2010	indefinite	1.2.2010
18-2012	Customer	Framework agreement on IT services provision	IT services	Polski Koncern Naftowy ORLEN S.A.	1.1.2012	8.11.2016	1.1.2012
0112 - 2015	Customer	Agreement concerning the settlement of costs of external audit	settlement of costs of external audit	PKN Orlen S.A.	23.9.2015	30.5.2016	23.9.2015
0171-2014	Mutual cooperation	Agreement on cooperation in the area of centralized purchases and joint access to business and market information within the ORLEN Group	cooperation	Polski Koncern Naftowy ORLEN S.A., ANWIL S.A.	24.10.2014	indefinite	24.10.2014
40-2016	Supplier	Agreement on cooperation and protection of classified information	cooperation	Polski Koncern Naftowy ORLEN S.A.	31.8.2014	indefinite	31.8.2014

No. of agreement / appendix	Partner role	Subject of the agreement	Reason for agreement/ appendix	Company	Valid from	Valid to	Agreement date
291-2008	Customer	Agreement on rental	rental of building	UNIPETROL RPA, s.r.o. (initially CHEMOPETROL, a.s.)	1.1.2001	indefinite	1.1.2001
392-2008	Customer	Agreement on property management, as amended	property management	UNIPETROL RPA, s.r.o. (initially CHEMOPETROL, a.s.)	1.1.2009	indefinite	1.1.2000
0093 - 2015	Supplier	Agreement no. 0093-2015 on insurance and its administration - liability insurance – 2. layer	liability insurance	SPOLANA a.s.	1.5.2015	30.4.2016	27.10.2015
0077 - 2015	Supplier	Agreement no. 0077-2015 on insurance and its administration - liability insurance – 1. layer	liability insurance	SPOLANA a.s.	1.5.2015	30.4.2016	14.9.2015
0090 - 2016 rev. 0 dod. 0	Supplier	Corporate Level Agreement - IA services	provision of services	SPOLANA a.s.	1.11.2016	indefinite	1.11.2016
0086 - 2016 rev. 0 dod. 0	Supplier	Agreement no. 0086-2016 on insurance and its administration - liability insurance – 2. layer	liability insurance	SPOLANA a.s.	1.5.2016	30.4.2017	2.11.2016
0077 - 2016 rev. 0 dod. 0	Supplier	Agreement on provision of loans B	provision of loan	SPOLANA a.s.	11.7.2016	indefinite	11.7.2016
0076 - 2016 rev. 0 dod. 0	Supplier	Agreement on provision of loans A	provision of loan	SPOLANA a.s.	11.7.2016	indefinite	11.7.2016
0071 - 2016 rev. 0 dod. 0	Supplier	Agreement no. 0071-2016 on insurance and its administration - liability insurance – 1. layer	liability insurance	SPOLANA a.s.	1.5.2016	30.4.2017	21.7.2016
0003 - 2016 rev. 0 dod. 0	Supplier	Loan agreement, as amended	provision of loan	SPOLANA a.s.	20.1.2016	indefinite	20.1.2016
0016-2017 (9-2016)	Supplier	Agreement on pledge	provision of pledge	SPOLANA a.s.	20.1.2016	indefinite	20.1.2016

Glossary and abbreviations

Glossary

Atmospheric distillation unit
A unit for atmospheric distillation of crude oil (dividing crude oil into lighter fractions according to their boiling temperature) under slight positive pressure and temperatures up to 350-400 °C.

Azeri Light crude oil
Light, low sulfur crude oil from Azerbaijan.

Brent-Ural differential
The difference between Brent (mix of North Sea crude oils) quoted price and Ural (Russian export crude oil) quoted price.

COCO (Company Owned – Company Operated)
A filling station operating model – filling stations are owned and operated by the same company.

CODO (Company Owned – Dealer Operated)
A filling station operating model – filling stations are owned by the company and are operated by dealers under a contract with the company.

Compressed Natural Gas (CNG)
Natural gas (mainly composed of methane) stored at high pressure. CNG can be used in place of gasoline, diesel fuel or propane.

Conversion capacity
The total amount of crude oil which can be processed in a refinery – usually stated in mt/y (million tons per year).

CPC Blend crude oil
Light crude oil from Western Kazakhstan which consists of several crude oil streams.

D-A-CH region
German speaking countries (Deutschland, Austria, Schweiz).

DOFO (Dealer Owned – Franchise Operated)
A filling station operating model operated under franchise – filling stations are not owned by the company.

Downstream
This sector of the oil and gas industry commonly refers to the refining of petroleum crude oil, and processing and purifying of raw natural gas, as well as to the marketing and distribution of the products derived from crude oil and natural gas.

Ethylene
Also known as **ethene** is a hydrocarbon produced in the petrochemical industry most often by steam cracking of crude oil products (ethane, LPG, naphtha). Ethylene is widely used in the chemical industry.

Fluid Catalytic Cracking (FCC)
Fluid catalytic cracking is one of the most important catalytic conversion processes used in petroleum refineries. It is widely used to convert the high-boiling, high-molecular-weight hydrocarbon fractions from petroleum crude oil (residues from atmospheric distillation, vacuum distillate) to more valuable and demanded products such as gasoline, unsaturated LPG, middle distillates and other products. The FCC process operates at high temperature and moderate pressure, with a fluidized powdered catalyst.

High density polyethylene (HDPE)
It is a polyethylene thermoplastic made from ethylene commonly used in the production of plastic bottles, corrosion-resistant piping, geomembranes and plastic lumber.

Hydrocracking
Hydrocracking is another important catalytic conversion process used in petroleum refineries. It is used for the conversion of high-boiling, high-molecular-weight hydrocarbon fractions from petroleum crude oil (vacuum distillate) to more valuable and demanded products such as diesel, gasoline, unsaturated LPG or synthetic oils by the addition of hydrogen under high pressure and in the presence of a catalyst.

Hydroskimming
It is one of the simplest types of refinery. It is defined as a refinery equipped with atmospheric distillation, naphtha reforming and necessary treating processes.

Ingolstadt-Kralupy-Litvínov pipeline (IKL)
The IKL pipeline is a crude oil pipeline in Central Europe. It allows to transport a crude oil from Germany to the Czech refineries in Kralupy and Litvínov.

Liquefied Petroleum Gas (LPG)
It is a flammable mixture of hydrocarbon gases, predominantly with three or four carbon atoms in a molecule, used as fuel in heating appliances and vehicles, as well as an aerosol propellant and refrigerant.

Olefin
Also known as **alkene** is an unsaturated hydrocarbon with one double bond between carbon atoms. Alkenes are produced during catalytic or thermal cracking without the presence of hydrogen.

Polyolefin
It is a polymer also known as **polyalkene**, produced from simple olefins. It is used for blown film and heatshrink electrical insulation sleeves, as well as under garments for wetsuits.

Petrochemical olefin margin (Unipetrol model)
Revenues from sold products (100% products = 40% ethylene + 20% propylene + 20% benzene + 20% naphtha) minus costs (100% naphtha). Product prices are according to benchmark quotations in euros per ton.

Petrochemical polyolefin margin (Unipetrol model)
Revenues from sold products (100% products = 60% polyethylene/HDPE + 40% polypropylene) minus costs (100% input = 60% ethylene + 40% propylene). Product prices are according to benchmark quotations in euros per ton.

Polypropylene (PP)
Also known as **polypropene**, is a thermoplastic polymer used in a wide variety of applications, including packaging and labeling, plastic parts and reusable containers of various types, laboratory equipment, loudspeakers, automotive components, and polymer banknotes.

POX unit
A unit where the gasification of oil distillates (partial oxidation reaction) takes place. It is commonly used for the liquidation of the hardest unprocessable residues from the refinery and it produces a synthetic gas consisting primarily of hydrogen and carbon monoxide. The yield of hydrogen can be increased in the shift reactor by reaction of CO with steam. Pure hydrogen is used in the refinery and for ammonia production.

Propylene

Also known as **propene** or **methyl ethylene** is an unsaturated organic compound. It is produced as a by-product during the pyrolysis of fossil fuels – mainly petroleum and natural gas.

Pyrolysis

It is a chemical reaction during which organic materials are thermally decomposed without the presence of any oxygen.

Pyrolysis gasoline

It is a high aromatic naphtha product which arises during the pyrolysis of naphtha or hydrocrackates in a steam cracker unit.

Refining margin (Unipetrol model)

Revenues from products sold (96% products = gasoline 17%, naphtha 20%, JET 2%, diesel 40%, sulfur fuel oils 9%, LPG 3%, other feedstock 5%) minus costs (100% input = Brent Dated). Product prices are according to benchmark quotations in dollars per barrel.

Steam cracker unit

Steam cracker units are facilities in which a feedstock such as naphtha, HCVD, liquefied petroleum gas (LPG), ethane, propane or butane are thermally cracked through the use of steam in a bank of pyrolysis furnaces to produce lighter hydrocarbons. The products (yield of ethylene, propylene, benzene, aromatics, butadiene) obtained depend on the composition of the feedstock, the hydrocarbon-to-steam ratio, and on the cracking temperature and furnace residence time.

Steam cracking

Steam cracking is a petrochemical process in which saturated hydrocarbons are broken down into smaller, often unsaturated, hydrocarbons. It is the principal industrial method for producing the lighter alkenes (or commonly olefins), including ethene (or ethylene) and propene (or polypropene).

Transalpine pipeline (TAL)

The Transalpine pipeline is a crude oil pipeline which connects Italy, Austria and Germany. It starts from the marine terminal in Trieste, runs through the Alps to Ingolstadt. It is connected with the IKL pipeline in Vohburg.

Vacuum distillation

Leftover from atmospheric distillation of crude oil (long residue) is often distillated in the second – vacuum – distillation under lower pressure conditions (2 – 10 kPa). With lower pressure the boiling point of present compounds is also lower. Therefore it is possible to distillate crude oil (mazut) at temperatures to 360 - 400 °C and to get other fractions without any thermal degradation.

Abbreviations

a.s.
Public limited company (Czech Republic)

AG
Public limited company (Germany)

Bbl
Barrel

BCPP
Prague Stock Exchange

BU
Business unit

CSR
Corporate Social Responsibility

ČAPPO
Czech Association of Petroleum Industry and Trade (Česká asociace petrolejářského průmyslu a obchodu)

ČNB
Czech National Bank

ČOI
Czech Trade Inspection (Česká obchodní inspekce)

EIA
Environmental Impact Assessment

EMS
Environmental Management System

EU
European Union

EU ETS
EU emissions trading scheme (regulating trading with carbon dioxide emission allowances)

GmbH
Limited liability company (Germany)

HR
Human Resources

IČ
Identification number

IFRS
International Financial Reporting Standards

Ltd.
Limited liability company (Great Britain)

MBO
Management by Objectives

NGO
Non-governmental organization

OECD
Organization for Economic Co-operation and Development

OPEC
Organization of the Petroleum Exporting Countries

R&D
Research and development

REACH
Registration, evaluation, authorization and restriction of chemicals. EU Regulation concerning chemicals.

REBCO/REB
Russian Export Blend Crude Oil

S.A.
Public liability company (Poland)

s.r.o.
Limited liability company (Czech Republic)

Sp. z o.o.
Limited liability company (Poland)

UNEP
United Nations Environment Program

UniCRE
Unipetrol Centre for Research and Education

ÚOHS
Antimonopoly Office in the Czech Republic (Úřad pro ochranu hospodářské soutěže)

Identification and contact information

Name:	UNIPETROL, a.s.
Registered office:	Na Pankráci 127, Praha 4, 140 00
Company number:	61672190
Tax ID:	CZ61672190
Bank:	Česká spořitelna, a.s. Olbrachtova 1929/62, Praha 4, 140 00, Account No. 910952/0800
Date of establishment:	27 December 1994 – established for an indeterminate period of time
Date of incorporation:	Incorporated on 17 February 1995
Incorporation registration:	Municipal Court in Prague, Section B, File 3020
Legal form:	Public limited company, organized under Czech law
Tel.:	+420 225 001 425 / +420 225 001 488 (Investor Relations Department)
	+420 225 001 407 (Press Department)
Website:	www.unipetrol.cz
E-mail:	ir@unipetrol.cz
Auditor:	KPMG Česká republika Audit, s.r.o.

Law and legal regulation under which the issuer was established

Law:	Law of the Czech Republic
Legal regulation:	Act No. 104/1990 on Public Limited Companies

The company is a member of the Unipetrol Consolidation Group.

The names of Unipetrol Group companies (UNIPETROL, a.s., UNIPETROL RPA, s.r.o. BENZINA – registered branch, ČESKÁ RAFINÉRSKÁ, a.s., PARAMO, a.s., UNIPETROL RPA, s.r.o., SPOLANA a.s. and others) appear in this report also in their simplified form (Unipetrol, Benzina, Česká rafinérská, Paramo, Unipetrol RPA, Spolana etc.).

The English language version of Unipetrol's Annual Report 2016 is a convenience translation. The version in the Czech language is the definitive version.

Annual Report 2016 of UNIPETROL, a.s. was approved for issue by the Board of Directors of UNIPETROL, a.s. on the meeting held on 13 March 2017.

Unipetrol

ORLEN GROUP