UNIPETROL, a.s. Annual Report 2018

Content

1 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 petrol stations, Benzina. It is also a major player in the field of refinery and petrochemical production in the Central and Eastern European region. Unipetrol Group has been part of the PKN ORLEN refinery and petrochemical group since 2005.

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

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
- 409 petrol stations (number as of 31 December 2018)
- a broad range of transport services

Two core business segments:

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

2 Analysis and assessment of the Group's Performance

The Group's performance measured by Group's profit from operations on EBIT level decreased compared to the previous period mainly due to significant increase of price of crude during the year which was not fully reflected in the price of the final products. Despite the weaker operation results, the Group maintained its strong position on its respective market segments.

The decrease of the operation performace was offset by significant increase in the Net financial income which helped to slightly increase the Net profit compared to the previous year.

The Unipetrol Group is no required to provide any information according to rules other than accounting rules.

3 Financial standing

Consolidated statement of profit or loss and other comprehensive income

The Group's revenues for the year 2018 amounted to CZK 130 768 million and were 7% higher than in the year 2017, mainly due to higher prices of the final products. The territorial structure of the Group's revenues remained stable with the majority of sales directed toward EU countries in 2018.

The Group's profit from operations on EBIT level decreased from CZK 12 045 million in 2017 by CZK 2 289 million to CZK 9 756 million for 2018. The financial results were significantly positively affected by reversal of the impairment to fixed assets in the amount of CZK 5 billion. However, the adverse macroeconomic environment, in particular the growing price of crude oil and the resulting lower margins negatively impacted the Group's profit.

The Group's net profit reached the level of CZK 8 978 million at the end of the year.

Consolidated statement of financial position

As of December 31, 2018, non-current assets of Unipetrol Group amounted to CZK 47 151 million. In 2018, the Group acquired tangible and intangible assets worth CZK 7 860 million. Most investments were done in the downstream segment followed by investments in the retail segment.

As of December 31, 2018, total current assets amounted to CZK 41 223 million, an increase of CZK 2 880 million since previous year, mainly due to an increase of the inventories in the amount of CZK 1 647 million due to higher crude oil prices. Compare to 31 December 2017, the receivables from derivatives presented under Other financial assets increased as well as the Trade and other receivables.

Total equity has risen by CZK 9 403 million, to CZK 59 267 million during the year, stemming mainly from net profit reached in the year 2018 in the amount of CZK 8 978 million.

As at December 31, 2018, Current liabilities increased by CZK 1 939 million from its December 31, 2017 position due to, among others, an increase in Trade and other liabilities by CZK 1 918 million.

Consolidated statement of cash flows

Net cash provided by the Group's operating activities amounted to CZK 6 502 million in 2018, which were used in the investment activities resulting in a cash outflow of CZK 7 530 million driven by very high investment expenditures. Financing activities resulted in a cash inflow of CZK 79 million.

The Group's financial position was still very strong at the end of 2018 as the net cash amounted to CZK 1 512 million.

4 Significant post financial statements events

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 Annual report as at 31 December 2018.

5 Expected development for 2019

Refining business

Research and development in refining technologies and products followed two main areas – the production of motor fuels and the processing of residual fractions.

The availability and exploitation of renewable sources in refining operations and motor fuels production will be a key factor for each refinery. The legislative regulation of greenhouse gas emissions and the level of renewables share in energetic materials are speeding-up the industrial innovations and new technologies applications. The previous and long-term research, technological and analytical support of UniCRE helped in realisation of industrial test-run focused on hydrogenation of used cooking oil in refinery Litvínov. The investigation of potential raw material sources from alternative materials and wastes for motor fuels production purposes also continued in 2018. Moreover, the innovation and development activities in motor fuel portfolio, production of Super plus gasoline was successfully launched in 2018.

In 2020 the stricter limit for sulphur content in marine fuels is expected therefore the conversion of residual fractions will become an important economical aspect for each refinery. The strategy in this area is focused on decreasing the share of heavy and residual products and their complex processing. The emphasis was put on further increasing the production of light products and alternative possibilities of residual fractions processing. Traditionally quite big proportion of activities targeted on the feedstock and quality of pavement bitumens. The modern rheological, instrumental and analytical methods were developed and further implemented in bitumen investigation.

The legislative regulation of greenhouse gas emissions and the level of renewables share in energetic materials are going speeding-up beyond 2020.

In the area of projects with public support the project in cooperation with UCT Prague focused on the higher recycling of waste material from the reconstruction of roads was successfully finished.

Together with the research and development activities UniCRE specialists and experts in the area of refining business actively contributed to the educational program of UCT Prague both during laboratory work, and by consulting and supervising Bachelor and Master theses.

In the area of new generation of fuels attention was paid to the effective use of hydrogen in refinery-petrochemical complex and its possible use in traffic.

The strategy for the future development of Paramo will be still based on the following pillars:

- Lubricant oils production, increasing of premium and specialised industry oils sales supported by marketing activities
- Re-furbishing fuel terminal storage tanks to increase capacity for diesel and petrol distribution from Pardubice terminal
- Bitumen and bitumen products production and sales
- Diversifying of raw materials sources to assure independence of supply of production materials from one supplier

Petrochemical business

Olefins and chemicals

Cracker maintenance schedule will be the key factor for Europe in 2019. The maintenance season will take place partly in the spring and in the autumn. The question is how the market will deal with such a huge amount of turnarounds during the year. However, this topic has been on the agenda for several previous months, meaning players on the market must have prepared themselves to cover missing volumes.

Trade war between the US and China is another factor to look out for, as its consequences are likely to affect not only those two countries but also the rest of the world.

Ethylene is expected to remain on the long side at least until the turnarounds get under way in the spring. There are few doubts that ethylene supply will be constrained and possibly short if restart delays or unexpected outages occur during maintenance season. Nevertheless, with availability of imports from new capacities in the US and Middle East there should be no shortage of product, and market participants made efforts to contract imported volumes for 2019.

Propylene, as a by-product of the cracking process, will be, to a certain extent, depending of the ethylene market´s developments. Poor ethylene conditions could lead to reductions on cracker operating rates and a further constraint on propylene supply.

Benzene market will be affected by a series of cracker turnarounds, mostly taking place in the spring that may reduce the total available volume of benzene. However, the impact of this is to be largely mitigated by the reduced output of key derivative styrene at that time. However, delayed restarts could tighten supply.

Polyolefins

The situation on polymer markets will rather differ in 2019. While polyethylene market will have to count with bigger impact of new US capacities on European PE market with increasing import of the product more than in previous year. On the other hand, polypropylene market will be affected by the planned cracker maintenance season that may leave monomer very tight.

As mentioned above, a series of planned turnarounds is expected to offset an increased volume of imports in 2019, as PE production will inevitably be down alongside the crackers for some time at least. Polypropylene output will be also under constraints during this time, but in this market the fear of crackers being slow to come back on line is stronger.

If all goes according to plan, there should be no problem with ethylene supply, or even propylene, hence polymer.

The polymer demand growth rate is projected to be slightly lower in 2019 due to revisions in the global GPD growth forecast and the ongoing US – China trade issues. Fears of an economic slowdown in Europe, and a trend toward using recycled material and less plastic, could also begin to affect consumption of virgin plastics in year 2019.

Retail business

The current economic conditions in the Eurozone and economic reforms in the Czech Republic, in particular the growth-promoting measures adopted by the Czech government prepare the ground for further growth of the Czech economy with a positive impact on increased demand for fuels on the domestic market, mainly through rising performance of diesel-intensive sectors. The tax-advantageous CNG will further strengthen its stable position on the market. The strong competition in the market will continue to exert pressure on fuel profit margins throughout the year.

The petrol and diesel ranges available in 2019 will depend on the conditions defined by the environmental legislation determining the level of binding obligations for reducing fossil fuel CO2 emissions in terms of the bio-component content with lower carbon footprint in 2018-2020. In addition, a further expansion of the range of fossil fuels with additives, alternatives such as CNG or fast charging points for electric cars at petrol stations can be expected. The remaining market space will be occupied by low-cost, self-service petrol stations.

Benzina keeps its priorities within the framework focused on increasing the market share of fuel sales, increasing the average throughput per petrol station as well as increasing sales in the non-fuel segment, including the extension and harmonisation of refreshment offers. Benzina will also work towards boosting customer confidence.

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

6 Research and development

Unipetrol's research and development activities are focused especially on the areas where the company is facing challenges resulting from legislative changes. They include the issues of biofuels and alternative fuels as well as raw materials, i.e. generally the performance of global objectives requiring a reduction of greenhouse gas emissions and sustainable development trends. The relating projects and activities also target energy efficiency, the use of waste heat, technology optimisation and modernisation of energy sources. In this area, Unipetrol targets the improvement of its incineration processes.

As a refinery and petrochemical company, Unipetrol covers the above basic segments with its research institutions: Unipetrol výzkumně-vzdělávací centrum (Unipetrol Research and Education Centre, UniCRE) and the PIB branch (Polymer Institute Brno).

UniCRE focuses on the efficient and environmentally friendly production of engine fuels, including biofuels. Another operational test of the option to process and store used kitchen oils as a raw material for the production of biofuels was held in 2018. The centre prepared an operational test for the processing of the raw material obtained from the pyrolysis of waste plastic, which is a significant activity that contributes to the development of circular economy. Other activity areas include the optimisation of the pyrolysis process, the use of renewable raw materials and advanced inorganic materials.

PIB focuses on polymer research. It also continues to develop the product portfolio of polypropylene and polyethylene. Its significant task is to further develop the laboratory equipment for testing a new suspension technology that will be launched into operation in Záluží in 2019. PIB employees provide wide developmental support to the units operated in Chempark Záluží. This support targets the monitoring of monomer quality, acquisition of the necessary certifications, testing and development of catalysers meeting the requirements of REACH.

Unipetrol is intensively involved in collaboration with institutions of higher education and research institutes and institutions. It is also developing mutual cooperation with the University of Chemistry and Technology in Prague and its University Centre in Chempark Záluží where students are engaged in the pending projects and where they are given an option to choose from a wide array of topics to write their Bachelors' and Masters' theses and dissertations. These activities are also aimed at finding and attracting high-quality candidates who could become future employees. The company, together with UniCRE and the University Centre, organises many excursions and educational activities both for secondary schools and institutions of higher education as well as for its own employees. Increasing the awareness of the research and development activities boosts the company's potential in this area. Other institutions of higher education which are involved in mutual cooperation include Czech Technical University in Prague, Brno University of Technology, Technical University of Liberec, Jan Evengelista Purkyně University and many others. Unipetrol is also engaged in R&D cooperation with entities abroad.

The main tasks for 2019 include a seamless launch of the polyethylene unit (PE3) as well as the construction of a steam cracker new boiler house in Chempark Záluží.

7 Key environmental activities

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 recognised 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 defence, was again conferred on UNIPETROL, a.s., UNIPETROL RPA, s.r.o. and UNIPETROL DOPRAVA, s.r.o. 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.

8 Employees

Unipetrol Group considers human resources to be one of the key driving forces of every company. Unipetrol Group employed 4 824 employees in 2018.

The training of Unipetrol Group's employees in 2018 was influenced mainly by the continuing, ongoing generational change. Unipetrol RPA's primary focus was on the process of succession and individual development of current employees related to that. In 2018, employee education also focused on the continuing training and development within the "Operator in training" and "Graduate" programs. As every year, the company organised, for its employees, corporate training sessions. The employees received mandatory training, professional or vocational seminars, and foreign language courses. Some employees also attended training courses financed from European funds.

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

9 Information on foreign branches

UNIPETROL, a.s. has no foriegn branch. The Group structure is presented in the notes to the Consolidated financial statements for the year 2018.

10 Acquisition of own shares

Unipetrol, a.s. has not acquired any own shares in the year 2018.

11 Risk management

The Group is exposed to financial risks, i.e. mainly foreign currency risk due to the high proportion of sales and purchase in foreign currencies and commodity risk resulting from time mismatch between transactions of seaborne purchase of crude oil and sales of crude oil products. These risks are mitigated by hedging transactions based on Group's hedging strategy.

12 Management report

In 2018, Unipetrol's revenue grew by 7% on the year to CZK 130.8 billion. Its earnings before interest, tax, depreciation and amortisation (EBITDA LIFO) amounted to CZK 13.8 billion. The net profit increased by 4% compared to 2017 to CZK 9 billion. The financial results were significantly positively affected by reversal of the impairment to fixed assets in the amount of CZK 5 billion. However, the adverse macroeconomic environment, in particular the growing price of crude oil and the resulting lower margin in the refinery and petrochemical segment, which prevailed throughout the year, played its role.

The 2018 investment totalled CZK 7.9 billion. It went mainly to the construction of the new polyethylene unit PE3 in Litvínov and the new boiler house of the steam cracker in Litvínov, as well as in the planned six-week maintenance of the refinery in Kralupy nad Vltavou. Other key investment projects on all sites of the Unipetrol Group included the ongoing revamp of the T700 power plant in Litvínov and the construction of a new gas boiler house in Neratovice. Investment in the retail segment went primarily to the ongoing modernisation of the network of Benzina filling stations, primarily to development of Stop Café refreshments.

At the beginning of October 2018, international group PKN Orlen became the sole owner of our company. Stability and a strong base of new owner that is doing business in the same field is a guarantee for the further growth of the entire Group.

The volume of processed oil amounted to 7.5 million tonnes. Production capacities of Unipetrol's refinery part were utilised to 86%. Utilisation of petrochemical capacities amounted to 81%. Sales volumes of refinery products reached 6.3 million tonnes and of petrochemical products 1.9 billion tonnes.

In the retail segment, Unipetrol continued investing in the modernisation of Benzina filling stations and the development of the Stop Café refreshment concept that is now available at 270 out of 409 filling stations. Unipetrol continued to gradually strengthen the leading position of the Benzina brand on the market in the Czech Republic when its market share increased to 23.2% (as of October 31, 2018).

13 Persons responsible for the Annual Report 2018

Krzysztof Jerzy Zdziarski, Chief Executive Officer and Chairman of the Board of Directors of UNIPETROL, a.s., and Przemysław Wacławski, Chief Financial Officer and member of the Board of Directors of UNIPETROL, a.s., 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 Company and its consolidated Group for the previous accounting period, as well as of the future outlook for the financial standing, business, and results.

Date: 4 March 2019

Krzysztof Jerzy Zdziarski

Chief Executive Officer and
Chairman of the Board of Directors

Date: 4 March 2019

Przemysław Wacławski

Chief Financial Officer and
Member of the Board of Directors

14 Audit

(in CZK thousand)	2018
Audit and other verification services (main auditor)[1]	8 279
Other services and translations fees (main auditor)[1]	-
Audit and other verification services (additional auditors)[1]	367

[1] Without VAT

Auditor for 2018

Name:	Deloitte Audit s.r.o.
License no.:	079
Address:	Karolinská 654/2, 186 00 Praha 8 - Karlín
Company No.:	49620592

Deloitte.

Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 - Karlín
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.: 49620592
Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of UNIPETROL, a.s.

Having its registered office at: Milevská 2095/5, Krč, 140 00 Praha 4

Opinion

We have audited the accompanying financial statements of UNIPETROL, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of UNIPETROL, a.s. as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 11. to the financial statements which describes the release of impairment on the PARAMO, a.s. investment. Our opinion is not modified in respect of this matter.

Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

In Prague on 4 March 2019

Audit firm:

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

Deloitte

Statutory auditor:

Martin Tesař
registration no. 2030

UNIPETROL, a.s.

SEPARATE FINANCIAL STATEMENTS

Translation from the Czech original

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

FOR THE YEAR 2018

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

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

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	2018	2017
Statement of profit or loss			
Revenues	3.	144	144
Cost of sales	4.1.	(54)	(55)
Gross profit on sales		**90**	**89**
Administrative expenses	4.2.	(129)	(129)
Other operating income	5.1.	-	48
Other operating expenses	5.2.	-	(2)
Reversal of loss due to impairment of financial instruments	6.	12	-
Profit/(loss) from operations		**(27)**	**6**
Finance income	7.1.	1 485	163
Finance costs	7.2.	(8)	(180)
Net finance income/(costs)		**1 477**	**(17)**
Profit/(loss) before tax		**1 450**	**(11)**
Tax expense	8.	(24)	(18)
Net profit/(loss)		**1 426**	**(29)**
Total net comprehensive income		**1 426**	**(29)**
Net and diluted net profit/(loss) per share attributable to equity owners of the parent (in CZK per share)	15.5.	7.86	(0.16)

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 17-43.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

Separate statement of financial position

	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	9.	27	22
Investment property	10.	1 163	1 163
Shares in related parties	11.	18 653	17 419
		19 843	**18 604**
Current assets			
Trade and other receivables	12.	123	133
Other financial assets	13.	8 243	7 397
Cash and cash equivalents	14.	1 115	1 825
		9 481	**9 355**
Total assets		**29 324**	**27 959**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15.1.	18 133	18 133
Revaluation reserve	15.2.	503	503
Retained earnings	15.3.	9 131	7 705
Total equity		**27 767**	**26 341**
LIABILITIES			
Non-current liabilities			
Provisions	17.	50	50
Deferred tax liabilities	8.2.	103	106
		153	**156**
Current liabilities			
Trade and other liabilities	18.	91	100
Current tax liabilities		16	17
Other financial liabilities	19.	1 297	1 345
		1 404	**1 462**
Total liabilities		**1 557**	**1 618**
Total equity and liabilities		**29 324**	**27 959**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 17-43.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

Separate statement of changes in equity

	Share capital	Revaluation reserve	Retained earnings	Total equity
Note	15.1.	15.2	15.3.	
01/01/2018	18 133	503	7 705	26 341
Net profit	-	-	1 426	1 426
Total net comprehensive income	**-**	**-**	**1 426**	**1 426**
31/12/2018	**18 133**	**503**	**9 131**	**27 767**
01/01/2017	18 133	503	9 239	27 875
Net loss	-	-	(29)	(29)
Total net comprehensive income	**-**	**-**	**(29)**	**(29)**
Dividends	-	-	(1 505)	(1 505)
31/12/2017	**18 133**	**503**	**7 705**	**26 341**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 17-43.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

Separate statement of cash flows

	Note	2018	2017
Cash flows from operating activities			
Profit/(loss) before tax		**1 450**	**(11)**
Adjustments for:			
Foreign exchange loss		-	19
Interest and dividends, net		(244)	(157)
(Profit)/loss on investing activities		(1 234)	147
Change in working capital		2	1
receivables		5	(4)
liabilities		(3)	5
Income tax (paid)		(27)	(3)
Net cash used in operating activities		**(53)**	**(4)**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		-	(6)
Dividends received	11.	109	88
Interest received		133	72
Proceeds/(outflows) from cash pool assets		(838)	245
Proceeds from loans granted		-	1 554
Other		-	1
Net cash from/(used in) investing activities		**(596)**	**1 954**
Cash flows from financing activities			
Interest paid		(1)	-
Dividends paid		(6)	(1 525)
Outflows from cash pool liabilities		(49)	(1 138)
Other		(5)	(6)
Net cash used in financing activities		**(61)**	**(2 669)**
Net decrease in cash and cash equivalents		**(710)**	**(719)**
Effect of exchange rate changes on cash and cash equivalents		-	(8)
Cash and cash equivalents, beginning of the year		1 825	2 552
Cash and cash equivalents, end of the year	14.	**1 115**	**1 825**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 17-43.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (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.

Identification number of the Company
616 72 190

Registered office of the Company
UNIPETROL, a.s.
Milevská 2095/5
140 00 Praha 4
Czech Republic

Ownership structure
The sole shareholder of the Company is Polski Koncern Naftowy ORLEN Spółka Akcyjna ("PKN Orlen"), with its registered office at Chemikow 7, 09-411 Plock, Poland.

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 2018 were as follows:

	Position	Name
Board of Directors	Chairman	Krzysztof Jerzy Zdziarski
	Vice-chairman	Tomasz Wiatrak
	Member	Przemysław Wacławski
	Member	Tomáš Herink
	Member	Maciej Andrzej Libiszewski
	Member	Katarzyna Woś
Supervisory Board	Chairman	Robert Harasimiuk
	Vice-chairman	Ivan Kočárník
	Vice-chairman	Janusz Jakub Szurski
	Member	Izabela Antos
	Member	Adam Wojciech Burak
	Member	Zdeněk Černý
	Member	Barbara Hajdas
	Member	Wioletta Kandziak
	Member	Edyta Wątor

Changes in the Board of Directors in 2018 were as follows:

Position	Name	Change	Date of change
Member	Tomasz Wiatrak	Elected to the office	with the effect as of 1 March 2018
Chairman	Andrzej Mikolaj Modrzejewski	Recalled from the office	with the effect as of 9 March 2018
Member	Robert Dominik Małłek	Recalled from the office	with the effect as of 9 March 2018
Chairman	Krzysztof Jerzy Zdziarski	Elected as Chairman	with the effect as of 10 March 2018
Vice-Chairman	Tomasz Wiatrak	Elected as Vice-Chairman	with the effect as of 10 March 2018
Member	Maciej Andrzej Libiszewski	Elected to the office	with the effect as of 14 March 2018
Member	Katarzyna Woś	Elected to the office	with the effect as of 14 March 2018
Vice-Chairman	Mirosław Kastelik	Recalled from the office	with the effect as of 1 October 2018
Member	Przemysław Wacławski	Elected to the office	with the effect as of 1 October 2018

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

1. DESCRIPTION OF THE COMPANY (continued)

Changes in the Supervisory Board in 2018 were as follows:

Position	Name	Change	Date of change
Chairman	Wojciech Jasiński	Recalled from the office of Chairman	with the effect as of 21 February 2018
Chairman	Zbigniew Leszczyński	Elected as Chairman	with the effect as of 22 February 2018
Member	Grażyna Baka	Resigned from the office	with the effect as of 6 March 2018
Member	Wioletta Kandziak	Appointed to the office as substitute member	with the effect as of 7 March 2018
Member	Rafał Pasieka	Resigned from the office	with the effect as of 7 March 2018
Member	Janusz Jakub Szurski	Appointed to the office as substitute member	with the effect as of 8 March 2018
Member	Wojciech Jasiński	Resigned from the office	with the effect as of 8 March 2018
Member	Robert Harasimiuk	Appointed to the office as substitute member	with the effect as of 9 March 2018
Member	Krystian Pater	Resigned from the office	with the effect as of 6 April 2018
Vice-Chairman	Ivan Kočárník	Termination of the office	with the effect as of 25 June 2018
Chairman	Zbigniew Leszczyński	Resigned from the office	with the effect as of 28 June 2018
Member	Jacek Marek Kosuniak	Resigned from the office	with the effect as of 28 June 2018
Member	Rafał Warpechowski	Office of substitute member expired	with the effect as of 28 June 2018
Member	Izabela Antos	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Adam Wojciech Burak	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Robert Harasimiuk	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Robert Jasiński	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Wioletta Kandziak	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Ivan Kočárník	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Janusz Jakub Szurski	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Edyta Wątor	Elected to the office	elected by the General Meeting held on 28 June 2018
Chairman	Robert Harasimiuk	Elected as Chairman	with the effect as of 24 July 2018
Vice-Chairman	Ivan Kočárník	Elected as Vice-Chairman	with the effect as of 24 July 2018
Vice-Chairman	Janusz Jakub Szurski	Elected as Vice-Chairman	with the effect as of 24 July 2018
Member	Robert Jasiński	Resigned from the office	with the effect as of 26 November 2018
Member	Barbara Hajdas	Elected to the office	with the effect asof 27 November 2018

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 2018. 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 2018, results of its operations and cash flows for the year ended 31 December 2018.

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.

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

3. REVENUES

	2018	2017
Fees for use of lands	118	116
Other services	26	28
	144	**144**

3.1. Geographical information

All revenues were realized in the Czech Republic.

3.2. Major customers

The Company has 2 customers who accounted for 10% or more of the Company's total revenues.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

4. OPERATING EXPENSES

4.1. Cost of sales

	2018	2017
Cost of services sold	(54)	(55)
	(54)	**(55)**

4.2. Cost by nature

	2018	2017
External services	(66)	(66)
Employee benefits	(94)	(77)
Taxes and charges	(19)	(19)
Insurance	(1)	(1)
Other	(3)	(23)
Operating expenses	**(183)**	**(186)**
Administrative expenses	129	129
Other operating expenses	-	2
Cost of sales	**(54)**	**(55)**

4.3. Employee benefits costs

	2018	2017
Wages and salaries	(71)	(60)
Social and health insurance	(15)	(11)
Social expense	(8)	(6)
	(94)	**(77)**

4.3.1. Employee benefits costs – additional information

2018	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(15)	(3)	(1)	(45)	(7)	(71)
Social and health insurance	(4)	(1)	-	(9)	(1)	(15)
Social expense	(2)	-	-	(6)	-	(8)
	(21)	**(4)**	**(1)**	**(60)**	**(8)**	**(94)**
Number of employees average per year						10.83
Number of employees as at balance sheet day						14

2017	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(8)	(2)	(1)	(42)	(7)	(60)
Social and health insurance	(2)	(1)	-	(7)	(1)	(11)
Social expense	(1)	-	-	(5)	-	(6)
	(11)	**(3)**	**(1)**	**(54)**	**(8)**	**(77)**
Number of employees average per year						8.92
Number of employees as at balance sheet day						11

5. OTHER OPERATING INCOME AND EXPENSES

5.1. Other operating income

	2018	2017
Profit on sale of non-current non-financial assets	-	1
Derecognition of dividends liability	-	34
Other	-	13
	-	**48**

5.2. Other operating expenses

	2018	2017
Donations	-	(1)
Other	-	(1)
	-	**(2)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

6. REVERSAL OF LOSS DUE TO IMPAIRMENT OF FINANCIAL INSTRUMENTS

Reversal of loss at the amount of CZK 12 million in 2018 related to impairment of trade receivables.

7. FINANCE INCOME AND COSTS

7.1. Finance income

	2018	2017
Interest	129	61
Dividends received	109	88
Reversal of the impairment to financial investment in PARAMO, a.s.*	1 234	-
Income from guarantees granted	13	14
	1 485	**163**

* Information relating to the reversal of the impairment to financial investment in PARAMO, a.s is presented in the note 11.

7.2. Finance costs

	2018	2017
Interest	(1)	-
Recognition of impairment to financial investment in PARAMO, a.s.	-	(160)
Net foreign exchange loss	-	(12)
Bank fees	(7)	(7)
Other	-	(1)
	(8)	**(180)**

8. TAX EXPENSE

	2018	2017
Tax expense in the statement of profit or loss		
Current tax	(27)	(18)
Deferred tax	3	-
	(24)	**(18)**

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2018 (2017: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2019 and forward, i.e. 19%.

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

	2018	2017
Profit/(loss) for the year	1 426	(29)
Total tax expense	(24)	(18)
Profit/(loss) before tax	1 450	(11)
Tax using domestic tax rate	(276)	2
Non-deductible expenses	(3)	(37)
Tax exempt income	255	17
Total tax expense	**(24)**	**(18)**
Effective tax rate	**(1.62%)**	**162.82%**

Effective tax rate in 2018 includes impact of impairment reversal of financial investment in PARAMO, a.s. at the amount of CZK 234 million, which belongs to tax exempt income. Effective tax rate in 2017 includes CZK 30 million impact of non-deductible expenses resulting from recognition of impairment to financial investment in PARAMO, a.s.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

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 2019 and onward).

	31/12/2017	Deferred tax recognized in the statement of profit or loss	31/12/2018
Deferred tax assets			
Provisions	10	-	10
Employee benefit costs	3	3	6
	13	**-**	**16**
Deferred tax liabilities			
Investment property	(119)	-	(119)
	(119)	**-**	**(119)**
	(106)	**-**	**(103)**

	31/12/2016	Deferred tax recognized in the statement of profit or loss	31/12/2017
Deferred tax assets			
Provisions	10	-	10
Employee benefit costs	3	-	3
	13	**-**	**13**
Deferred tax liabilities			
Investment property	(119)	-	(119)
	(119)	**-**	**(119)**
	(106)	**-**	**(106)**

8.3. Tax expense (paid)

	2018	2017
Tax expense on profit before tax	(24)	(18)
Change in deferred tax asset and liabilities	(3)	-
Change in current tax assets and liabilities	-	15
	(27)	**(3)**

9. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment

	Land	Vehicles and other	Construction in progress	Total
01/01/2018				
Net book value				
Gross book value	22	-	-	**22**
Accumulated depreciation and impairment allowances	-	-	-	**-**
	22	**-**	**-**	**22**
increase/(decrease) net				
Investment expenditures	-	-	5	**5**
Reclassifications	5	-	(5)	**-**
31/12/2018				
Net book value	**27**	**-**	**-**	**27**
Gross book value	27	-	-	**27**
Accumulated depreciation and impairment allowances	-	-	-	**-**
	27	**-**	**-**	**27**
01/01/2017				
Net book value				
Gross book value	9	2	-	11
Accumulated depreciation and impairment allowances	-	(2)	-	(2)
	9	**-**	**-**	**9**
increase/(decrease) net				
Investment expenditures	-	-	1	1
Depreciation	-	-	(1)	(1)
Other increases	13	-	-	13
31/12/2017				
Net book value	**22**	**-**	**-**	**22**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

10. INVESTMENT PROPERTY

	2018	2017
At the beginning of the year	1 163	1 163
Reclassification from property, plant and equipment	-	-
	1 163	**1 163**

Rental income amounted to CZK 118 million in 2018 (2017: CZK 116 million). Operating costs related to the investment property in reporting period amounted to CZK 22 million in 2018 (2017: CZK 21 million).

10.1. Fair value of investment property measurement

Investment property as at 31 December 2018 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 8.41% was used for the calculation of the investment property fair value.
In the year ended 31 December 2018 and the comparative period there were no changes in the measurement approach.

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

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

	Level 3			
	Increase by	Total impact	Decrease by	Total impact
Change in discount rate	+1 pp	(86)	-1 pp	86

11. 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. Other investments in equity instruments are accounted in accordance with IFRS 9 at fair value or, if the fair value cannot be determined reliably, at cost less impairment losses.

Shares in related parties as at 31 December 2018 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	17 184	100.00	-	17 184	-
Unipetrol výzkumně vzdělávací centrum, a.s.	Ústí nad Labem	58	100.00	7	51	-
PARAMO, a.s.	Pardubice	1 252	100.00	-	1 252	-
Joint operations consolidated based on shares in assets and liabilities						
Butadien Kralupy a.s.	Kralupy nad Vltavou	162	51.00	-	162	109
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	-
PETROTRANS, s.r.o.	Praha 4	1	0.63	-	1	-
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	0.1	0.10	-	0.1	-
Total		**18 660**	**-**	**7**	**18 653**	**109**

For the purpose of impairment test of shares, each related party is treated as a seperate cash-generating unit.
Valuation was conducted on the basis of net cash flows included in the Mid-Term Plan for the years 2019-2022 and by determining the residual value discounted to their present value using the base discount rate, before tax, which reflected the current market estimation of time value of money and the specific risk referring to the valued asset. The calculation considered changes in net working capital and value of net debt. The discount rate for the valuation of PARAMO, a.s. shares was 7.89%.
As a result of analysis performed as at 31 December 2018, the Company recognized reversal of the impairment allowance of shares in PARAMO, a.s. in the amount of CZK 1 234 million.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

11. SHARES IN RELATED PARTIES (continued)

Shares in related parties as at 31 December 2017 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	17 184	100.00	-	17 184	-
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	58	100.00	7	51	-
PARAMO, a.s.	Pardubice	1 252	100.00	1 234	18	-
Joint operations consolidated based on shares in assets and liabilities						
Butadien Kralupy a.s.	Kralupy nad Vltavou	162	51.00	-	162	88
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	-
PETROTRANS, s.r.o.	Praha 4	1	0.63	-	1	0.1
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	0.1	0.10	-	0.1	-
Total		**18 660**	**-**	**1 241**	**17 419**	**88**

The Company had equity investments of CZK 18 653 million as at 31 December 2018 and CZK 17 419 million as at 31 December 2017 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.

12. TRADE AND OTHER RECEIVABLES

	31/12/2018	31/12/2017
Trade receivables	113	97
Other	3	24
Financial assets	**116**	**121**
Advances for construction in progress	-	5
Prepayments and deferred costs	7	7
Non-financial assets	**7**	**12**
Receivables, net	**123**	**133**
Receivables impairment allowance	3	100
Receivables, gross	**126**	**233**

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

	31/12/2018	31/12/2017
Cash pool	8 243	7 397
	8 243	**7 397**

Loans and cash pool granted

On 31 August 2017 the Agreement on providing a cash concentration services (contract) was concluded between PKN ORLEN (as an agent) and PKO bank. UNIPETROL, a.s. accessed the contract as participant as at 29 September 2017.
The Company provided financing to its subsidiaries: UNIPETROL RPA, s.r.o., PETROTRANS, s.r.o., PARAMO, a.s., UNIPETROL SLOVENSKO s.r.o., SPOLANA s.r.o., 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 were not collateralised.
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.

14. CASH AND CASH EQUIVALENTS

	31/12/2018	31/12/2017
Cash on hand and in bank	1 115	1 825
	1 115	**1 825**

The carrying amount of these assets approximates their fair value.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

15. SHAREHOLDERS' EQUITY

15.1. Share capital

The issued capital of the Company as at 31 December 2018 amounted to CZK 18 133 million (31 December 2017: CZK 18 133 million). This represents 181 334 764 (2017: 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.
A voluntary tender offer to acquire UNIPETROL, a.s. shares was announced by PKN ORLEN S.A. on 12 December 2017. According to the published bid document, the offer was made for all UNIPETROL, a.s. shares except for the shares already owned by PKN ORLEN S.A. The bid price was CZK 380 per share and the acceptance period was from 28 December 2017 to 30 January 2018. The transaction was settled on 23 February 2018, PKN ORLEN S.A. purchased 56 280 592 Unipetrol shares which represent ca. 31.04% of the Unipetrol share capital.
General Meeting of Unipetrol held on 28 August 2018 resolved on passing of the ownership right to all the participation securities issued by Unipetrol owned by other owners of the participation securities than PKN ORLEN S.A. The passing of participation securities became effective on 1 October 2018. As a result, PKN ORLEN S.A. became the sole shareholder of Unipetrol controlling 100% of shares representing 100% of votes at the General Meeting of shareholders of Unipetrol. As a consequence the shares of Unipetrol were withdrawn from trading at the Prague Stock Exchange (Burza cenných papírů Praha, a.s.) as of 26 September 2018.

15.2. 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.

15.3. Retained earning

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profits of the parent company. The Annual General Meeting of UNIPETROL, a.s. held on 28 June 2018 decided, pursuant to Article 8 (2) (k) of the Articles of Association of UNIPETROL, a.s., to allocate the Company's loss generated on separate basis in 2017 in the amount of CZK 29 million to retained earnings.
The decision regarding appropriation of 2018 profit will be made at the annual meeting of shareholders.

15.4. 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 2018 and as at 31 December 2017 Company's financial leverage amounted to 0.66% and (1.82)%, 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

15.4.1. Net debt

	31/12/2018	31/12/2017
Cash and cash equivalents	1 115	1 825
Cash pool liabilities	(1 297)	(1 345)
	(182)	**480**

15.4.2. Net working capital

	Receivables	Liabilities	Working capital
31/12/2017	133	100	33
31/12/2018	123	91	32
Net working capital change in statement of financial position	**10**	**(9)**	**1**
Adjustments:			
Movements in liabilities from dividends	-	6	6
Movements in prepayments for construction in progress	(5)	-	(5)
Change in working capital in statement of cash flows	**5**	**(3)**	**2**

15.5. Profit per share

	2018	2017
Profit/(loss) for the year	1 426	(29)
Weighted average number of shares	181 334 764	181 334 764
Profit/(loss) per share (in CZK per share)	**7.86**	**(0.16)**

The Company has no potential dilutive shares. Diluted profit/(loss) per share is the same as basic profit/(loss) per share.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

16. LOANS AND BORROWINGS

Bank loans and cash pool agreements

During the year 2018 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., UNIPETROL DOPRAVA, s.r.o., Unipetrol výzkumně vzdělávací centrum, a.s., SPOLANA s.r.o. and Orlen Asfalt Česká republika s.r.o.

Cash held at bank accounts of cash pool banks is drawn by the Company and above mentioned subsidiaries. The contracts enable to access bank loans and guarantees not exceeding CZK 10 050 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

The Company has a provision in the amount of CZK 50 million for remediation of historical ecological contamination in the Kralupy location. Based on the decision of the Czech inspection of environment the remediation works have to be finalized till 21 years after their start.

18. TRADE AND OTHER LIABILITIES

	31/12/2018	31/12/2017
Trade liabilities	14	24
Dividends	24	30
Other	10	10
Financial liabilities	**48**	**64**
Payroll liabilities	7	3
Value added tax	4	4
Other taxation, duties, social security and other benefits	2	15
Accruals	30	14
wages accrual	30	14
Non-financial liabilities	**43**	**36**
	91	**100**

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 1 297 million as at 31 December 2018 (31 December 2017: CZK 1 345 million). The description of cash pool agreements is presented in note 16.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

20.1. Financial instruments by category and class

Financial assets

31/12/2018		Financial instruments by category	
Financial instruments by class	Note	Financial assets measured in amortised costs	Total
Trade receivables	*12.*	113	113
Cash pool	*13.*	8 243	8 243
Cash and cash equivalents	*14.*	1 115	1 115
Other financial assets	*12.*	3	3
		9 474	**9 474**

31/12/2017		Financial instruments by category	
Financial instruments by class	Note	Loans and receivables	Total
Trade receivables	*12.*	97	97
Cash pool	*13.*	7 397	7 397
Cash and cash equivalents	*14.*	1 825	1 825
Other financial assets	*12.*	24	24
		9 343	**9 343**

Financial liabilities

31/12/2018		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortised cost	Total
Trade liabilities	*18.*	14	14
Cash pool	*19.*	1 297	1 297
Other financial liabilities	*18.*	34	34
		1 345	**1 345**

31/12/2017		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortized cost	Total
Trade liabilities	*18.*	24	24
Cash pool	*19.*	1 345	1 345
Other financial liabilities	*18.*	40	40
		1 409	**1 409**

20.2. Income, expenses, profit and loss in the separate statement of profit or loss and other comprehensive income

2018	Financial instruments by category		
	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Total
Interest income	129	-	129
Interest costs	-	(1)	(1)
Reversal of loss due to impairment of financial instruments	12	-	12
Other	13	(7)	6
	154	**(8)**	**146**
other, excluded from the scope of IFRS 7			
Dividends			109
Impairment allowances of shares in related parties			1 234
			1 343

2017	Financial instruments by category		
	Loans and receivables	Financial liabilities measured at amortised cost	Total
Interest income	61	-	61
Foreign exchange gain/(loss)	(20)	8	(12)
Other	14	(8)	6
	55	**-**	**55**
other, excluded from the scope of IFRS 7			
Dividends			88
Impairment allowances of shares in related parties			(160)
			(72)

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20.3. Fair value measurement

	Note	31/12/2018 Fair value	31/12/2018 Carrying amount	31/12/2017 Fair value	31/12/2017 Carrying amount
Financial assets					
Trade receivables	*12.*	113	113	97	97
Cash pool	*13.*	8 243	8 243	7 397	7 397
Cash and cash equivalents	*14.*	1 115	1 115	1 825	1 825
Other	*12.*	3	3	24	24
		9 474	**9 474**	**9 343**	**9 343**
Financial liabilities					
Trade liabilities	*18.*	14	14	24	24
Cash pool	*19.*	1 297	1 297	1 345	1 345
Other	*18.*	34	34	40	40
		1 345	**1 345**	**1 409**	**1 409**

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 2018 and the comparative period in the Company were no transfers between Levels 1, 2 and 3.
As at 31 December 2018 the Company held unquoted shares in entities amounting to CZK 18 653 million (31 December 2017: CZK 17 419 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 2018 there are no binding decisions relating to the means and dates of disposal of those assets.

20.4. Financial risks identification

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

Currency structure of financial instruments denominated in foreign currency

Financial instruments by class	EUR 31/12/2018	EUR 31/12/2017	USD 31/12/2018	USD 31/12/2017	Total after translation to CZK 31/12/2018	Total after translation to CZK 31/12/2017
Financial assets						
Trade receivables	-	-	-	-	3	3
Cash pool	10	8	-	-	255	200
Cash and cash equivalents	-	1	1	-	31	33
	10	**9**	**1**	**-**	**289**	**236**
Financial liabilities						
Cash pool	10	9	1	-	285	232
Trade and other liabilities	-	-	-	-	1	-
	10	**9**	**1**	**-**	**286**	**232**

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 (+/-15%) in relation to presentation currency (CZK) on profit before tax is immaterial, bellow CZK 1 million.

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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	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets								
Cash pool	7 974	7 197	255	200	-	-	8 229	7 397
	7 974	**7 197**	**255**	**200**	**-**	**-**	**8 229**	**7 397**
Financial liabilities								
Cash pool	917	1 049	266	230	19	2	1 202	1 281
	917	**1 049**	**266**	**230**	**19**	**2**	**1 202**	**1 281**

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	
	31/12/2018	31/12/2017	2018	2017
PRIBOR	+0.5 pp	+0.5 pp	35	31
			35	**31**
PRIBOR	-0.5 pp	-0.5 pp	(35)	(31)
			(35)	**(31)**

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 2018 and as at 31 December 2017. 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

		31/12/2018			
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	*19.*	1 297	-	1 297	1 297
Trade and other liabilities	*18.*	48	-	48	48
		1 345	**-**	**1 345**	**1 345**

		31/12/2017			
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	*19.*	1 345	-	1 345	1 345
Trade and other liabilities	*18.*	64	-	64	64
		1 409	**-**	**1 409**	**1 409**

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 2018 and as at 31 December 2017, the maximum available credit facilities relating to bank loans and guarantees amounted to CZK 10 050 million and CZK 10 070 million respectively. Unused part of the credit facilities for bank loans or guarantees amounted to CZK 8 223 million and CZK 8 069 million as at 31 December 2018 and as at 31 December 2017. The description of the loans and guarantees drawn from credit facilities is presented in notes 16 and 28.

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 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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20.4.3. Liquidity and credit risk (continued)

Division of not past due receivables

	31/12/2018	31/12/2017
Group I	116	121
Group II	-	-
	116	**121**

Change in impairment allowances of trade and other receivables

	31/12/2018	31/12/2017
At the beginning of the year	100	100
Reversal	(12)	-
Usage	(85)	-
	3	**100**

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

As at December 2018 the Company had future minimum lease payments under non-cancellable operating leases amounted to CZK 5 millionand (less than one year) and CZK 24 million (later than one year).

Payments recognized as an expense were as follows:

	2018	2017
Non-cancellable operating lease	2	3

Finance lease

At the balance sheet date the Company is not a party to finance lease arrangements as a lessee.

21.2. The Company as a lessor

Operating leases relate to the investment property owned by the Company with lease terms for indefinite period. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew.
Non-cancellable undiscounted operating lease receivables:

	31/12/2018	31/12/2017
Less than one year	121	119
Between one and five years	485	474
Later than five years	1 818	1 779
	2 424	**2 372**

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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 31/12/2018	Unused funds as at 31/12/2018
UNIPETROL, a.s. / premises in Litvínov	6 012	4 286	1 726
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4 244	52	4 192
	10 256	**4 338**	**5 918**

	Total amount of funds to be provided	Used funds as at 31/12/2017	Unused funds as at 31/12/2017
UNIPETROL, a.s. / premises in Litvínov	6 012	4 256	1 756
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4 244	52	4 192
	10 256	**4 308**	**5 948**

23. RELATED PARTY TRANSACTIONS

23.1. Information on material transactions concluded by the Company with related parties on other than market terms

In 2018 and in 2017 there were no transactions concluded by the Company with related parties on other than market terms.

23.2. Transactions with key management personnel

In 2018 and in 2017 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 2018 and as at 31 December 2017 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 2018 and in 2017 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
As at 31 December 2018 100% (2017: 62.99%) of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A.

2018	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Sales	-	120	-
Purchases	2	26	-
Finance income, including	-	1 484	-
dividends	-	*109*	-
Finance costs	-	1	1

31/12/2018	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Other financial assets	-	8 243	-
Trade and other receivables	-	80	-
Trade and other liabilities, including loans	-	4	-
Other financial liabilities	-	982	315

2017	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Sales	-	121	-
Purchases	2	27	-
Finance income, including	-	163	-
dividends	-	*88*	-

31/12/2017	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Other financial assets	-	7 396	-
Trade and other receivables	-	66	-
Trade and other liabilities, including loans	-	6	-
Other financial liabilities	-	1 120	225

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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.

	31/12/2018	31/12/2017
Short-term employee benefits	70	78
Termination benefits	2	2
	72	**80**

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

24.1. Bonus system for key executive personnel of the Company

In 2018 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 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

Standards and Interpretations adopted by the EU	Possible impact on financial statements
IFRS 9 Financial Instruments	impact*
IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15	impact**
Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions	Amendments to the existing standards have not led to any material changes in the current financial statements
Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	
Amendments to IFRS 15 Revenue from Contracts with Customers: Clarifications to IFRS 15 Revenue from Contracts with Customers	
Amendments to IAS 40 Transfers of Investment Property	
Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)": Amendments resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording	
IFRIC 22 Foreign Currency Transactions and Advance Consideration	

***IFRS 9 Financial instruments**
Application of the standard had no significant effect on the financial statements of the Company. The effect of the expected Loss Model to evaluate the credit risk of financial instruments showed similar value of impairment loss relative to the previously applied methodology. Due to the nature of the Company's activities and the nature of the financial assets held, the valuation of financial assets has not been changed under the influence of the application of IFRS 9.

****IFRS 15 Revenue from Contracts with Customers**
Initial application of the Standard had no material impact on timing and amount of revenue recognized by the Company in its financial statements.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

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
IFRS 16 Leases	impact***
Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	no impact expected
IFRIC 23 Uncertainty over Income Tax Treatments	no impact expected

The Company intends to adopt new standards IFRSs listed above that are published by the International Accounting Standards Board, but not effective as at the date of publication of these financial statements, in accordance with their effective date.

*****IFRS 16 Leases**

In accordance with the requirements of IFRS, from 1 January 2019, the Company applies for the first time IFRS 16 Leases. Consequently, the Company will change the accounting policy on recognition of lease agreements. Accounting policy changes will be made in accordance with the transitional provisions contained in IFRS 16.

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

The Company has estimated the impact of IFRS 16 and found that on 1 January 2019 will recognize the Right of use assets and lease liability at an equal amount of CZK 27.8 million, what will not cause the difference in value to be included in retained earnings position.

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
IFRS 14 Regulatory Deferral Accounts	no impact expected
IFRS 17 Insurance Contracts	no impact expected
Amendment to IFRS 3 - Business combinations	no impact expected
Amendments to IFRS 10 Consolidated Financial Statements and IAS - 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments	no impact expected
Amendments to IAS 1 Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors: Definition of Material	no impact expected
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	no impact expected
Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures	no impact expected
Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording	no impact expected
Amendments to references to the conceptual framework in IFRS Standards	no impact expected

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

The Company applies the principles of IFRS 15 in a five-step model in relation to the portfolio of contracts (or performance obligations) with similar characteristics, if the entity reasonably expects that the impact of the following principles on the financial statements will not significantly differ from the application of the following principles to individual contracts (or performance obligations).
Requirements to identify a contract with a customer
A contract with a customer meets its definition when all of the following criteria are met: the parties of the contract have approved the contract and are committed to perform their obligations; the Company can identify each party's rights regarding goods or services to be transferred; the Company can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
Identification of performance obligations
At contract inception the Company assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or groups of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.
Determination of the transaction price
The Company considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes, fuel charges, excise taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.
To estimate variable consideration, the Company decided to apply the most probable value method for contracts with one value threshold and the expected value method for contracts with more value thresholds from which a rebate is granted to the customer.
Allocating the transaction price to individual performance obligations
The Company allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.
Recognition of revenue when performance obligations are satisfied
The Company recognises revenue when (or as) the Company satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenues are recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.
The Company transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenues over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits from performance as the Company performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Company is not created, and the Company has an enforceable right to payment for performance completed to date.

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 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.

25.3.8. Property, plant and equipment (continued)

The following standard useful lives are used for property, plant and equipment:

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

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

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.

25.3.10. Intangible assets (continued)

The following standard useful lives are used for intangible assets:

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

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

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 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. Other investments in equity instruments are accounted in accordance with IAS 39 at fair value, if the fair value cannot be determined reliably, 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 calculated based on the expected credit loss model.
Recognition and reversal of impairment losses of receivables are recognized in other operating activity in relation to the principal amount and in financial activities in relation to interest for delayed payments.

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 programs

Shield programs provision (restructuring provision) is created when the Company 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.

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.

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 classifies financial assets into one of the following categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

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

The Company as liabilities measured at amortized cost classifies trade liabilities, loans, borrowings and bonds. Liabilities on derivatives not designated for hedge accounting are classified by the Group/Company as measured at fair value through profit or loss.
The Company classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows and fair value.

25.3.22. Fair value measurement (continued)

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

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. Events after the reporting period

Subsequent events after the reporting date are those events, favorable and unfavorable that occur between the end of the reporting period and date when the financial statements are authorized for issue. Two types of subsequent events can be identified:
- those that provide evidence of conditions that existed as at the end of the reporting period (events after the reporting period requiring adjustments) and
- those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments).

26. APPLICATION OF PROFESSIONAL JUDGEMENT AND ASSUMPTION

The preparation of separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, equity, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
In matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 8. Tax expense, 10. Investment property, 11. Shares in related parties, 12. Trade and other receivables, 13. Other financial assets, 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. INFORMATION CONCERNING SIGNIFICANT PROCEEDINGS IN FRONT OF COURT OR IN FRONT OF PUBLIC ADMINISTRATION BODIES

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

28. OTHER DISCLOSURES

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 2018 financial statements.

Guarantees issued
As part of the operational financing of UNIPETROL, a.s., the bank guarantees in the amount of CZK 1 826 million (2017: CZK 2 001 million) were provided for the companies: UNIPETROL RPA, s.r.o. in the amount of CZK 780 million (2017: CZK 887 million), PARAMO, a.s. in the amount of CZK 381 million (2017: CZK 381 million), UNIPETROL SLOVENSKO s.r.o. in the amount of CZK 521 million (2017: CZK 534 million), SPOLANA s.r.o. in the amount of CZK 0 million (2017: CZK 51 million) and UNIPETROL RPA Hungary Kft. CZK 144 million (2017: CZK 148 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 customs offices of CZK 3 000 million.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

29. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

29.1. Group structure

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 2018).

Name and place of business	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment	Website
Parent company				
UNIPETROL, a.s. Milevská 2095/5, 140 00 Praha 4, Czech Republic			Corporate Functions	www.unipetrol.cz
Subsidiaries consolidated in full method				
HC VERVA Litvínov, a.s. S.K. Neumanna 1598, Litvínov, Czech Republic	--	70.95%	Corporate Functions	www.hokej-litvinov.cz
Nadace Unipetrol Záluží 1, 436 01 Litvínov, Czech Republic	--	100.00%	Corporate Functions	www.nadaceunipetrol.cz
PARAMO, a.s. Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	100.00%	--	Downstream	www.paramo.cz
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Downstream	www.petrotrans.cz
SPOLANA s.r.o. ul. Práce 657, 277 11 Neratovice, Czech Republic	--	100.00%	Downstream	www.spolana.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B, 63225 Langen/Hessen, Germany	0.10%	99.90%	Downstream	www.unipetrol.de
UNIPETROL DOPRAVA, s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12%	99.88%	Downstream	www.unipetroldoprava.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream Corporate Functions Retail	www.unipetrolrpa.cz
UNIPETROL RPA Hungary Kft. 2040 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.

29.2. Subsidiaries

Changes in structure of the Group

Liquidation of Paramo Oil s.r.o.

The liquidation of Paramo Oil s.r.o. has been completed and the company was deleted from Commercial register on 29 May 2018.

Change of the legal form of SPOLANA a.s.

On 1 December 2018, the legal form of the company (SPOLANA a.s.) was changed to a limited liability company (SPOLANA s.r.o.). Other requirements listed in the Register of Companies as well as the company´s registered office remain unchanged.

30. EVENTS AFTER THE REPORTING PERIOD

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 2018.

31. 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 4 March 2019.

Signature of statutory representatives

Krzysztof Jerzy Zdziarski	Przemysław Wacławski
Chairman of the Board of Directors	Member of the Board of Directors

Deloitte.

Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 - Karlín
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.: 49620592
Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of UNIPETROL, a.s.

Having its registered office at: Milevská 2095/5, Krč, 140 00 Praha 4

Opinion

We have audited the accompanying consolidated financial statements of UNIPETROL, a.s. and its subsidiaries (the "Group") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 EU.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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.

Emphasis of Matter

We draw attention to Note 15. to the consolidated financial statements which describes the changes in impairment of property, plant, equipment and intangible assets. Our opinion is not modified in respect of this matter.

Other Information in the Consolidated Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. The Board of Directors 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 law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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

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

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

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated Financial Statements

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

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

The Supervisory Board is responsible for overseeing the Group'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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 Group 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 the Board of Directors and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 4 March 2019

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. registration no. 079	Martin Tesař registration no. 2030

UNIPETROL, a.s.

CONSOLIDATED
FINANCIAL STATEMENTS
Translation from the Czech original

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

FOR THE YEAR 2018

Index

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

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	2018	2017
Statement of profits or loss			
Revenues	4 .	130 768	122 478
Cost of sales	5.1.	(123 518)	(110 252)
Gross profit on sales		**7 250**	**12 226**
Distribution expenses	5.2.	(2 506)	(2 752)
Administrative expenses	5.2.	(1 717)	(1 613)
Other operating income	6.1.	8 048	4 544
Other operating expenses	6.2.	(1 326)	(360)
Reversal of loss due to impairment of financial instruments	7.	7	-
Profit from operations		**9 756**	**12 045**
Finance income	8.1.	1 405	493
Finance costs	8.2.	(360)	(1 914)
Net finance income/(costs)		**1 045**	**(1 421)**
Profit before tax		**10 801**	**10 624**
Tax expense	9.	(1 823)	(1 965)
Net profit		**8 978**	**8 659**
Other comprehensive income			
items which will not be reclassified into profit or loss		**4**	**1**
Actuarial gains and losses	*20.6.*	*5*	*1*
Deferred tax	*9.2.*	*(1)*	*-*
items which will be reclassified into profit or loss under certain conditions		**431**	**1 088**
Hedging instruments	*20.3.*	*532*	*1 349*
Exchange differences on translating foreign operations	*20.5.*	*-*	*(5)*
Deferred tax	*9.2.*	*(101)*	*(256)*
		435	**1 089**
Total net comprehensive income		**9 413**	**9 748**
Net profit attributable to		**8 978**	**8 659**
equity owners of the parent		*8 965*	*8 659*
non-controlling interests		*13*	*-*
Total net comprehensive income attributable to		**9 413**	**9 748**
equity owners of the parent		*9 400*	*9 748*
non-controlling interests		*13*	*-*
Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share)		49.44	47.75

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 53-104.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

Consolidated statement of financial position

	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	11.	43 954	34 583
Investment property	12.	453	448
Intangible assets	13.	2 001	1 626
Financial assets available for sale		1	1
Deferred tax assets	9.2.	127	48
Financial derivatives	14.	503	700
Other non-current assets	14.	112	96
		47 151	**37 502**
Current assets			
Inventories	16.	16 630	14 983
Trade and other receivables	17.	15 197	14 432
Financial derivatives	18.	1 115	666
Other financial assets	18.	6 347	5 686
Current tax assets	9.	422	117
Cash and cash equivalents	19.	1 512	2 459
		41 223	**38 343**
Total assets		**88 374**	**75 845**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20.1.	18 133	18 133
Statutory reserves	20.2.	33	33
Hedging reserve	20.3.	1 261	830
Revaluation reserve	20.4.	10	10
Exchange differences on translating foreign operations	20.5.	11	11
Retained earnings	20.6.	39 815	30 856
Equity attributable to equity owners of the parent		**59 263**	**49 873**
Non-controlling interests		**4**	**(9)**
Total equity		**59 267**	**49 864**
LIABILITIES			
Non-current liabilities			
Provisions	22.	803	798
Deferred tax liabilities	9.2.	2 527	1 383
Other non-current liabilities	23.	276	238
		3 606	**2 419**
Current liabilities			
Trade and other liabilities	24.	22 630	20 733
Loans, borrowings	21.	4	1
Current tax liabilities	9.	21	1 072
Provisions	22.	2 239	942
Deferred income	25.	23	16
Liabilities from contracts with customers	26.	21	-
Financial derivatives	27.	66	398
Other financial liabilities	27.	497	400
		25 501	**23 562**
Total liabilities		**29 107**	**25 981**
Total equity and liabilities		**88 374**	**75 845**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 53-104.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent								
	Share capital	Statutory reserves	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
Note	20.1.	20.2.	20.3.	20.4.	20.5.	20.6.			
01/01/2018 (previously reported)	18 133	33	830	10	11	30 856	49 873	(9)	49 864
Impact of IFRS 9 adoption	-	-	-	-	-	(11)	(11)	-	(11)
01/01/2018 (converted data)	18 133	33	830	10	11	30 845	49 862	(9)	49 853
Net profit	-	-	-	-	-	8 965	8 965	13	8 978
Items of other comprehensive income	-	-	431	-	-	5	436	-	436
Total net comprehensive income	**-**	**-**	**431**	**-**	**-**	**8 970**	**9 401**	**13**	**9 414**
31/12/2018	**18 133**	**33**	**1 261**	**10**	**11**	**39 815**	**59 263**	**4**	**59 267**
01/01/2017	18 133	33	(263)	10	16	23 701	41 630	(9)	41 621
Net profit	-	-	-	-	-	8 659	8 659	-	8 659
Items of other comprehensive income	-	-	1 093	-	(5)	1	1 089	-	1 089
Total net comprehensive income	**-**	**-**	**1 093**	**-**	**(5)**	**8 660**	**9 748**	**-**	**9 748**
Dividends	-	-	-	-	-	(1 505)	(1 505)	-	(1 505)
31/12/2017	**18 133**	**33**	**830**	**10**	**11**	**30 856**	**49 873**	**(9)**	**49 864**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 53-104.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

Consolidated statement of cash flows

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		**10 801**	**10 624**
Adjustments for:			
Depreciation and amortisation	*5.2.*	3 323	2 909
Foreign exchange (gain)/loss		(1)	48
Interest and dividends, net		(75)	(56)
Recognition/(reversal) of impairment allowances of property plant and equipment and intangible assets	*15.*	(5 047)	36
(Profit)/Loss on investing activities		(467)	1 040
Change in provisions		2 106	592
Change in receivables and liabilities from insurance		(29)	1 355
Other adjustments including change in financial instruments and deferred income		(1 737)	(272)
Change in working capital	20.7.	(158)	(3 525)
inventories		*(1 650)*	*(1 191)*
receivables		*(644)*	*(1 724)*
liabilities		*2 136*	*(610)*
Income tax (paid)		(2 214)	(960)
Net cash from in operating activities		**6 502**	**11 791**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(8 361)	(7 303)
Disposal of property, plant and equipment and intangible assets		19	25
Settlement of financial derivatives		410	(969)
Proceeds/(outflows) from cash pool assets		317	(2 529)
Other		85	37
Net cash used in investing activities		**(7 530)**	**(10 739)**
Cash flows from financing activities			
Proceeds from loans and borrowings		3	-
Proceeds from cash pool liabilities		88	50
Interest paid		-	(1)
Dividends paid		(6)	(1 525)
Other		(6)	(4)
Net cash from/(used in) financing activities		**79**	**(1 480)**
Net decrease in cash and cash equivalents		**(949)**	**(428)**
Effect of exchange rate changes on cash and cash equivalents		2	(46)
Cash and cash equivalents, beginning of the year		2 459	2 933
Cash and cash equivalents, end of the year	**19.**	**1 512**	**2 459**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 53-104.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (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", "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.

Identification number of the Company
616 72 190

Registered office of the Company
UNIPETROL, a.s.
Milevská 2095/5
140 00 Praha 4
Czech Republic

Ownership structure
The sole shareholder of the Company is Polski Koncern Naftowy ORLEN Spółka Akcyjna ("PKN Orlen"), with its registered office at Chemikow 7, 09-411 Plock, Poland.

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 2018 were as follows:

	Position	Name
Board of Directors	Chairman	Krzysztof Jerzy Zdziarski
	Vice-Chairman	Tomasz Wiatrak
	Member	Przemysław Wacławski
	Member	Tomáš Herink
	Member	Maciej Andrzej Libiszewski
	Member	Katarzyna Woś
Supervisory Board	Chairman	Robert Harasimiuk
	Vice-Chairman	Ivan Kočárník
	Vice-Chairman	Janusz Jakub Szurski
	Member	Izabela Antos
	Member	Adam Wojciech Burak
	Member	Zdeněk Černý
	Member	Barbara Hajdas
	Member	Wioletta Kandziak
	Member	Edyta Wątor

Changes in the Board of Directors in 2018 were as follows:

Position	Name	Change	Date of change
Member	Tomasz Wiatrak	Elected to the office	with the effect as of 1 March 2018
Chairman	Andrzej Mikolaj Modrzejewski	Recalled from the office	with the effect as of 9 March 2018
Member	Robert Dominik Małłek	Recalled from the office	with the effect as of 9 March 2018
Chairman	Krzysztof Jerzy Zdziarski	Elected as Chairman	with the effect as of 10 March 2018
Vice-Chairman	Tomasz Wiatrak	Elected as Vice-Chairman	with the effect as of 10 March 2018
Member	Maciej Andrzej Libiszewski	Elected to the office	with the effect as of 14 March 2018
Member	Katarzyna Woś	Elected to the office	with the effect as of 14 March 2018
Vice-Chairman	Mirosław Kastelik	Recalled from the office	with the effect as of 1 October 2018
Member	Przemysław Wacławski	Elected to the office	with the effect as of 1 October 2018

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

1. DESCRIPTION OF THE COMPANY (continued)

Changes in the Supervisory Board in 2018 were as follows:

Position	Name	Change	Date of change
Chairman	Wojciech Jasiński	Recalled from the office of Chairman	with the effect as of 21 February 2018
Chairman	Zbigniew Leszczyński	Elected as Chairman	with the effect as of 22 February 2018
Member	Grażyna Baka	Resigned from the office	with the effect as of 6 March 2018
Member	Wioletta Kandziak	Appointed to the office as substitute member	with the effect as of 7 March 2018
Member	Rafał Pasieka	Resigned from the office	with the effect as of 7 March 2018
Member	Janusz Jakub Szurski	Appointed to the office as substitute member	with the effect as of 8 March 2018
Member	Wojciech Jasiński	Resigned from the office	with the effect as of 8 March 2018
Member	Robert Harasimiuk	Appointed to the office as substitute member	with the effect as of 9 March 2018
Member	Krystian Pater	Resigned from the office	with the effect as of 6 April 2018
Vice-Chairman	Ivan Kočárník	Termination of the office	with the effect as of 25 June 2018
Chairman	Zbigniew Leszczyński	Resigned from the office	with the effect as of 28 June 2018
Member	Jacek Marek Kosuniak	Resigned from the office	with the effect as of 28 June 2018
Member	Rafał Warpechowski	Office of substitute member expired	with the effect as of 28 June 2018
Member	Izabela Antos	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Adam Wojciech Burak	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Robert Harasimiuk	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Robert Jasiński	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Wioletta Kandziak	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Ivan Kočárník	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Janusz Jakub Szurski	Elected to the office	elected by the General Meeting held on 28 June 2018
Member	Edyta Wątor	Elected to the office	elected by the General Meeting held on 28 June 2018
Chairman	Robert Harasimiuk	Elected as Chairman	with the effect as of 24 July 2018
Vice-Chairman	Ivan Kočárník	Elected as Vice-Chairman	with the effect as of 24 July 2018
Vice-Chairman	Janusz Jakub Szurski	Elected as Vice-Chairman	with the effect as of 24 July 2018
Member	Robert Jasiński	Resigned from the office	with the effect as of 26 November 2018
Member	Barbara Hajdas	Elected to the office	with the effect as of 27 November 2018

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 2018. 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 2018, results of its operations and cash flows for the year ended 31 December 2018.

The consolidated financial statements of the Group for the year ended 31 December 2018 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 34.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

3. OPERATING SEGMENTS

3.1. Financial results and investment expenditures by operating segment

2018	Downstream Segment	Retail Segment	Corporate Functions	Elimination adjustments	Total
External revenues	114 481	16 137	150	-	130 768
Inter-segment revenues	13 282	78	1 082	(14 442)	-
Segment revenues	127 763	16 215	1 232	(14 442)	130 768
Operating expenses	(125 946)	(14 854)	(1 383)	14 442	(127 741)
Other operating income	7 849	108	91	-	8 048
Other operating expenses	(1 197)	(111)	(18)	-	(1 326)
(Loss)/reversal of loss due to impairment of financial instruments	4	(8)	11	-	7
Profit/(loss) from operations	**8 473**	**1 350**	**(67)**	**-**	**9 756**
Net finance income					1 045
Profit before tax					**10 801**
Tax expense					(1 823)
Net profit					**8 978**
Depreciation and amortisation	**(2 796)**	**(427)**	**(100)**	**-**	**(3 323)**
EBITDA*	**11 269**	**1 777**	**33**	**-**	**13 079**
CAPEX**	**6 156**	**1 313**	**391**	**-**	**7 860**

2017	Downstream Segment	Retail Segment	Corporate Functions	Elimination adjustments	Total
External revenues	109 679	12 653	146	-	122 478
Inter-segment revenues	10 291	65	929	(11 285)	-
Segment revenues	119 970	12 718	1 075	(11 285)	122 478
Operating expenses	(113 033)	(11 670)	(1 199)	11 285	(114 617)
Other operating income	4 336	136	72	-	4 544
Other operating expenses	(131)	(143)	(86)	-	(360)
Profit/(loss) from operations	**11 142**	**1 041**	**(138)**	**-**	**12 045**
Net finance costs					(1 421)
Profit before tax					**10 624**
Tax expense					(1 965)
Net profit					**8 659**
Depreciation and amortisation	**(2 483)**	**(352)**	**(74)**	**-**	**(2 909)**
EBITDA*	**13 625**	**1 393**	**(64)**	**-**	**14 954**
CAPEX**	**6 419**	**913**	**209**	**-**	**7 541**

* Operating profit/(loss) + depreciation and amortisation
EBITDA is one of a measure of the efficiency of the activity, which is not defined in IFRS. The Group defines EBITDA as net profit/(loss) for the reporting period before taking into account the impact of the income tax, effects of financing activities and depreciation costs.

** CAPEX - increase of property, plant and equipment, intangible assets, investment property together with the capitalisation of borrowing costs except expenditures in CO_2 emission allowances.

3.2. Other segment data

3.2.1. Assets by operating segments

	31/12/2018	31/12/2017
Downstream Segment	69 277	58 788
Retail Segment	7 915	6 924
Segment assets	**77 192**	**65 712**
Corporate Functions	11 313	10 231
Elimination adjustments	(131)	(98)
	88 374	**75 845**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

3.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	2018	2017	2018	2017
Downstream Segment	(1 359)	(482)	5 857	140
Retail Segment	(103)	(128)	93	119
Impairment allowances by segments	**(1 461)**	**(610)**	**5 950**	**259**
Corporate Functions	-	(1)	82	3
Impairment allowances in operating activities	**(1 461)**	**(610)**	**6 032**	**262**
	(1 461)	**(610)**	**6 032**	**262**

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	
	2018	2017	2018	2017
Downstream Segment	(879)	(37)	5 854	2
Retail Segment	(103)	(123)	93	119
Impairment allowances by segments	**(982)**	**(160)**	**5 947**	**121**
Corporate Functions	-	-	82	3
	(982)	**(160)**	**6 029**	**124**

The information relating to the impairment analysis is presented in note 15.

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

4. REVENUES

	2018	2017
Sales of finished goods	122 497	111 586
Sales of services	3 423	3 393
Revenues from sales of finished goods and services, net	**125 920**	**114 979**
Sales of merchandise	4 603	7 377
Sales of raw materials	245	122
Revenues from sales of merchandise and raw materials, net	**4 848**	**7 499**
	130 768	**122 478**

4.1. Revenues by assortments

	2018	2017
Downstream Segment	**114 481**	**109 679**
Light distillates	19 871	20 245
Medium distillates	48 478	46 236
Heavy fractions	6 065	5 022
Monomers	4 309	4 017
Polymers	15 907	15 787
Aromas	3 577	3 363
Fertilizers	586	568
Plastics	2 457	2 336
Others	10 721	9 454
Services	2 510	2 651
Retail Segment	**16 137**	**12 653**
Light distillates	5 127	4 084
Medium distillates	10 214	7 942
Others	25	24
Services	771	604
Corporate Functions	**150**	**146**
	130 768	**122 478**

Revenues from contracts with customers amounted to CZK 130 149 million (2017: CZK 121 986 million), while other revenues related to rent and lease services amounted to CZK 619 million (2017: CZK 492 million).

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4.2. Revenues by geographical division – disclosed by customer's premises countries

	2018	2017
Czech Republic	86 660	80 403
Germany	16 821	12 903
Poland	6 455	7 902
Slovakia	6 492	6 607
Austria	1 465	1 745
Hungary	4 990	4 563
Other countries	7 885	8 355
	130 768	**122 478**

No other country than the Czech Republic and Germany accounted for more than 10% of consolidated revenues.

4.3. Information about major customers

More than 10% of the Group´s total revenues from 1 individual customer are in downstream segment in the amount of CZK 13 321 million (2017: CZK 13 148 million) and CZK 86 million in retail segment (2017: CZK 132 million).

5. OPERATING EXPENSES

5.1. Cost of sales

	2018	2017
Cost of finished goods and services sold	(118 860)	(102 890)
Cost of merchandise and raw materials sold	(4 658)	(7 362)
	(123 518)	**(110 252)**

5.2. Cost by nature

	2018	2017
Materials and energy	(108 151)	(93 110)
Cost of merchandise and raw materials sold	(4 658)	(7 362)
External services	(6 166)	(6 220)
Employee benefits	(3 955)	(3 479)
Depreciation and amortization	(3 323)	(2 909)
Taxes and charges	(1 449)	(578)
Other	(2 197)	(1 161)
	(129 899)	**(114 819)**
Change in inventories	820	(172)
Cost of products and services for own use	12	14
Operating expenses	**(129 067)**	**(114 977)**
Distribution expenses	2 506	2 752
Administrative expenses	1 717	1 613
Other operating expenses	1 326	360
Cost of sales	**(123 518)**	**(110 252)**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

5.3. Employee benefits costs

	2018	2017
Payroll expenses	(2 818)	(2 501)
Future benefits expenses	(14)	(1)
Social security expenses	(931)	(821)
Other employee benefits expenses	(192)	(156)
	(3 955)	**(3 479)**

2018	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(2 606)	(159)	(1)	(45)	(7)	(2 818)
Social and health insurance	(878)	(43)	-	(9)	(1)	(931)
Social expense	(165)	(22)	-	(5)	-	(192)
Change of employee benefits provision	(14)	-	-	-	-	(14)
	(3 663)	**(224)**	**(1)**	**(59)**	**(8)**	**(3 955)**
Number of employees average per year*						4 699
Number of employees as at balance sheet day*						4 824

2017	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(2 290)	(161)	(1)	(42)	(7)	(2 501)
Social and health insurance	(773)	(40)	-	(7)	(1)	(821)
Social expense	(131)	(20)	-	(5)	-	(156)
Change of employee benefits provision	(1)	-	-	-	-	(1)
	(3 195)	**(221)**	**(1)**	**(54)**	**(8)**	**(3 479)**
Number of employees average per year*						4 590
Number of employees as at balance sheet day*						4 710

* In case of joint operations the relevant share is used.

6. OTHER OPERATING INCOME AND EXPENSES

6.1. Other operating income

	2018	2017
Penalties and compensations	1 639	4 147
Reversal of impairment allowances of property, plant and equipment and intangible assets	6 029	124
Revaluation of provision to CO_2 consumption	-	49
Profit on sale of non-current non-financial assets	19	47
Revaluation of investment properties	12	10
Reversal of provisions	14	55
Reversal of receivables impairment allowances	-	39
Settlement and valuation of financial instruments (operation risk)	15	-
Ineffective part of hedging	247	-
Settlement and valuation of hedging cost	27	-
Other	46	73
	8 048	**4 544**

The information with regard to the impairment reversal is presented in note 15.

The Group has early adopted IFRS 9 in relation to hedge accounting. In the financial statements for the year 2018 the Group presents settlement and valuation of certain transactions with financial derivatives as well as, the ineffective part of the transactions under hedge accounting within other operating income and expenses. In previous years these transactions were presented in finance income and costs. The result of settlement and valuation of this type of the financial instruments in 2017 was insignificant.

In the 2nd quarter 2018 the Group succeeded to agree with insurers the final settlement amount of the insurance claim relating to the Steam Cracker unit accident, which took place at the Chempark Záluží in Litvínov on 13 August 2015. The total recovery relates to property and mechanical damage as well as the loss of business profits (business interruption) in the amount of USD 515 million. The amount of USD 444 million (CZK 10 648 million) was previously recognized in Other operating income in 2016 and 2017. The remaining amount of CZK 1 585 million (USD 71 million) was recognized as Other operating income of 2018 and as at 31 December 2018 there are no contingent assets from the insurance claim disclosed by the Group.

In 2017 the Group recognized insurance compensation in the amount of CZK 2 754 million in connection with the Steam cracker unit accident and CZK 1 320 million as the final settlement amount of the insurance claim relating to the Fluid Catalytic Cracking unit accident concerning property and mechanical damage as well as loss of business profits (business interruption).

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

6.2. Other operating expenses

	2018	2017
Penalties, damages and compensations	(9)	(28)
Recognition of provisions	(8)	(21)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(982)	(160)
Revaluation of investment properties	(2)	(1)
Revaluation of provision of CO_2 consumption	(68)	(3)
Loss on sale of non-current non-financial assets	(29)	(49)
Recognition of receivables impairment allowances	-	(47)
Donations	(8)	(44)
Settlement and valuation of financial instruments (operation risk)	(15)	-
Ineffective part of hedging	(199)	-
Settlement and valuation of hedging cost	(1)	-
Other	(5)	(7)
	(1 326)	**(360)**

The information with regard to the impairment recognition is presented in note 15.

7. REVERSAL OF LOSS DUE TO IMPAIRMENT OF FINANCIAL INSTRUMENTS

Reversal of loss relates to impairment of trade receivables at the amount of CZK 7 million was recognized based on the expected credit loss model.

8. FINANCE INCOME AND COSTS

8.1. Finance income

	2018	2017
Settlement and valuation of financial instruments	779	415
Net foreign exchange gain	529	-
Interest	97	78
	1 405	**493**

8.2. Finance costs

	2018	2017
Net foreign exchange loss	-	(426)
Settlement and valuation of financial instruments	(338)	(1 464)
Interest	(1)	(1)
Other	(21)	(23)
	(360)	**(1 914)**

9. TAX EXPENSE

	2018	2017
Tax expense in the statement of profit or loss		
Current tax	(858)	(1 603)
Deferred tax	(965)	(362)
	(1 823)	**(1 965)**
Deferred tax recognized in other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	(101)	(256)
Actuarial gains or losses	(1)	-
	(102)	**(256)**
	(1 925)	**(2 221)**

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2018 (2017: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2019 and forward i.e. 19%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

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

	2018	2017
Profit for the year	8 978	8 659
Total tax expense	(1 823)	(1 965)
Profit before tax	10 802	10 624
Income tax using domestic income tax rate	(2 052)	(2 019)
Effect of tax rates in foreign jurisdictions	10	5
Non-deductible expenses	(107)	(182)
Tax exempt income	21	73
Tax relief	13	9
Change in not recognized deferred tax assets	134	(13)
Impact of prior periods	116	154
Utilization of unused tax losses	57	68
Other differences	(15)	(60)
Total tax expense	**(1 823)**	**(1 965)**
Effective tax rate	**(16.88%)**	**(18.5%)**

9.2. 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 2019 and onward).

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:

	31/12/2017	Deferred tax recognized in the statement of profit or loss	Deferred tax recognized in other comprehensive income	Other	31/12/2018
Deferred tax assets					
Provisions	236	271	-	-	507
Unused tax losses carried forward	50	61	-	-	111
Inventories	26	84	-	-	110
Other	108	(11)	-	-	97
	420	**405**	**-**	**-**	**825**
Deferred tax liabilities					
Property, plant and equipment	(1 557)	(1 369)	-	-	(2 926)
Provisions	-	(1)	-	-	(1)
Finance lease	(4)	-	-	-	(4)
Hedging instruments	(194)	-	(102)	-	(296)
Other	-	-	-	2	2
	(1 755)	**(1 370)**	**(102)**	**2**	**(3 225)**
	(1 335)	**(965)**	**(102)**	**2**	**(2 400)**

	31/12/2016	Deferred tax recognized in the statement of profit or loss	Deferred tax recognized in other comprehensive income	Transfers	31/12/2017
Deferred tax assets					
Property, plant and equipment	297	(79)	-	(218)	-
Provisions	256	(20)	-	-	236
Unused tax losses carried forward	180	(130)	-	-	50
Hedging instruments	62	-	(62)	-	-
Inventories	29	(3)	-	-	26
Other	107	1	-	-	108
	931	**(231)**	**(62)**	**(218)**	**420**
Deferred tax liabilities					
Property, plant and equipment	(1 638)	(137)	-	218	(1 557)
Finance lease	(7)	3	-	-	(4)
Hedging instruments	-	-	(194)	-	(194)
Other	(2)	2	-	-	-
	(1 647)	**(132)**	**(194)**	**218**	**(1 755)**
	(716)	**(362)**	**(256)**	**-**	**(1 335)**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

9.2. Deferred tax (continued)

The above positions of deferred tax assets and liabilities are netted of on the level of particular financial statements of the Groups companies for presentation purposes in the consolidated financial statement of UNIPETROL, a.s. As at 31 December 2018 deferred tax assets and liabilities amounted to CZK 127 million (31 December 2017: CZK 48 million) and CZK 2 527 million (31 December 2017: CZK 1 383 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 2019 - 2023.

In the calculation of deferred tax assets as at 31 December 2018 the Group has not recognized tax losses carried forward in amount of CZK 72 million due to the unpredictability of future taxable income (31 December 2017: CZK 1 543 million). These unrecognized tax losses will expire by the end of 2021.

9.3. Tax expense (paid)

	2018	2017
Tax expense on profit before tax	**(1 823)**	**(1 965)**
Change in deferred tax asset and liabilities	1 065	619
Change in current tax assets and liabilities	(1 354)	643
Deferred tax recognized in other comprehensive income	(102)	(256)
Foreign exchange differences	-	(1)
	(2 214)	**(960)**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

10. NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION

	2018	2017
Czech Republic	46 401	36 648
Germany	-	1
Slovakia	7	8
	46 408	**36 657**

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.

11. PROPERTY, PLANT AND EQUIPMENT

11.1. Changes in property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2018						
Net book value						
Gross book value	1 539	30 761	52 575	3 104	8 973	**96 952**
Accumulated depreciation and impairment allowances	(486)	(19 658)	(39 372)	(2 301)	(103)	**(61 920)**
Government grants	-	(236)	(212)	-	(1)	**(449)**
	1 053	**10 867**	**12 991**	**803**	**8 869**	**34 583**
increase/(decrease) net						
Investment expenditures	17	1 245	3 363	719	2 315	**7 659**
Depreciation	-	(669)	(2 249)	(232)	-	**(3 150)**
Impairment allowances	342	2 979	1 995	44	(321)	**5 039**
Reclassifications	-	152	(218)	(5)	46	**(25)**
Sale	(1)	-	(1)	(2)	-	**(4)**
Liquidation	-	(27)	(91)	(34)	-	**(152)**
Government grants - received, settled	-	10	11	-	7	**28**
Other increases/(decreases)	1	(13)	(31)	25	(6)	**(24)**
31/12/2018						
Net book value	**1 412**	**14 544**	**15 770**	**1 318**	**10 910**	**43 954**
Gross book value	1 556	32 526	54 683	3 615	11 252	**103 632**
Accumulated depreciation and impairment allowances	(144)	(17 757)	(38 712)	(2 297)	(348)	**(59 258)**
Government grants	-	(225)	(201)	-	6	**(420)**
	1 412	**14 544**	**15 770**	**1 318**	**10 910**	**43 954**
01/01/2017						
Net book value						
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**
increase/(decrease) net						
Investment expenditures	84	1 863	4 782	449	240	7 418
Depreciation	-	(599)	(1 948)	(215)	-	(2 762)
Impairment allowances	-	1	802	8	(46)	765
Reclassifications	-	8	(302)	(17)	98	(213)
Sale	-	(7)	(12)	(6)	-	(25)
Liquidation	-	(8)	(567)	(17)	-	(592)
Government grants - received, settled	-	9	27	0	(1)	35
Other increases/(decreases)	13	(9)	(46)	(75)	(6)	(123)
31/12/2017						
Net book value	**1 053**	**10 867**	**12 991**	**803**	**8 869**	**34 583**

Material additions

In 2018 the major additions to non-current assets were construction of new unit PE3 in the amount of CZK 1 594 million, acquisition of filling stations and its remodelling in the amount of CZK 852 million, capitalized shut down costs in the amount of CZK 691 million, capitalized maintenance costs in the amount of CZK 598 million, capitalized spare parts in the amount of CZK 327 million, construction of boiler room in the amount of CZK 277 million, locomotives in the amount of CZK 276 million and catalysts in the amount of CZK 220 million. Spending for other investment projects did not exceed CZK 200 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 2018 amounted to less than CZK 1 million (31 December 2017: less than CZK 1 million).

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

11.2. Changes in impairment allowances of property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2018	485	6 198	6 770	105	103	13 661
Recognition	-	216	339	17	403	975
Reversal	(342)	(3 169)	(2 253)	(35)	(82)	(5 881)
Disposal	-	(26)	(81)	(26)	-	(133)
Reclassifications**	-	(1 342)	(2 716)	(32)	(76)	(4 166)
	143	**1 877**	**2 059**	**29**	**348**	**4 456**
increase/(decrease) net*	(342)	(2 979)	(1 995)	(44)	321	(5 039)
01/01/2017	485	6 199	7 572	113	154	14 522
Recognition	-	117	11	13	19	160
Reversal	-	(117)	(4)	(1)	(2)	(124)
Disposal	-	(8)	(602)	(7)	-	(617)
Reclassifications	-	7	(207)	(13)	29	(184)
Other increases/(decreases)	-	-	-	-	(97)	(97)
	485	**6 198**	**6 770**	**105**	**103**	**13 661**
increase/(decrease) net*	-	(1)	(802)	(8)	46	(765)

*Increase/(decrease) net includes recognition, reversal and usage.
** The Company records separately the impairment allowances and accumulated depreciation. The reclassification includes the transfer between impairment allowances and accumulated depreciation after reversal of the impairment relating to the carrying amount of assets as of the balance sheet date.

Detailed information regarding impairment recognized in 2018 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 2018 would be higher by CZK 158 million.

11.3. Other information on property, plant and equipment

	31/12/2018	31/12/2017
The gross book value of all fully depreciated property, plant and equipment still in use	12 736	14 482

The Group obtained in 1994 a government grant from the German Ministry for Environmental Protection and Safety of Reactors in the amount of CZK 260 million. This environmental project is targeted at limiting cross-border pollution, in connection with the reconstruction of the T-700 power station and its desulphurization. The carrying amount of the grant was CZK 17 million as at 31 December 2018 (31 December 2017: CZK 26 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 584 million. The resources provided were 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 322 million (2017: CZK 353 million).

12. INVESTMENT PROPERTY

	2018	2017
At the beginning of the year	448	432
Reclassification to property, plant and equipment	(5)	(6)
Transfer from property, plant and equipment	-	13
Fair value measurement	10	9
increase	12	10
decrease	(2)	(1)
	453	**448**

Rental income amounted to CZK 52 million in 2018 (2017: CZK 59 million). Operating costs related to investment property amounted to CZK 5 million in 2018 (2017: CZK 3 million).

12.1. Fair value of investment property measurement

Investment property as at 31 December 2018 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 8.41 % was used for the calculation of the investment property fair value.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

12.1. Fair value of investment property measurement (continued)

In the year ended 31 December 2018 and the comparative period there were no changes in measurement approach.

			Fair value hierarchy	
	Carrying amount	Fair value	Level 2	Level 3
31/12/2018	453	453	116	337
31/12/2017	448	448	116	332

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

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

		Level 3		
	Increase by	Total impact	Decrease by	Total impact
Change in discount rate	+1 pp	(32)	-1 pp	32

13. INTANGIBLE ASSETS

13.1. Changes in intangible assets

	Software	Licences, patents and trade marks	Assets under development	CO_2 emission allowance	Other intangible assets	Other internally generated asseets	Total
01/01/2018							
Net book value							
Gross book value	1 452	2 040	441	350	291	97	**4 671**
Accumulated depreciation and impairment allowances	(1 191)	(1 517)	(7)	(4)	(261)	(50)	**(3 030)**
Government grants	(15)	-	-	-	-	-	**(15)**
	246	**523**	**434**	**346**	**30**	**47**	**1 626**
increase/(decrease) net							
Investment expenditures	81	1	87		21	-	**190**
Amortization	(79)	(62)	-	-	(14)	(18)	**(173)**
Impairment allowances	33	101	(2)	3	13	-	**148**
Reclassifications	-	-	30	-	-	-	**30**
Sale	-	-	-	(75)	-	-	**(75)**
Liquidation	-	(1)	-	-	(1)	-	**(2)**
Government grants - received, settled	2	-	-	-	-	-	**2**
Other increases/(decreases)	(2)	-	(1)	261	(3)	-	**255**
31/12/2018							
Net book value	**281**	**562**	**548**	**535**	**46**	**29**	**2 001**
Gross book value	1 532	2 034	556	535	306	96	**5 059**
Accumulated depreciation and impairment allowances	(1 238)	(1 472)	(8)	-	(260)	(67)	**(3 045)**
Government grants	(13)	-	-	-	-	-	**(13)**
	281	**562**	**548**	**535**	**46**	**29**	**2 001**
01/01/2017							
Net book value							
Gross book value	1 263	2 044	575	208	434	52	4 576
Accumulated depreciation and impairment allowances	(1 129)	(1 459)	(10)	(10)	(424)	(34)	(3 066)
Government grants	(18)	-	-	-	-	-	(18)
	116	**585**	**565**	**198**	**10**	**18**	**1 492**
increase/(decrease) net							
Investment expenditures	195	1	(158)		26	49	113
Amortization	(59)	(62)	-	-	(6)	(20)	(147)
Impairment allowances	(2)	-	4	6	7	-	15
Reclassifications	(4)	(1)	27	-	(5)	-	17
Liquidation	-	-	(4)	-	(2)	-	(6)
Government grants - received, settled	2	-	-	-	-	-	2
Other increases/(decreases)	(2)	-	-	142	-	-	140
31/12/2017							
Net book value	**246**	**523**	**434**	**346**	**30**	**47**	**1 626**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

13.2. Changes in impairment allowances of intangible assets

	Software	Licences, patents and trade marks	Assets under development	CO_2 emission allowance	Other intangible assets	Other internally generated asseets	Total
01/01/2018	110	224	6	3	28	4	375
Recognition	-	-	7	-	-	-	7
Reversal	(33)	(100)	(5)	-	(10)	-	(148)
Disposal	-	(1)	-	(3)	(3)	-	(7)
Reclassifications**	(58)	(114)	-	-	(15)	(4)	(191)
	19	**9**	**8**	**-**	**-**	**-**	**36**
increase/(decrease) net*	(33)	(101)	2	(3)	(13)	-	(148)
01/01/2017	108	224	10	9	86	4	441
Disposal	-	-	(2)	(6)	(2)	-	(10)
Reclassifications	2	-	(2)	-	(5)	-	(5)
Other decreases	-	-	-	-	(51)	-	(51)
	110	**224**	**6**	**3**	**28**	**4**	**375**
increase/(decrease) net*	2	-	(4)	(6)	(7)	-	(15)

*Increase/(decrease) net includes recognition, reversal, and usage.
** The Company records separately the impairment allowances and accumulated depreciation. The reclassification includes the transfer between impairment allowances and accumulated depreciation after reversal of the impairment relating to the carrying amount of assets as of the balance sheet date.

Recognition and reversal of impairment allowances for intangible assets are recognized in other operating activities. Detailed information regarding impairment recognized in 2018 is presented in note 15.

13.3. Other information on intangible assets

	31/12/2018	31/12/2017
The gross book value of all fully depreciated intangible assets still in use	892	910
The net book value of intangible assets with indefinite useful life	25	11

The major addition to intangible assets in 2018 were investments to SAP system in the amount of CZK 42 million (2017: software – technical solution for polyolefin production planning of CZK 26 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, the amortization expense for 2018 would be higher by CZK 7 million.

13.4. 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 2018 the Group obtained CO_2 emission allowances in the amount of 2 150 246 tons (2017: 1 809 741 tons).

	Value	Quantity (in tonnes)
01/01/2018	347	2 213 442
Granted free of charge for 2018	753	2 150 246
Settlement for 2017	(801)	(4 528 196)
Purchase	233	1 479 905
Impairment allowances	3	-
	535	**1 315 397**
Estimated annual consumption 2018	2 090	4 318 918

As at 31 December 2018 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 24.64 (31 December 2017: EUR 8.14).

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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

14. FINANCIAL DERIVATIVES AND OTHER NON-CURRENT ASSETS

	31/12/2018	31/12/2017
Financial derivatives		
Cash flow hedging instruments	503	700
currency forwards	*503*	*700*
Derivatives	**503**	**700**

Information about cash flow hedging instruments and derivatives not designed as hedge accounting is presented in note 28.4.

	31/12/2018	31/12/2017
Other non-current assets		
Other non-current receivables	20	20
Financial assets	**20**	**20**
Prepayments	92	76
Non-financial assets	**92**	**76**
Other non-current assets	**112**	**96**

The non-current prepayments relate to the deposit for the purchase of natural gas in the amount of CZK 74 million as at 31 December 2017 (31 December 2017: CZK 66 million).

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

As at 31 December 2018 in accordance with International Accounting Standard 36 “Impairment of assets” the UNIPETROL 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 UNIPETROL group CGUs are established at the level of operating activities: refining, petrochemical and retail.
As at 31 December 2018 the tests were carried out for all CGUs based on the most recent available financial projections for the years 2019-2022.

Impairment analysis on UNIPETROL group assets’ as at 31 December 2018 was based on following financial data:

- non-audited financial statements as at 31 December 2018 before impairment charge,
- financial projections for years 2019-2022 included in Mid Term Plan for the years 2019-2022,
- necessary adjustments mainly relating to capital expenditures and effectiveness activities for years 2019-2022, corresponding with IAS 36 requirement of basing the analysis on projections excluding impact of development and restructuring (IAS 36.33 b) and maintenance of shareholding structure in the group as at 31 December 2018.

Key financial assumptions used in the analysis

During development of assumptions to impairment tests the possibility of estimation of the fair value and value in use of individual assets was considered. Lack of market transactions for similar assets to those held by the Group which would allow to reliably estimate their fair value makes fair value method of valuation not possible to implement. As a result, it was concluded that the best estimate of the actual values of individual assets of the Group will be its value in use (“VIU”).

The recoverable amounts of CGUs were estimated based on their value in use.

The assets used in analyses: i.e. fixed assets (excluding lands and CO2 allowances) and net working capital were derived from non-audited financial statements as at 31 December 2018 before impairment charge.

For determining the value in use as at given balance sheet date forecasted cash flows are discounted using the discount rates after taxation reflecting the risk levels specific for particular sectors to which the CGU belongs.

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) and publicly available as at 31 December 2018 listings of government bonds.

The structure of the discount rates and long term inflation rate applied in the testing for impairment of assets of individual operating CGUs as at 31 December 2018

	Refinery CGU	Petchem CGU	Retail CGU
Cost of capital	10.98%	9.61%	9.33%
Cost of debt after tax	2.27%	2.27%	2.27%
Capital structure	64.54%	72.24%	46.65%
Nominal discount rate	**7.89%**	**7.57%**	**5.56%**
Long term inflation rate	2.10%	2.10%	2.10%

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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

15. IMPAIRMENT OF PROPERTY PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

The results of impairment analysis as at 31 December 2018

Based on IAS 36 the impairment allowance is charged against other operating costs in profit or loss, when the carrying amount of cash generating unit exceeds its recoverable amount (VIU) and the carrying amount of assets is decreased to its recoverable amount.

The amount of reversal of impairment charge and corresponding increase in carrying amount of an assets shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years (IAS 36.117).

Based on the results of the analysis performed as at 31 December 2018 impairment allowance of CZK 5 089 million net was reversed in the period ended 31 December 2018 in relation to non-current assets of the refinery, petchem and corporate functions CGUs. The amount of CZK 4 948 million was allocated to property, plant and equipment, and the amount of CZK 141 million was allocated to intangible assets and these were recorded in other operating part of statement of profit and loss in UNIPETROL Group.

The impairment charges reversed in refinery CGU related to non-current assets of UNIPETROL RPA, s.r.o., PARAMO, a.s., in petrochemical CGU and in corporate functions to non-current assets of UNIPETROL RPA, s.r.o.

The impairment allowance of CZK 773 million was booked in petrochemical CGU to non-current assets of SPOLANA s.r.o.

The Group's future financial performance is based on a number of factors and assumptions including macroeconomics development, such as foreign exchange rates, commodity prices, interest rates outside the 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.

Sensitivity analysis of the value in use as at 31 December 2018

The crucial elements influencing the value in use of assets within individual units responsible for generating cash flows are: operating profit plus depreciation and amortization (known as EBITDA) and the discount rate.

The effects of impairment sensitivity in relation to changes in these factors are presented below.

Sensitivity analysis of the value in use in relation to impairment analysis for UNIPETROL group consolidated financial statements

Refinery

		EBITDA		
DISCOUNT RATE	change	**-5%**	**0%**	**5%**
	-0.5 p.p.	4 564	4 564	4 564
	0.0 p.p.	4 564	4 564	4 564
	+0.5 p.p.	4 564	4 564	4 564

Petchem excluding Spolana s.r.o.

		EBITDA		
DISCOUNT RATE	change	**-5%**	**0%**	**5%**
	-0.5 p.p.	1 216	1 216	1 216
	0.0 p.p.	1 216	1 216	1 216
	+0.5 p.p.	1 148	1 216	1 216

Spolana s.r.o.

		EBITDA		
DISCOUNT RATE	change	**-5%**	**0%**	**5%**
	-0.5 p.p.	(773)	(773)	(773)
	0.0 p.p.	(773)	(773)	(773)
	+0.5 p.p.	(773)	(773)	(773)

16. INVENTORIES

	31/12/2018	31/12/2017
Raw materials	7 870	7 078
Work in progress	2 289	2 248
Finished goods	4 596	3 699
Merchandise	428	560
Spare parts	1 447	1 398
Inventories, net	**16 630**	**14 983**
Impairment allowances of inventories to net realizable value	763	396
Inventories, gross	**17 393**	**15 379**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

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

	2018	2017
At the beginning of the year	396	472
Recognition	479	403
Usage	(109)	(379)
Reversal	(3)	(100)
	763	**396**

Changes in the net realizable value allowances for inventories amount to CZK 476 million and are included in cost of sales (2017: CZK 303 million) presented in note 5.

17. TRADE AND OTHER RECEIVABLES

	31/12/2018	31/12/2017
Trade receivables	14 249	13 495
Receivables due to insurance compensations	29	-
Other	10	28
Financial assets	**14 288**	**13 523**
Excise tax and fuel charge receivables	9	9
Other taxation, duty, social security receivables	5	108
Advances for construction in progress	342	244
Prepayments and deferred costs	553	548
Non-financial assets	**909**	**909**
Receivables, net	**15 197**	**14 432**
Receivables impairment allowance	477	641
Receivables, gross	**15 674**	**15 073**

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 an 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 28.5. and detailed information about receivables from related parties is presented in note 32.1.

18. FINANCIAL DERIVATIVES AND OTHER FINANCIAL ASSETS

	31/12/2018	31/12/2017
Derivatives		
Cash flow hedging instruments	1 108	660
currency forwards	*358*	*599*
commodity swaps	*750*	*61*
Derivatives not designated as hedge accounting	-	6
commodity swaps	*-*	*6*
Fair value hedging instruments	1	-
commodity swaps	*1*	*-*
Adjustment of hedged item for changes in fair value	6	-
	1 115	**666**

Information regarding cash flow hedging instruments and derivatives not designed as hedge accounting is presented in note 28.4.

	31/12/2018	31/12/2017
Other financial assets		
Cash pool	5 353	5 671
Receivables on settled cash flow hedging instruments	994	15
	6 347	**5 686**

The Group had assets in the PKN group´s cash pool system in the amount of CZK 5 353 million as at 31 December 2018 (31 December 2017: CZK 5 671 million). The interest rates were based on appropriate inter-bank rates and the fair value of the assets approximates their carrying amount.

The Group verified the conditions for presentation of cash pool assets as cash equivalents as present in IAS 7 Statement of Cash Flows and is in opinion that the criteria for such presentation are not met.

19. CASH AND CASH EQUIVALENTS

	31/12/2018	31/12/2017
Cash on hand and in bank	1 512	2 459
	1 512	**2 459**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

20. SHAREHOLDERS' EQUITY

20.1. Share capital

The issued capital of the Company as at 31 December 2018 amounted to CZK 18 133 million (31 December 2017: CZK 18 133 million). This represents 181 334 764 (31 December 2016: 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.

Shareholders' structure

	Number of shares	Nominal value of shares (in CZK)	Share in share capital
POLSKI KONCERN NAFTOWY ORLEN S.A.	181 334 764	18 133 476 000	100%
	181 334 764	**18 133 476 400**	**100%**

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

General Meeting of Unipetrol held on 28 August 2018 resolved on passing of the ownership right to all the participation securities issued by Unipetrol owned by other owners of the participation securities than PKN ORLEN S.A. The passing of participation securities became effective on 1 October 2018. As a result, PKN ORLEN S.A. became the sole shareholder of Unipetrol controlling 100% of shares representing 100% of votes at the General Meeting of shareholders of UNIPETROL, a.s.. As a consequence the shares of Unipetrol were withdrawn from trading at the Prague Stock Exchange (Burza cenných papírů Praha, a.s.) as of 26 September 2018.

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 2018 amounted to CZK 33 million (31 December 2017: CZK 33 million).

20.3. Hedging reserve

The amount of the hedging reserve of CZK 1 261 million as at 31 December 2018 resulted from the valuation of derivatives meeting the requirements of cash flow hedge accounting (31 December 2017: CZK 830 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 2018 amounted to CZK 11 million (31 December 2017: CZK 11 million).

20.6. Retained earnings

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profits of the parent company. The Annual General Meeting of UNIPETROL, a.s. held on 26 June 2018 decided, pursuant to Article 8 (2) (k) of the Articles of Association of UNIPETROL, a.s., to allocate the Company's loss generated on separate basis in 2017 in the amount of CZK 29 million to retained earnings.

The decision regarding appropriation of 2018 profit will be made at the annual meeting of shareholders.

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 2018 and as at 31 December 2017 Group´s financial leverage amounted to (2.01)% and (4.48)%, 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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

20.7.1. Net debt

	31/12/2018	31/12/2017
Cash on hand and in bank	**1 512**	**2 459**
Loans and borrowings	**(4)**	**(1)**
Loans and borrowings current	(4)	(1)
Cash pool liabilities	**(315)**	**(225)**
	1 193	**2 233**

20.7.2. Changes in net debt

	Note	31/12/2018	31/12/2017
At the beginning of the year		**2 233**	**2 757**
Cash changes in net debt			
Cash and cash equivalents	*19.*	(947)	(428)
Loans and borrowings	*21.*	(2)	-
Cash pool liabilities	*27.*	(90)	(50)
Non-cash changes in net debt			
Foreign exchange		(1)	(46)
		1 193	**2 233**

20.7.3. Net working capital

	Inventories	Receivables	Liabilities	Working capital
31/12/2017	14 983	14 432	20 733	8 682
31/12/2018	16 630	15 197	22 630	9 197
Net working capital change in Statement of financial position	**(1 647)**	**(765)**	**(1 897)**	**(515)**
Adjustments				
Movements in prepayments for construction in progress	-	97	-	97
Movements in non-current receivables/liabilities	-	-	(38)	38
Receivables from insurance	-	29	-	29
Movements in investing liabilities	-	-	(197)	197
Movements in dividends liabilities	-	-	(6)	6
Changes in Group structure	-	-	(27)	27
Impact of IFRS 9 adoption	-	(11)	-	(11)
Foreign exchange differences	(3)	6	29	(26)
Change in working capital in Cash flow statement	**(1 650)**	**(644)**	**(2 136)**	**(158)**

20.8. Profit per share

Basic profit per share

	2018	2017
Profit for the year attributable to equity owners	8 978	8 659
Weighted average number of shares	181 334 764	181 334 764
Profit per share (in CZK per share)	**49.44**	**47.75**

21. LOANS AND BORROWINGS

	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bank loans			3	1	3	1
Borrowings	-	-	1	-	1	-
	-	**-**	**4**	**1**	**4**	**1**

21.1. Bank loans

by currency (translated into CZK)/by interest rate

	31/12/2018	31/12/2017
CZK/PRIBOR	1	1
EUR/EURIBOR	2	-
	3	**1**

21.2. Borrowings

by currency (translated into CZK)/by interest rate

	31/12/2018	31/12/2017
CZK/PRIBOR	1	-
	1	**-**

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 28 and are presented together with other financial instruments.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

22. PROVISIONS

	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Environmental provision	687	695	130	163	817	858
Jubilee bonuses and retirement benefits provision	100	94	13	10	113	104
Provision for CO_2 emission allowances	-	-	2 090	729	2 090	729
Other provision	16	9	6	40	22	49
	803	**798**	**2 239**	**942**	**3 042**	**1 740**

Change in provisions in 2018

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2018	858	104	729	49	1 740
Recognition	7	15	2 162	-	2 184
Reclassification	3	-	-	(5)	(2)
Discounting	8	-	-	-	8
Usage	(54)	(6)	(801)	(13)	(874)
Reversal	(5)	-	-	(9)	(14)
	817	**113**	**2 090**	**22**	**3 042**

Change in provisions in 2017

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2017	881	104	553	111	1 649
Recognition	6	6	732	15	759
Discounting	6	-	-	-	6
Usage	(32)	(6)	(507)	(26)	(571)
Reversal	(3)	-	(49)*	(51)	(103)
	858	**104**	**729**	**49**	**1 740**

*Information regarding revaluation of provision for CO_2 allowances consumption is presented in note 6.1.

22.1. Environmental provision

As at 31 December 2018 the Group had under environmental provisions mainly:

- 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 311 million (31 December 2017: CZK 319 million),
- provision in the amount of CZK 166 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 2017: CZK 166 million),
- provision for liquidation and restoration of an electrolysis facility which is expected to occur after the termination of the operation in the current amalgam electrolysis facility in 2018 in the amount of CZK 130 million (31 December 2017: CZK 160 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 2020 in case of fly-ash deposits and in 2024 in case of toxic waste dump. The provision amounted to CZK 130 million (31 December 2017: CZK 129 million),
- provision for the compensation of damages to Lesy České republiky, s.p. (Forests of the Czech Republic) in the amount of CZK 29 million (31 December 2017: CZK 32 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 2% p.a. in 2018 (2017: 1.5%), 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 lower by CZK 20 million.

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22.2.1. Change in employee benefits obligations

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
At the beginning of the year	29	29	75	75	104	104
Current service costs	2	2	4	4	6	6
Interest expenses	-	-	1	-	1	-
Actuarial gains and losses arising from changes	(1)	-	(5)	(1)	(6)	(1)
demographic assumptions	*1*	*2*	*1*	*8*	*2*	*10*
financial assumptions	*(1)*	*(1)*	*(4)*	*(7)*	*(5)*	*(8)*
other	*(1)*	*(1)*	*(2)*	*(2)*	*(3)*	*(3)*
Past employment costs	2	1	12	-	14	1
Payments under program	(3)	(3)	(3)	(3)	(6)	(6)
	29	**29**	**84**	**75**	**113**	**104**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2018 and as at 31 December 2017.

22.2.2. Division of employee benefits liabilities by employees

	Active employees		Pensioners		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Czech Republic	113	104	-	-	113	104
					113	**104**

22.2.3. Geographical division of employee benefits liabilities

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Czech Republic	29	29	84	75	113	104
					113	**104**

22.2.4. Sensitivity analysis to changes in actuarial assumptions

Actuarial assumptions	Assumed variations as at 31/12/2018	Czech Republic	
		Influence on provision for jubilee bonuses 2018	Influence on retirement benefits 2018
Demographic assumptions (+)	0.5pp	(1)	(4)
staff turnover rates, disability and early retirement	*0.5pp*	*(1)*	*(4)*
Financial assumptions (+)	0.5pp	-	-
discount rate	*0.5pp*	*(1)*	*(4)*
level of future remuneration	*0.5pp*	*1*	*4*
		(1)	**(4)**
Demographic assumptions (-)	-0.5pp	1	3
staff turnover rates, disability and early retirement	*-0.5pp*	*1*	*3*
Financial assumptions (-)	-0.5pp	-	-
discount rate	*-0.5pp*	*1*	*4*
level of future remuneration	*-0.5pp*	*(1)*	*(4)*
		1	**3**

Actuarial assumptions	Assumed variations as at 31/12/2017	Czech Republic	
		Influence on provision for jubilee bonuses 2017	Influence on retirement benefits 2017
Demographic assumptions (+)	0.5pp	(5)	(7)
staff turnover rates, disability and early retirement	*0.5pp*	*(5)*	*(7)*
Financial assumptions (+)	0.5pp	(8)	(8)
discount rate	*0.5pp*	*(5)*	*(8)*
level of future remuneration	*0.5pp*	*(3)*	*-*
		(13)	**(15)**
Demographic assumptions (-)	-0.5pp	5	7
staff turnover rates, disability and early retirement	*-0.5pp*	*5*	*7*
Financial assumptions (-)	-0.5pp	8	8
discount rate	*-0.5pp*	*5*	*8*
level of future remuneration	*-0.5pp*	*3*	*-*
		13	**15**

(in CZK million)

22.2.5. Employee benefits maturity

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Less than one year	3	3	10	7	13	10
Between one and three years	5	5	8	9	13	14
Between three and five years	5	5	9	7	14	12
Later than five years	16	16	57	52	73	68
	29	**29**	**84**	**75**	**113**	**104**
Weighted average duration of liability (years)			10	10	10	10

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

	31/12/2018	31/12/2017
In profit and loss		
Current service costs	(6)	(6)
Interest expenses	(1)	-
Actuarial gains and losses arising from changes	1	-
demographic assumptions	*(1)*	*(2)*
financial assumptions	*1*	*1*
other	*1*	*1*
Past employment costs	(14)	(1)
Payments under program	6	6
	(14)	**(1)**
In components of other comprehensive income		
Gains and losses arising from changes	5	1
demographic assumptions	*(1)*	*(8)*
financial assumptions	*4*	*7*
other	*2*	*2*
	5	**1**
	(9)	**-**

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

	31/12/2018	31/12/2017
Cost of sales	(7)	-
Distribution expenses	(1)	-
Administrative expenses	(6)	(1)
	(14)	**(1)**

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 34.3.21.2.

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 13.4.

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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

23. OTHER NON-CURRENT LIABILITIES

	31/12/2018	31/12/2017
Investment liabilities	48	64
Guarantee payment received	172	170
Other	54	2
Financial liabilities	**274**	**236**
Other	2	2
Non-financial liabilities	**2**	**2**
	276	**238**

The Group has cash advances from business partners presented as Guarantee payments received in connection with operation of fuel stations.

24. TRADE AND OTHER LIABILITIES

	31/12/2018	31/12/2017
Trade liabilities	11 176	10 462
Investment liabilities	1 914	2 066
Dividends	24	30
Other	14	14
Financial liabilities	**13 128**	**12 572**
Prepayments for deliveries	-	130
Payroll liabilities	380	325
Excise tax and fuel charge	7 145	5 821
Value added tax	1 636	1 586
Other taxation, duties, social security and other benefits	132	120
Accruals	209	179
holiday pay accrual	37	38
wages accrual	161	140
other	11	1
Non-financial liabilities	**9 502**	**8 161**
	22 630	**20 733**

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

25. DEFERRED INCOME

	31/12/2018	31/12/2017
Grants received	23	14
Other	-	2
	23	**16**

26. LIABILITIES FROM CONTRACTS WITH CUSTOMERS

	31/12/2018	31/12/2017
Prepayments for deliveries	21	-
	21	**-**

27. FINANCIAL DERIVATIVES AND OTHER FINANCIAL LIABILITIES

	31/12/2018	31/12/2017
Financial derivatives		
Cash flow hedging instruments	18	321
commodity swaps	*18*	*321*
Derivatives not designated as hedge accounting	40	77
currency forwards	*40*	*66*
commodity swaps	*-*	*11*
Fair value hedging instruments	7	-
commodity swaps	*7*	*-*
Adjustment of hedged item for changes in fair value	1	-
	66	**398**

Information about cash flow hedging instruments and derivatives not designed as hedge accounting is presented in note 28.4.

	31/12/2018	31/12/2017
Other financial liabilities		
Cash pool	315	225
Liabilities on settled cash flow hedging instruments	182	175
	497	**400**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

28. FINANCIAL INSTRUMENTS

28.1. Financial instruments by category and class

Financial assets

31/12/2018

		Financial instruments by category			
Financial instruments by class	Note	Financial assets measured at amortized cost	Financial assets at fair value through other comprehensive income	Hedging financial instruments	Total
Unquoted shares	-	-	1	-	1
Trade receivables	17.	14 249	-	-	14 249
Cash pool	18.	5 353	-	-	5 353
Financial derivatives	18.	-	-	1 612	1 612
Cash and cash equivalents	19.	1 512	-	-	1 512
Receivables on settled cash flow hedging instruments	18.	994	-	-	994
Receivables due to insurance compensations	17.	29	-	-	29
Hedged item adjustment	18.	6	-	-	6
Other	17.,18.	30	-	-	30
		22 173	**1**	**1 612**	**23 786**

31/12/2017

		Financial instruments by category				
Financial instruments by class	Note	Financial assets at fair value through profit of loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Unquoted shares	-	-	-	1	-	1
Trade receivables	17.	-	13 495	-	-	13 495
Cash pool	18.	-	5 671	-	-	5 671
Financial derivatives	18.	6	-	-	1 360	1 366
Cash and cash equivalents	19.	-	2 459	-	-	2 459
Receivables on settled cash flow hedging instruments	18..	-	15	-	-	15
Other	17.,18.	-	48	-	-	48
		6	**21 688**	**1**	**1 360**	**23 055**

Financial liabilities

31/12/2018

		Financial instruments by category			
Financial instruments by class	Note	Financial liabilities at fair value through profit of loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Total
Borrowings	21.	-	1	-	1
Loans	21.	-	3	-	3
Trade liabilities	24.	-	11 176	-	11 176
Investment liabilities	24.	-	1 962	-	1 962
Cash pool	27.	-	315	-	315
Financial derivatives	27.	40	-	25	65
Liabilities on settled cash flow hedging instruments	27.	-	182	-	182
Hedged item adjustment	27.	-	1	-	1
Other	24.,27.	-	264	-	264
		40	**13 904**	**25**	**13 969**

31/12/2017

		Financial instruments by category			
Financial instruments by class	Note	Financial liabilities at fair value through profit of loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Total
Loans	21.	-	1	-	1
Trade liabilities	24.	-	10 462	-	10 462
Investment liabilities	24.	-	2 130	-	2 130
Cash pool	27.	-	225	-	225
Financial derivatives	27.	77	-	321	398
Liabilities on settled cash flow hedging instruments		-	175	-	175
Other	24.,27.	-	216	-	216
		77	**13 209**	**321**	**13 607**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

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

2018

	Financial instruments by category			
	Financial assets and liabilities at fair value through profit or loss	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
Interest income	-	97	-	97
Interest costs	-	-	(1)	(1)
Foreign exchange gain/(loss)	-	850	(321)	529
Settlement and valuation of financial instruments	441	-	-	441
Reversal of loss due to impairment of financial instruments	-	7	-	7
Other	-	-	(13)	(13)
	441	**954**	**(335)**	**1 061**
other, excluded from the scope of IFRS 7				
Provisions discounting				(8)
				(8)

2017

	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	-	78	-	78
Interest costs	-	-	(1)	(1)
Foreign exchange gain/(loss)	-	(1 814)	1 388	(426)
Recognition/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	-	(8)	-	(8)
Settlement and valuation of financial instruments	(1 049)	-	-	(1 049)
Other	-	-	(17)	(17)
	(1 049)	**(1 744)**	**1 370**	**(1 423)**
other, excluded from the scope of IFRS 7				
Provisions discounting				(6)
				(6)

28.3. Fair value measurement

31/12/2018

	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2
Financial assets					
Financial derivatives	*14.,18.*	1 612	1 612	-	1 612
Hedged item adjustment		6	6	-	6
		1 618	**1 618**	**-**	**1 618**
Financial liabilities					
Loans	*21.1.*	1	1	-	1
Borrowings	*21.2.*	3	3	-	3
Financial derivatives	*27.*	65	65	-	65
Hedged item adjustment		1	1	-	1
		70	**70**	**-**	**70**

31/12/2017

	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2
Financial assets					
Financial derivatives	*14.,18.*	1 366	1 366	-	1 366
		1 366	**1 366**	**-**	**1 366**
Financial liabilities					
Loans	*22.1.*	1	1	-	1
Financial derivatives	*24.,27.*	398	398	-	398
		399	**399**	**-**	**399**

For other classes (except for unquoted shares) of financial assets and liabilities presented in note 28.1. fair value approximates their carrying amount.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

28.3.1. 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.

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 2018 and the comparative period there were no transfers between Levels 1, 2 and 3 in the Group.

28.4. Hedge accounting

The Group hedges its cash flows resulting from the future transactions from 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) and commodity prices risks. 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 hedging instruments	31/12/2018	31/12/2017	Hedging strategies
currency forwards	861	1 299	operating and investing activity; sales of products and purchase of crude oil operational inventories; refining margin, time mismatch occurring on purchases of crude oil by sea, risk of crude oil prices on arbitrage transactions cash & carry, offering customers the goods for which price formulas are based on fixed price
commodity swaps	732	(260)	
	1 593	**1 039**	

Planned period of the influence on the result of the hedged cash flow:

Planned realization date of hedged cash flows	31/12/2018	31/12/2017
Currency operating exposure		
2018	-	599
2019	358	511
2020	170	189
2021	146	-
2022	187	-
Commodity risk exposure		
2018	-	(260)
2019	732	-
	1 593	**1 039**

28.5. 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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

28.5.1. 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 CO2 emission allowances prices-hedged on regular basis through periodic verification of numbers of owned and required rights to CO2 emission with determining the method of balancing of the future shortages or surpluses. In 2018 and in 2017, the Group concluded forward and spot transactions for purchase of rights which in the future will be amortized as a settlement of CO2 emissions. Valuations of these transactions are no subject to recognition in the financial statements, as purchased emission rights will be used for own purposes.

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:

31/12/2018

	Influence on hedging reserve			
(in USD)	Increase of price by	Influence	Decrease of price by	Influence
Crude oil USD/bbl	+29%	(44 651 907)	(29%)	44 651 907
Gasoline USD/Mt	+24%	(1 786 237)	(24%)	1 786 237
		(46 438 144)		**46 438 144**

28.5.2. 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 receivables is mostly covered by natural hedging of trade and receivables and liabilities denominated in the same currencies. Hedging instruments (forwards, currency swaps) also could be used, to cover significant foreign exchange risk exposure of trade receivables and liabilities not covered by natural hedging.

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

Financial instruments by class	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	187	30	5 486
Cash pool	134	85	5 352
Financial derivatives	34	33	1 612
Receivables on settled cash flow hedging instruments	-	44	994
Receivables due to insurance compensations	-	1	29
Cash and cash equivalents	1	4	102
Hedged item adjustment	-	-	6
	356	**197**	**13 581**
Financial liabilities			
Loans	-	-	2
Trade liabilities	77	253	7 667
Investment liabilities	27	3	742
Financial derivatives	-	3	65
Liabilities on settled cash flow hedging instruments	-	8	182
Hedged item adjustment	-	-	1
	104	**267**	**8 659**

Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2017

Financial instruments by class	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	192	28	5 489
Cash pool	51	205	5 671
Financial derivatives	50	3	1 366
Receivables on settled cash flow hedging instruments	-	1	15
Cash and cash equivalents	3	2	125
	296	**239**	**12 666**
Financial liabilities			
Trade liabilities	66	245	6 913
Investment liabilities	34	2	916
Financial derivatives	-	19	398
Liabilities on settled cash flow hedging instruments	-	8	175
	100	**274**	**8 402**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

28.5.2. Currency risk (continued)

Sensitivity analysis for currency changes risk

The influence of potential changes in carrying amounts of financial instruments as at 31 December 2018 and as at 31 December 2017 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	
	2018	2017	2018	2017	2018	2017
	variation of exchange rates +15%					
Influence on profit before tax	838	753	(338)	(148)	500	605
Influence on hedging reserve	129	195	109	(39)	238	156
Total influence	**967**	**948**	**(229)**	**(187)**	**738**	**761**

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.

28.5.3. 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:

	PRIBOR		EURIBOR		LIBOR		Total	
Financial instruments by class	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets								
Cash pool	1	-	3 438	1 304	1 914	4 367	5 353	5 671
	1	**-**	**3 438**	**1 304**	**1 914**	**4 367**	**5 353**	**5 671**
Financial liabilities								
Loans	1	1	2	-	-	-	3	1
Borrowings	1	-	-	-	-	-	1	-
Cash pool	315	225	-	-	-	-	315	225
	317	**226**	**2**	**-**	**-**	**-**	**319**	**226**

Sensitivity analysis for interest rate risk

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

	Assumed variation		Influence on profit before tax	
Interest rate	31/12/2018	31/12/2017	2018	2017
PRIBOR	+0.5pp	+0.5pp	(2)	(1)
EURIBOR	+0.5pp	+0.5pp	17	7
LIBOR	+0.5pp	+0.5pp	10	22
			25	**28**
PRIBOR	-0.5pp	-0.5pp	2	1
EURIBOR	-0.5pp	-0.5pp	(17)	(7)
LIBOR	-0.5pp	-0.5pp	(10)	(22)
			(25)	**(28)**

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 2018 and as at 31 December 2017. The influence of interest rate changes was presented on annual basis.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

28.5.4. 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

				31/12/2018			
	Note	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Above 5 years	Total	Carrying amount
Borrowings - undiscounted value	21.	1	-	-	-	1	1
Loans - undiscounted value	21.	3	-	-	-	3	3
Cash pool - undiscounted value	27.	315	-	-	-	315	315
Trade liabilities	24.	11 176	-	-	-	11 176	11 176
Investment liabilities	23.,24.	1 914	37	11	-	1 962	1 962
Financial derivatives	27.	65	-	-	-	65	65
Liabilities on settled cash flow hedging instruments		182	-	-	-	182	182
Hedged item adjustment		1	-	-	-	1	1
Other	24.,27.	38	54		172	264	264
		13 695	**91**	**11**	**172**	**13 969**	**13 969**

				31/12/2017			
	Note	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Above 5 years	Total	Carrying amount
Loans - undiscounted value	21.	1	-	-	-	1	1
Cash pool - undiscounted value	27.	225	-	-	-	225	225
Trade liabilities	24.	10 462	-	-	-	10 462	10 462
Investment liabilities	23.,24.	2 066	54	10	-	2 130	2 130
Financial derivatives	27.	398	-	-	-	398	398
Liabilities on settled cash flow hedging instruments		175	-	-	-	175	175
Other	24.,27.	44	2	-	170	216	216
		13 371	**56**	**10**	**170**	**13 607**	**13 607**

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 2018 and as at 31 December 2017 the maximum available credit facilities amounted to CZK 10 220 million and CZK 10 683 million respectively. Unused part of the credit facilities for bank loans or guarantees amounted to CZK 8 271 million as at 31 December 2018 and CZK 8 627 million as at 31 December 2017 respectively. The description of the loans and guarantees drawn from credit facilities is presented in notes 21 and 31.

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 2017, 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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

28.5.4. Liquidity and credit risk (continued)

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

	31/12/2018	31/12/2017
Group I	13 659	12 845
Group II	-	-
	13 659	**12 845**

The ageing analysis of receivables past due, but not impaired

	31/12/2018	31/12/2017
Up to 1 month	561	645
From 1 to 3 months	78	30
From 3 to 6 months	3	3
From 6 to 12 months	3	7
Above 1 year	4	13
	649	**698**

Change in impairment allowances of trade and other receivables

	31/12/2018	31/12/2017
At the beginning of the year	641	692
Recognition	16	47
Reversal	(23)	(39)
Usage	(171)	(47)
Other	11	-
Foreign exchange differences	3	(12)
	477	**641**

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 note 7.

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.

28.5.5. 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

29. LEASE

29.1. The Group as a lessee

Operating lease

The total undiscounted value of future lease payments amounted to CZK 248 million (lease payment due in the period less than one year) and CZK 2 660 million (later than one year) as at 31 December 2018.

The lease payments under non-cancellable operating lease previously disclosed amounted to CZK 830 million as at 31 December 2017 and were based on the legal interpretation of the non-cancellability of the lease. As a result of reassessment of interpretation of non-cancellability which takes into account also economic aspects, additional contracts are currently included under lease arrangements and they comprise rental of land for both definite and indefinite period, rental of railway trucks used for transportation or rental of petrol stations, buildings and offices. When these would have been included the lease payments as at 31 December 2017 would have been circa CZK 3 150 million.

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:

	2018	2017
Non-cancellable operating lease	79	77

Finance lease

As at 31 December 2018 and as at 31 December 2017 the Group did not possess any active finance lease agreements as a lessee.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

29.2. The Group as a lessor

Operating leases relate to the investment property owned by the Group with lease terms for indefinite period usually. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew.
Rental income earned by the Group from its investment property and direct operating expenses arising on the investment property for the year are set out in note 12.

Non-cancellable undiscounted operating lease receivables

	31/12/2018	31/12/2017
Less than one year	24	23
Between one and five years	96	93
Later than five years	361	350
	481	**466**

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

The total value of investment expenditures including borrowing costs amounted to CZK 7 860 million as at 31 December 2018 and CZK 7 541 million as at 31 December 2017, including environmental expenditures in the amount of CZK 629 million and CZK 194 million, respectively.

As at 31 December 2018 the value of future commitments resulting from contracts signed to this date amounted to CZK 3 349 million (31 December 2017: CZK 4 498 million). As at 31 December 2018 the major item related to the new polyethylene unit (PE3) at the Litvínov plant in the amount of CZK 738 million (31 December 2017: CZK 1 567 million).

31. 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 1 897 million as at 31 December 2018 (31 December 2017: CZK 1 948 million) and to other purposes amounted to CZK 51 million (31 December 2017: CZK 106 million).

The Group is the beneficiary of guarantees amounted CZK 486 million as at 31 December 2018 (31 December 2017: CZK 531 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:

2018	Total amount of funds to be provided	Used funds as at 31/12/2018	Unused funds as at 31/12/2018
UNIPETROL, a.s. / premises in Litvínov	6 012	4 286	1 726
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4 244	52	4 192
UNIPETROL RPA, s.r.o. - BENZINA odštěpný závod	1 349	498*	851
PARAMO, a.s. / premises in Pardubice	1 241	633	608
PARAMO, a.s. / premises in Kolín	1 907	1 900	7
SPOLANA s.r.o.	8 159	5 599	2 560
	22 912	**12 968**	**9 944**

2017	Total amount of funds to be provided	Used funds as at 31/12/2017	Unused funds as at 31/12/2017
UNIPETROL, a.s. / premises in Litvínov	6 012	4 256	1 756
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4 244	52	4 192
UNIPETROL RPA, s.r.o. - BENZINA odštěpný závod	1 349	485*	864
PARAMO, a.s. / premises in Pardubice	1 241	545	696
PARAMO, a.s. / premises in Kolín	1 907	1 898	9
SPOLANA a.s.	8 159	5 597	2 562
	22 912	**12 833**	**10 079**

* 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 the amount of approximately of CZK 500 million.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

32. RELATED PARTY TRANSACTIONS

32.1. Material transactions concluded by the Group companies with related parties

In 2018 and in 2017 there were no transactions concluded by the Group with related parties on other than arm's length terms.

32.2. Transactions with key management personnel

In 2018 and in 2017 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 2018 and as at 31 December 2017 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.

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

As at 31 December 2018 and as at 31 December 2017 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.

32.4. Transactions and balances of settlements of the Group companies with related parties

Parent and ultimate controlling party

As at 31 December 2018 100% (2017: 62.99%) of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A.

2018	PKN Orlen	Joint operations *	Entities under control or significant influence of PKN Orlen
Sales	4 098	972	13 139
Purchases	87 020	590	2 352
Finance income, including	112	53	-
Finance costs	53	-	1

31/12/2018	PKN Orlen	Joint operations *	Entities under control or significant influence of PKN Orlen
Long term receivables	248	-	-
Other financial assets	6 141	-	-
Trade and other receivables	273	124	880
Trade and other liabilities	5 672	63	87
Other financial liabilities	145	-	315

2017	PKN Orlen	Joint operations *	Entities under control or significant influence of PKN Orlen
Sales	5 551	876	9 197
Purchases	73 999	615	2 865
Finance income	23	43	40
Finance costs	-	-	3

31/12/2017	PKN Orlen	Joint operations *	Entities under control or significant influence of PKN Orlen
Other financial assets	5 672	-	-
Trade and other receivables	290	127	594
Trade and other liabilities	4 946	49	266
Other financial liabilities	-	-	225

* as the Joint operation are present uneliminated transactions with BUTADIEN KRALUPY, a.s.

33. 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.

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

	2018	2017
Parent Company		
Short-term employee benefits	70	78
Termination benefits	2	2
Subsidiaries		
Short-term employee benefits	215	258
Termination benefits	3	1
	290	**339**

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

33.2. Bonus system for key executive personnel of the Group

In 2018 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.

33.3. 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.

34. ACCOUNTING PRINCIPLES

34.1. Impact of IFRS amendments and interpretations on consolidated financial statements of the Group

34.1.1. Binding amendments to IFRSs and interpretations

<table>
<tr><th>Standards and Interpretations adopted by the EU</th><th>Possible impact on financial statements</th></tr>
<tr><td>IFRS 9 Financial Instruments</td><td>impact*</td></tr>
<tr><td>IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15</td><td>impact**</td></tr>
<tr><td>Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions</td><td rowspan="6">Amendments to the existing standards have not led to any material changes in the current financial statements</td></tr>
<tr><td>Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</td></tr>
<tr><td>Amendments to IFRS 15 Revenue from Contracts with Customers: Clarifications to IFRS 15 Revenue from Contracts with Customers</td></tr>
<tr><td>Amendments to IAS 40 Transfers of Investment Property</td></tr>
<tr><td>Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)”: Amendments resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording</td></tr>
<tr><td>IFRIC 22 Foreign Currency Transactions and Advance Consideration</td></tr>
</table>

***IFRS 9 Financial instruments**

<u>Selected accounting principles</u>

Measurement of financial assets and liabilities

From 1 January 2018, the Group classifies financial assets into one of the following categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Group classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.

The Group as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.

At the moment of initial recognition, the Group classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.

The Group classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.

The Group classifies financial liabilities into one of the following categories:
- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Group as liabilities measured at amortized cost classifies trade liabilities, loans, borrowings and bonds. Liabilities on derivatives not designated for hedge accounting are classified by the Group as measured at fair value through profit or loss.

The Group classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows and fair value.

<u>Measurement of financial assets at amortized cost</u>

The Group applies the effective interest rate method to measure financial assets at amortized cost.

Trade receivables after initial recognition are measured at amortized cost using the effective interest rate method, including impairment allowances, while trade receivables with a maturity of less than 12 months from the date of recognition (i.e. not including the financing component) and not appointed to factoring, are not discounted and are measured at nominal value.

34.1.1. Binding amendments to IFRSs and interpretations (continued)

Measurement of financial assets at fair value through other comprehensive income

Gains and losses on a financial asset constituting an equity instrument for which was applied the option of fair value through other comprehensive income is recognized in other comprehensive income, except for revenues from received dividends.

Measurement of financial assets at fair value through profit or loss

Gains or losses on the measurement of a financial asset that is classified as measured at fair value through profit or loss are recognized in profit or loss during the period in which they were recognized. Gains or losses from the valuation of items measured at fair value through profit or loss also include interest and dividend income.

Measurement of hedging financial instruments

Hedging financial instruments are measured in accordance with the principles of hedge accounting.

Impairment of financial assets

IFRS 9 introduces a new approach to estimating the impairment of financial assets measured at amortized cost or at fair value through other comprehensive income (with the exception of investments in capital assets and contract assets). The impairment model is based on the expected loss calculation as opposed to the applied model in years before 2018 resulting from IAS 39, which was based on the concept of incurred loss. The most significant item of financial assets in the Group's financial statements, which is subject to the new principles of calculating expected credit losses, are trade receivables.

The Group uses the following models for determining impairment allowances:

- general model (basic),
- simplified model.

The general model is used by the Group for financial assets measured at amortized cost - other than trade receivables and assets measured at fair value through other comprehensive income.

In the general model, the Group monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the life horizon of the instrument (stage 2 and stage 3).

On each day ending the reporting period, the Group considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.

For the purposes of estimating the expected credit loss, the Group uses default probability levels based on market credit quotes of derivatives for entities with a given rating and from a given sector.

The Group includes information on the future in the parameters of the expected loss estimation model by calculating the probability parameters of insolvency based on current market quotes.

The simplified model is used by the Group for trade receivables.

In the simplified model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.

In particular, for the insolvency event, the Group recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.

For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.

The Group includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.

The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

(Loss)/reversal of loss due to impairment of financial instruments

The (losses)/reversals of losses due to impairment of financial instruments include, in particular, (losses)/reversals of losses due to impairment of trade receivables and (losses)/reversals of losses due to impairment of granted loans.

Hedge accounting

Derivatives designated as hedging instruments from which it is expected that their fair value or resulting from them cash flows will offset changes in fair value or cash flows of hedged item are recognized in accordance with the principles of fair value hedge accounting or cash flows hedges.

The Group assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, the Group uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

34.1.1. Binding amendments to IFRSs and interpretations (continued)

In the case of cash flows hedge accounting, the Group:

- the part of profits or losses related to the hedging instrument, which constitute an effective hedge due to the hedged risk, recognizes in other comprehensive income,
- in addition (in the case of FX hedging - spot risk element), a change in the fair value due to the forward element (including the cross-currency margin) recognizes within the equity in a separate position (hedging cost),
- the inefficient part of profits or losses related to the hedging instrument recognizes in the statement of profit or loss. In the case of hedging cash flows from operating activities, the ineffective part recognizes in other operating income/expenses, and in the case of hedging cash flows of financing activities in finance income/costs.
- reclassifies profits or losses from equity to the statement of profit or loss to the line in which the hedged item is presented,
- excludes profits or losses from equity and adjusts the initial value of the hedged item (if the realization of the hedged item results in the recognition of a non-financial asset - for example, an inventory).

In the case of fair value hedge (operating activity), changes in the fair value of the hedging instrument and the hedged item are recognized in the statement of profit or loss in the item other operating income/expenses.

The table below presents the impact of the implementation of IFRS 9 on the change in the classification and measurement of the Group's financial assets as at 1 January 2018:

Financial instruments by class	Classification		Carrying amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Unquoted shares	Available for sale	At fair value through other comprehensive income	1	1
Trade and other receivables and cash pool	Loans and receivables	Measured at amortized cost	19 225	19 214
Derivatives not designed as hedge accounting	At fair value through profit or loss	At fair value through profit or loss	6	6
Cash flow hedging instruments	Hedging financial instruments	Hedging financial instruments	1 360	1 360
Cash and cash equivalents	Loans and receivables	Measured at amortized cost	2 459	2 459
Receivables on settled cash flow hedging instruments	Loans and receivables	Measured at amortized cost	15	15

The item of unquoted shares consists of equity instruments not held for trading, in accordance with IAS 39 classified as available for sale, which were valued by the Group at the purchase price less impairment allowances. The instruments were not acquired for trading in relation to the above, these assets will be measured at fair value through other comprehensive income, without the option of subsequent transferring the result from these instruments to the statement of profit or loss.

In the area of hedge accounting, the Group applies the requirements of IFRS 9 in the construction of hedging relationships. In particular, it concerns matching of the definitions of commodity risk hedging to the exposure characteristics and applied risk management strategies. The Group aims to limit the underlying risk in hedging relationships (resulting from various commodity indices on the side of the hedging instrument and the hedged item).

The Group applied principles of recognition the hedging cost within FX hedging transactions, where the forward component and the cross-currency margin is recorded in a separate item in other comprehensive income.

****IFRS 15 Revenues from Contracts with Customers**

<u>Selected accounting principles</u>

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

Requirements to identify a contract with a customer

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

Identification of performance obligations

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

Determination of the transaction price

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

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

Allocating the transaction price to individual performance obligations

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

34.1.1. Binding ammendments to IFRSs and interpretations (continued)

Recognition of revenue when performance obligations are satisfied

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

The Group transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenues over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits from performance as the Group performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Group is not created, and the Group has an enforceable right to payment for performance completed to date.

Impact of the implementation of IFRS 9 and IFRS 15 on the Group's consolidated financial statements as at 1 January 2018:

	IFRS/IAS applied	31/12/2017 Carrying amount	Change resulting from change in classification	Change resulting from change in measurement	01/01/2018 Carrying amount	01/01/2018 Impact on retained earnings
Financial assets available for sale	IAS 39	1	(1)	-	-	-
Financial assets at fair value through other comprehensive income	IFRS 9	-	1	-	1	-
Trade receivables	IAS 39/IFRS 9	13 495	-	(11)	13 484	(11)
Other current liabilities due to prepayments on deliveries	IFRS 15	130	(130)	-	-	-
Liabilities from contracts with customers	IFRS 15	-	130	-	130	-

The change in trade and other receivables results from the change in the measurement of impairment allowances estimated in accordance with IFRS 9, considering the requirements of the expected credit losses model.
The impact of the application of IFRS 15 on the items of the consolidated financial statements of the Group in 2018 compared to IAS 11, IAS 18 and related interpretations was immaterial.

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

Standards and Interpretations adopted by the EU	Possible impact on financial statements
IFRS 16 Leases	impact***
Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	no impact expected
IFRIC 23 Uncertainty over Income Tax Treatments	no impact expected

The Group intends to adopt new standards IFRSs listed above that are published by the International Accounting Standards Board, but not effective as at the date of publication of these financial statements, in accordance with their effective date.

***** IFRS 16 Leases**

<u>Selected accounting principles</u>

In accordance with the requirements of IFRS, from 1 January 2019, the Group applies for the first time IFRS 16 Leases. Consequently, the Group will change the accounting policy on recognition of lease agreements. Accounting policy changes will be made in accordance with the transitional provisions contained in IFRS 16.

The Group will implement IFRS 16 using the modified retrospective approach, therefore, comparative information for the year 2018 will not be converted.

Definition of lease

The Group currently applies the definition of a lease determined in accordance with IFRIC 4. As from January 1, 2019, the Group will assess whether the contract is or contains a lease based on the definition of leasing described in IFRS 16.

An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess whether the contract provides the right to control over the use of a underlying asset for a given period, the Group assesses whether the client has the following rights for the entire period of use:

a) the right to obtain substantially all economic benefits from the use of the identified asset and
b) the right to manage the use of an identified asset

The Group applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. January 1, 2019 or after that date. Thus, for all contracts concluded before January 1, 2019, it will apply the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. Instead, the Group applies IFRS 16 only to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4. According to the initial assessment of the Group, the new definition of leasing would not cause significant changes to the existing classification of contracts as leasing or leasing agreements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

34.1.2 IFRSs, amendments and interpretations to IFRSs endorsed by the European Union, not yet effective (continued)

Group as a lessee

In accordance with the current IAS 17 Leases, the lessee classifies leasing contracts as a financial or operating lease based on an assessment of whether the entire risk and benefits resulting from ownership of the leased asset were transferred to the lessee. In accordance with IFRS 16, the lessee recognizes in the statement of financial position an asset item under the right of use and lease liability for most leases.

For leases that are currently classified as operating leases and contracts not classified in accordance with IAS 17 as a lease, the lessee recognizes assets under the right of use and lease liabilities as follows:

- the leasing liability measures in the current value of the remaining lease payments, discounted on the basis of the marginal interest rate for the given agreement on the date of the first application,

- the value of the right of use of the underlying asset components for individual lease agreements (separately for each contract) is equal to the leasing liability, adjusted by previously recognized pre-paid or accrued lease payments.

Using the modified retrospective method of implementing IFRS 16, the lessee uses the following practical solutions for leases previously classified as operating leases in accordance with IAS 17:

- leasing agreements, the period of which ends up to 12 months from the date of the initial application of the Standard;

- for contracts where the leased asset is of low value, for example: a tablet, laptop, telephones, other small items of equipment.

After the initial recognition, the lessee measures the right to use an asset, similarly to other non-financial fixed assets, and the lease liability similar to financial liabilities. As a result, after initial recognition, the lessee recognizes depreciation of an asset component under the right of use (except when the law meets the definition of an investment property) and interest on the leasing liability.

The initial valuation of both assets and liabilities is significantly affected by the determination of the leasing period. According to the definition of the leasing period in accordance with IFRS 16, this period includes the non-cancellable period and periods resulting from the option of renewal or termination option, if there is reasonable certainty that the customer will extend the contract or will not use the option of termination.

For leases that were previously classified as finance leases in accordance with IAS 17, the carrying amount of the right to use the asset and leasing liabilities as at 1 January 2019 will be determined as the carrying amount of the leased asset and lease liabilities directly before that date, valued in accordance with IAS 17.

The incremental borrowing interest rate of the lessee applied to the lease liabilities recognized in the statement of financial position as at 1 January 2019 amounted to 1.77% p.a.

The impact on the financial statements as at the date of initial application is as follows:

The Group has estimated the impact of IFRS 16 and found that on 1 January 2019 will recognize the right of use assets and lease liability at an equal amount of CZK 2 663 million, what will not cause the difference in value to be included in retained earnings position.

Group as a lessor

In respect to contracts in which the Group is the lessor, at the time of implementation of IFRS 16 the Group does not make any adjustments. From 1 January 2019 year, the Group recognizes a.m. contracts in accordance with IFRS 16.

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

Standards and Interpretations adopted by the EU	Possible impact on financial statements
IFRS 14 Regulatory Deferral Accounts	no impact expected
IFRS 17 Insurance Contracts	no impact expected
Amendment to IFRS 3 - Business combinations	no impact expected
Amendments to IFRS 10 Consolidated Financial Statements and IAS - 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments	no impact expected
Amendments to IAS 1 Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors: Definition of Material	no impact expected
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	no impact expected
Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures	no impact expected
Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording	no impact expected
Amendments to references to the conceptual framework in IFRS Standards	no impact expected

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

34.2. 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.

Currency	Average exchange rate for the reporting period 2018	2017	Exchange rate as at the end of reporting period 2018	2017
CZK/EUR	25.643	26.330	25.725	25.540
CZK/USD	21.735	23.382	22.466	21.291
CZK/100 HUF	8.045	8.517	8.015	8.230

34.3. Applied accounting policies

34.3.1. 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 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 34.2.

34.3.2. 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.

34.3.2.1. 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.

34.3.2.2. 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.

34.3.2.3. 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.

34.3.3. 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.

34.3.4. 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.

34.3.4. Operating segments (continued)

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.

34.3.5. Revenues

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

Requirements to identify a contract with a customer

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

Identification of performance obligations

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

Determination of the transaction price

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

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

Allocating the transaction price to individual performance obligations

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

Recognition of revenue when performance obligations are satisfied

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

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

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

34.3.6. 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.

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34.3.7. 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.

34.3.8. 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.

34.3.9. 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.

34.3.10. 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.

34.3.11. 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

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

34.3.12. 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.

34.3.13. 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

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

34.3.13.1. Carbon dioxide emission allowances

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.e. carbon dioxide (CO_2).
In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in an emissions trading system. All mentioned entities are allowed to emit CO_2 or they are partially granted free of charge in a specified quantity under the derogations provided in article 10a and 10c of the EU Directive 2009/29/EC and are obliged to redeem them in a number corresponding to the size of emission realized in a given year.
CO_2 emission rights are initially 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).
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).

34.3.14. 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 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.

34.3.15. 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.

34.3.15. Inventories (continued)

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.

34.3.16. 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 calculated based on the expected credit loss model.
Recognition and reversal of impairment losses of receivables are recognized in other operating activity in relation to the principal amount and in financial activities in relation to interest for delayed payments.

34.3.17. 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.

34.3.18. 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.

34.3.19. 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:

34.3.19.1. 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.

34.3.19.2. 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.

34.3.19.3. 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.

34.3.19.4. 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.

34.3.19.5. 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.

34.3.20. 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.

34.3.21. 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.

34.3.21.1. 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.

34.3.21.2. 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.

34.3.21.3. 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.

34.3.21.4. 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).

34.3.21.5. 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.

34.3.22. 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 34.3.13.1.

34.3.23. 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.

34.3.24. Financial instruments

34.3.24.1. 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. 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 Group measures its financial liabilities at amortized cost using the effective interest rate method.

34.3.24.2. Transfers

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

34.3.24.3. 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.

34.3.25. Fair value measurement

The Group classifies financial assets into one of the following categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

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

The Group as liabilities measured at amortized cost classifies trade liabilities, loans, borrowings and bonds. Liabilities on derivatives not designated for hedge accounting are classified by the Group/Group as measured at fair value through profit or loss.
The Group classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows and fair value.

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

34.3.26. 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.

34.3.27. 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.

34.3.28. Events after the reporting period

Subsequent events after the reporting date are those events, favourable and unfavourable that occur between the end of the reporting period and date when the financial statements are authorized for issue. Two types of subsequent events can be identified:
- those that provide evidence of conditions that existed as at the end of the reporting period (events after the reporting period requiring adjustments) and
- those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments).

35. APPLICATION OF PROFESSIONAL JUDGEMENT 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 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used,

10. Property, plant and equipment – assessment of remaining useful lives of the property plant and equipment,

11. Investment property – estimation of periods for the assets will be rented,

13. Intangible assets – assessment of remaining useful lives of the intangible assets,

15. Impairment of property, plant and equipment and intangible assets – the management assesses whether there is any indicator for impairment of an assets or cash generating unit. As part of the analysis of indications, both external factors - including primarily the macroeconomic environment as well as internal environment are analyzed - including strategic decisions, financial projections and operational plans. If there is any indicator for impairment, the estimation of recoverable amount of an asset is made,

16.1. Changes in impairment allowances of inventories to net realizable value – estimation of the net realizable value based on the most recent sales prices at the moment of estimations,

17. Impairment of trade and other receivables - the Group does not monitor changes in the credit risk during life of instrument and estimates the expected credit loss until maturity of instrument. For the purpose of estimating the expected credit loss, the Group uses the provision matrix, which was estimated based on historical levels of repayment and recoveries from receivables from customers. The Group includes information on the future in parameters used in the expected loss estimation model, through the management adjustment of the basic default probability rates.
Expected credit loss is calculated at the moment of recognition of receivables in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of overdue days of a given receivable.
Recognition and reversal of the expected impairment allowances for main receivables is recognized under other operating income/expenses in the line (loss)/reversal of loss due to impairment of financial instruments and for interest on late payment under finance income/costs in the line (loss)/reversal of loss due to impairment of financial instruments.

21. Provisions – recognition of provisions requires estimates of the probable outflow of resources embodying economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are recognized when the probability of outflow of resources embodying economic benefits is higher than 50%,

27. Financial instruments – the classification of financial instruments, nature and extent of risk related to financial instruments and application of the cash flow hedge accounting. The financial instruments are classified into different categories depending on the purpose of the purchase and nature of acquired assets,

36. The parent company and structure of the consolidated Group – the Group, regardless of the nature of its involvement in the entity (the entity in which it invested) defines its status by assessment, whether it controls the entity in which the investment was made, and whether it has a joint control in a joint venture, after consideration of all the facts and circumstances.

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

36. INFORMATION CONCERNING SIGNIFICANT PROCEEDINGS IN FRONT OF COURT OR IN FRONT OF PUBLIC ADMINISTRATION BODIES

As at 31 December 2018 the Group entities were parties in the following significant proceedings in front of court or in front of public administration bodies:

36.1. Proceedings in which the Group entities acts as a plaintiff

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 Usti nad Labem resolved to annul the Appellate Tax Authority decision dated 27 October 2010.

On 22 November 2018, the Appellate Tax Authority resolved to dismiss the UNIPETROL RPA, s.r.o. appeal and confirmed the Tax Authority in Litvinov decision of 27 May 2010 on the tax corporate income obligation of UNIPETROL RPA, s.r.o. of approximately CZK 325 million. On 25 January 2019 UNIPETROL RPA, s.r.o. filed a complaint for a court review of the decision of the Appelate 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.

The case is pending, currently being reviewed by Ústí nad Labem Regional court.

36.2. Proceedings in which the Group entities acts as the defendant

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

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

36.2. Proceeding in which the Group entities acts as a defendant (continued)

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.

On 9 February 2018, the District Court in Ostrava dismissed the "I.P. - 95, s.r.o." claim in full and the Regional court confirmed this decision on 11 December 2018.

Claim of KOOPERATIVA pojišťovna, a.s., Vienna Insurance Group

On 21 November 2018 UNIPETROL RPA, s.r.o. received from the District Court Most a petition (request for issue of a payment order) filed by KOOPERATIVA pojišťovna, a.s., Vienna Insurance Group for CZK 134 269 623 plus appurtenances.

The claim is based on the insurer recourse claims and it relates to insurance proceeds paid by KOOPERATIVA pojišťovna, a.s., Vienna Insurance Group to Butadien Kralupy a.s. and SPOLANA s.r.o. KOOPERATIVA pojišťovna, a.s., Vienna Insurance Group provided insurance coverage to Butadien Kralupy a.s. and SPOLANA a.s. for their business interruption relating to UNIPETROL RPA, s.r.o. failure to supply feedstock due to the 2015 Steam Cracker accident.

UNIPETROL RPA, s.r.o. does not recognize the claim and considers the claim as unjustified and unfounded. UNIPETROL RPA, s.r.o. will take all legal actions to defend itself against this claim.

Claim of Česká pojišťovna, a.s.

On 14 January 2019 UNIPETROL RPA, s.r.o. received from the District Court Most a petition filed by Česká pojišťovna, a.s., for CZK 88 million plus appurtenances and payment order issued by the court for payment of the same amount.

The claim is based on the insurer recourse claim and it relates to insurance proceeds paid by Česká pojišťovna, a.s., to DEZA a.s. Česká pojišťovna, a.s. provided insurance coverage to Deza a.s. for its business interruption relating to UNIPETROL RPA, s.r.o. failure to supply feedstock due to the 2015 Steam Cracker accident.

UNIPETROL RPA, s.r.o. does not recognize the claim and considers the claim as unjustified and unfounded. UNIPETROL RPA, s.r.o. will take all legal actions to defend itself against this claim.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

37. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

37.1. Group structure

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 2018).

Name and place of business	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment	Website
Parent company				
UNIPETROL, a.s. Milevská 2095/5, 140 00 Praha 4, Czech Republic			Corporate Functions	www.unipetrol.cz
Subsidiaries consolidated in full method				
HC VERVA Litvínov, a.s. 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	www.nadaceunipetrol.cz
PARAMO, a.s. Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	100.00%	--	Downstream	www.paramo.cz
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Downstream	www.petrotrans.cz
SPOLANA s.r.o. ul. Práce 657, 277 11 Neratovice, Czech Republic	--	100.00%	Downstream	www.spolana.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B, 63225 Langen/Hessen, Germany	0.10%	99.90%	Downstream	www.unipetrol.de
UNIPETROL DOPRAVA, s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12%	99.88%	Downstream	www.unipetroldoprava.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream Corporate Functions Retail	www.unipetrolrpa.cz
UNIPETROL RPA Hungary Kft. 2040 Budaörs, Puskás Tivadar utca 12, Hungary	--	100.00%	Downstream	
UNIPETROL SLOVENSKO s.r.o. Jašíkova 2, Ružinov, 821 03 Bratislava, Slovak Republic	13.04%	86.96%	Downstream	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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2018 (in CZK million)

37.2. Subsidiaries

Changes in structure of the Group

On 29 May 2018 the liquidation of the Paramo Oil, s.r.o. was finalized and the company was deleted from the Commercial register.

37.3. 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. Based on Article of association of Butadien Kralupy a.s., the Group has the right to proportionate share of the income and bears a proportionate share in the costs of joint operations.

38. EVENTS AFTER THE REPORTING PERIOD

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 2018.

39. 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 34.3.) 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 4 March 2019.

Signature of statutory representatives

Krzysztof Jerzy Zdziarski	Przemysław Wacławski
Chairman of the Board of Directors	Member of the Board of Directors

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 2018

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 1.1.2018 to 31.12.2018 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 Milievská 2095/5, 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 arcticle 82 (4) of the Act of Business Corporations as a result of any contracts, acts or measures taken between entities in business group. No risks arise from the relations between entities in business group to 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, 4 March 2019

On behalf of the Board of Directors of UNIPETROL, a.s.

Krzysztof Jerzy Zdziarski

Chairman of the Board of Directors

Przemysław Wacławski

Member of the Board of Directors

Appendix No. 1

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

1. 1. 2018 – 31. 12. 2018

Companies controlled by UNIPETROL, a.s.	Residence	Shares in directly and indirectly controlled companies Share in % of the capital		Note
Companies with direct share of UNIPETROL, a.s. Companies with indirect share of UNIPETROL, a.s.		**1.1.**	**31.12.**	
1. UNIPETROL RPA, s.r.o., IČ 275 97 075	Litvínov, Záluží 1, Czech republic	**100,00**	**100,00**	
1.1 HC VERVA Litvínov, a.s., IČ 640 48 098	Litvínov , S.K. Neumanna 1598, Czech republic	70,95	70,95	Other shareholders - Litvínov city owns 22,14% and HC Litvínov, o.s. 6,91%
1.2 UNIPETROL DOPRAVA, s.r.o., IČ 640 49 701	Litvínov, Růžodol 4, Czech republic	99,88	99,88	0,12% owned by UNIPETROL, a.s.
1.3 UNIPETROL DEUTSCHLAND GmbH, IČ HRB 34346	Langen, Paul-Ehrlich-Strasse 1B, Germany	99,90	99,90	0,10% owned by UNIPETROL, a.s.
1.4 UNIPETROL SLOVENSKO, s.r.o., IČ 357 77 087	Bratislava - mestská časť Ružinov, Jašíkova 2, Slovakia	86,96	86,96	13,04% owned by UNIPETROL, a.s.
1.5 UNIPETROL RPA Hungary Kft., IČ 13-09-181774	2040 Budaörs, Puskás Tivadar utca 12, Hungary	100,00	100,00	
1.6 SPOLANA s.r.o., IČ 451 47 787	Neratovice, ul. Práce 657, Czech republic	100,00	100,00	Change of legal form from 1.12.2018
1.7 Nadace Unipetrol, IČ 056 61 544	Litvínov, Záluží 1, Czech republic	100,00	100,00	
1.8 PETROTRANS, s.r.o., IČ 251 23 041	Praha 8, Libeň, Střelničná 2221/50, Czech republic	99,37	99,37	0,63% owned by UNIPETROL, a.s.
2. Unipetrol výzkumně vzdělávací centrum, a.s., IČ 622 43 136	Ústí nad Labem, Revoluční 1521/ 84, Czech republic	**100,00**	**100,00**	
3. PARAMO, a.s., IČ 481 73 355	Pardubice, Svítkov, Přerovská 560, Czech republic	**100,00**	**100,00**	
3.1 Paramo Oil s.r.o., v likvidaci IČ 246 87 341	Pardubice, Přerovská 560, Czech republic	100,00	-	Company was deleted from the Commercial register on 29.5.2018
4. Butadien Kralupy a.s., IČ 278 93 995	Kralupy nad Vltavou, O. Wichterleho 810, Czech republic	51,00	51,00	49,00% shares owned by SYNTHOS Kralupy a.s.
Other companies with share of UNIPETROL, a.s.				
1. UNIVERSAL BANKA, a.s, in bankruptcy, IČ 482 64 865	Praha 1, Senovážné náměstí 1588/4, Czech republic	16,45	16,45	12,24% shares owned by UNIPETROL RPA, s.r.o.
2. ORLEN HOLDING MALTA LIMITED, IČ C 39945	Level 3, Triq ir-Rampa ta' San Giljan, Balluta Bay, St Julians, STJ1062, Malta	0,50	0,50	99,50% shares owned by PKN ORLEN S.A.

Appendix No. 2
Capital Group of PKN ORLEN S.A. - Controlled Companies
1 January 2018 - 31 December 2018

Company controlled by PKN ORLEN S.A.	Residence	Shares in directly and undirectly controlled company		Note
		as at 1.1.2018	as at 31.12.2018	
1. UNIPETROL, a.s.	**Prague**	**62,99%**	**100,00%**	A voluntary tender offer to acquire UNIPETROL, a.s. shares was announced by PKN ORLEN S.A. on 12 December 2017. The transaction was settled on 23 February 2018, PKN ORLEN S.A. purchased 56 280 592 UNIPETROL, a.s. shares which represent ca. 31.04% of the Unipetrol share capital. On 28.8.2018 Unipetrol General Meeting approved the acquisition by PKN ORLEN S.A. of Unipetrol shares representing approximately 5.97% of the company's share capital on a basis of squeeze out regulations. As of 1.10.2018 PKN ORLEN S.A. takes full ownership of all Unipetrol shares.
2. AB ORLEN Lietuva	**Juodeikiai**	**100,00%**	**100,00%**	
2.1 UAB Mazeikiu naftos prekybos namai	Vilnius	100,00%	100,00%	
2.1.1 SIA ORLEN Latvija	Riga, Latvia	100,00%	100,00%	
2.1.2 ORLEN Eesti OU	Tallin, Estonia	100,00%	100,00%	
2.2 UAB EMAS	Juodeikiai	100,00%	100,00%	
3. AB Ventus Nafta	**Vilnius**	**100,00%**	**100,00%**	
4. ANWIL S.A.	**Włocławek**	**100,00%**	**100,00%**	
5. Inowrocławskie Kopalnie Soli "SOLINO" S.A.	**Inowrocław**	**100,00%**	**100,00%**	
6. Kopalnia Soli Lubień sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
7. ORLEN Administracja Sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
8. ORLEN Asfalt sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
8.1 ORLEN Asfalt Ceska Republika s.r.o.	Pardubice	100,00%	100,00%	
9. ORLEN Serwis S.A.	**Płock**	**100,00%**	**100,00%**	
10. ORLEN Budonaft Sp. z o.o.	**Limanowa**	**100,00%**	**100,00%**	
11. ORLEN Centrum Serwisowe Sp. z o.o.	**Opole**	**99,33%**	**99,33%**	
12. ORLEN Deutschland GmbH	**Elmshorn**	**100,00%**	**100,00%**	
13. ORLEN EKO Sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
14. Orlen Holding Malta Limited	**St. Julians, Malta**	**99,50%**	**99,50%**	
14.1 Orlen Insurance Ltd.	St. Julians, Malta	99,99%	99,99%	
15. ORLEN KolTrans Sp. z o.o.	**Płock**	**99,88%**	**99,91%**	On 02.02.2018 PKN purchased 17 shares from minority shareholders.
16. ORLEN Centrum Usług Korporacyjnych sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
17. Orlen Laboratorium S.A.	**Płock**	**100,00%**	**100,00%**	
18. ORLEN Ochrona Sp. z o.o.	**Płock**	**100,00%**	**100,00%**	
18.1 ORLEN Apsauga UAB	Juodeikiai	100,00%	100,00%	
19. ORLEN OIL Sp. z o.o.	**Kraków**	**100,00%**	**100,00%**	
19.1 Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o.	Baranowo	67,49%	90,00%	On 21.12.2017 Platinum Oil WCD EGM approved share capital increase. Based on acquisition of new shares, stake of ORLEN Oil Sp. z o.o. increased to 90%.
20. ORLEN Paliwa Sp. z o.o.	**Widełka**	**100,00%**	**100,00%**	
21. ORLEN Projekt S.A.	**Płock**	**99,77%**	**100,00%**	As at 9.8.2018 PKN ORLEN S.A. became the sole shareholder of ORLEN Projekt S.A. The purchase was conducted through the squeeze out of minority shareholders.
22. ORLEN Upstream Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
22.1. Orlen Upstream Canada Ltd	Calgary	100,00%	100,00%	
22.1.1 1426628 Alberta Ltd.	Calgary	100,00%	100,00%	
22.1.2 OneEx Operations Partnership	Calgary	100,00%	100,00%	
22.1.3 Pierdiae Production GP Ltd.	Calgary	50,00%	50,00%	
22.1.3.1 671519 N.B. Ltd.	Saint John	100,00%	100,00%	
22.1.4 KCK Atlantic Holdings Ltd.	Calgary	100,00%	100,00%	
22.1.4.1 Pierdiae Production LP	Calgary	80,00%	80,00%	
22.2 FX Energy Inc.	Salt Lake City	100,00%	100,00%	
22.2.1 Frontier Exploration, Inc.	Salt Lake City	100,00%	100,00%	
22.2.2 FX Energy Netherlands Partnership C.V.	Utrecht	100,00%	100,00%	
22.2.2.1 FX Energy Netherlands B.V.	Utrecht	100,00%	100,00%	
22.2.2.1.1 FX Energy Polska Sp. z o.o.	Warszawa	100,00%	100,00%	
23. ORLEN Aviation Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
24. ORLEN Południe S.A.	**Trzebinia**	**100,00%**	**100,00%**	
24.1 Energomedia Sp. z o.o.	Trzebinia	100,00%	100,00%	
24.2 Euronaft Trzebinia Sp. z o.o.	Trzebinia	100,00%	100,00%	
24.3 KONSORCJUM OLEJÓW PRZEPRACOWANYCH - ORGANIZACJA OD	Jedlicze	89,00%	89,00%	
24.4 RAN-WATT Sp. z o.o. w likwidacji	Toruń	51,00%	0,00%	On 10.04.2018 RAN-WATT Sp. z o.o. w likwidacji (in liquidation) was deleted from the commercial register.
25. Ship - Service S.A.	**Warszawa**	**60,86%**	**60,86%**	
26. ORLEN Finance AB	**Stockholm**	**100,00%**	**0,00%**	On 17.04.2018 company changed its business name from ORLEN Finance AB to Polish Sky Finance AB; On 18.06.2018 PKN ORLEN S.A. sold 100% shares in Polish Sky Finance AB (formerly ORLEN Finance AB) to S-bolag Börsen AB.
27. ORLEN Capital AB	**Stockholm**	**100,00%**	**100,00%**	
28. Baltic Power Sp. z o.o.	**Warszawa**	**100,00%**	**100,00%**	
29. Basell Orlen Polyolefins Sp. z o.o.	**Płock**	**50,00%**	**50,00%**	
29.1 Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	Płock	100,00%	100,00%	
30. Płocki Park Przemysłowo-Technologiczny S.A.	**Płock**	**50,00%**	**50,00%**	
30.1 Centrum Edukacji Sp. z o.o.	Płock	69,43%	69,43%	

Appendix No. 3.

Contract / amendment number	Subject of the document	Reason for entering into the contract/amendment	Company	Valid from	Valid until	Date of conclusion of contract
75-2009	Contract on the provision of licenses (sublicenses) for the use of SAP Software and provision of SAP support, as amended	license provision	**UNIPETROL RPA, s.r.o.**	15.5.2009	indefinite	15.5.2009
118-2010	Preliminary contract on the establishment of an	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	9.8.2010	indefinite	9.8.2010
42-2010	Contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group, as amended	Monitoring the surrounding environment of the Group	**Butadien Kralupy a.s.**	1.5.2010	indefinite	21.4.2010
179-2008	Credit agreement, as amended	provision of loans	**Butadien Kralupy a.s.**	15.5.2008	indefinite	15.5.2008
0042-2018	Contract No. 0042-2018 on insurance and its management - Liability insurance - 1st category	Liability insurance coverage - 1st category	**Butadien Kralupy a.s.**	1.5.2018	30.4.2019	26.9.2018
0173-2009 (31-2009 BUT)	Compensation Contract - Service Guarantee	providing cash as a guarantee for a tax warehouse	**Butadien Kralupy a.s.**	30.12.2009	indefinite	30.12.2009
103-2013	Contract on the termination and establishment of an easement	Contract on the establishment of an easement	**UNIPETROL RPA, s.r.o.**	27.11.2013	indefinite	x
135-2008	Contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group, as amended	Monitoring the surrounding environment of the Group	**UNIPETROL RPA, s.r.o.**	1.1.2008	indefinite	1.1.2008
204-2008	Agreement on contracts on an easement	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	15.5.2007	indefinite	15.5.2007
200-2008	Contract on the termination of an easement	use of real estate	**UNIPETROL RPA, s.r.o.**	20.8.2006	indefinite	20.8.2006
89-2007	Contract on the establishment of an easement	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	10.7.2007	indefinite	10.7.2007
202-2008	Contract on the establishment of an easement	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	31.8.2006	indefinite	31.8.2006
60-2009	Contract on the establishment of an easement	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	1.3.2009	indefinite	1.3.2009
97-2009	Contract on the establishment of an easement	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	30.6.2009	indefinite	30.6.2009
0065 - 2015	Credit agreement B - Cashpooling	drawing on a loan	**UNIPETROL RPA, s.r.o.**	3.6.2015	indefinite	26.6.2015
0064 - 2015	Credit agreement A - Cashpooling	provision of loans	**UNIPETROL RPA, s.r.o.**	3.6.2015	indefinite	26.6.2015
0063 - 2015	Credit agreement	provision of loans	**UNIPETROL RPA, s.r.o.**	3.6.2015	indefinite	26.6.2015
2-2011	Agreement on the use of a trademark, logo and other symbols	use of trademark, logo, and other brand benefits	**UNIPETROL SLOVENSKO s. r. o.**	1.1.2010	indefinite	8.3.2011
0115 - 2015	Credit agreement 160-2009	provision of loans	**UNIPETROL SLOVENSKO s. r. o.**	9.12.2009	indefinite	9.12.2009
0054 - 2015	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the UNIPETROL Group	Monitoring the surrounding environment of the Group	**UNIPETROL SLOVENSKO s. r. o.**	1.7.2014	indefinite	x
406-2008	Comprehensive Services Agreement	SLA	**UNIPETROL SLOVENSKO s. r. o.**	1.1.2008	indefinite	x
0044-2018	Contract No. 0044-2018 on insurance and its management - Liability Insurance - 1st category	Liability insurance coverage - 1st category	**PARAMO, a.s.**	1.5.2018	30.4.2019	6.11.2018
30-2008	Contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group, as amended	Monitoring the surrounding environment of the Group	**PARAMO, a.s.**	1.1.2008	indefinite	28.4.2008
404-2008	CLA Contract, as amended	Provision of services	**PARAMO, a.s.**	1.1.2008	indefinite	1.1.2008
196-2007	Framework Reconciliation Agreement	Cost transfer from WGM	**PARAMO, a.s.**	39422	indefinite	39422
139-2007	Credit agreement	provision of loans	**PARAMO, a.s.**	39286	indefinite	39286
0104 - 2017 rev. 0 amend. 0	Contract No. 69-2017 on insurance and its administration	Contract No. 69-2017 on insurance and its administra	**PARAMO, a.s.**	1.5.2017	30.4.2018	1.5.2017
0147 - 2018 rev. 0 amend. 0	Amendment no. 12 to the contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group	IT services	**PARAMO, a.s.**	43101	31.12.2018	43101
0056 - 2018 rev. 0 amend. 0	Contract No. 0017-2018 on insurance and its management (liability insurance of members of statutory bodies of the company and insurance of non-technological assets)	DNO insurance cover	**PARAMO, a.s.**	43101	31.12.2018	43101
243-2008	Credit agreement	provision of loans	**PARAMO, a.s.**	16.6.2008	indefinite	16.6.2008
137-2015	CLA Contract - Internal Audit Area	services - internal audit	**PARAMO, a.s.**	1.1.2016	indefinite	1.3.2016
0097 - 2016	Credit agreement B - Cashpooling	provision of loans	**PETROTRANS, s.r.o.**	25.11.2016	indefinite	3.1.2017
0096 - 2016	Credit agreement A - Cashpooling	provision of loans	**PETROTRANS, s.r.o.**	25.11.2016	indefinite	3.1.2017
0136-2015	CLA Contract - Internal Audit Area	services - internal audit	**PETROTRANS, s.r.o.**	1.1.2016	indefinite	29.2.2016
133-2007	Credit agreement	line of credit	**PETROTRANS, s.r.o.**	13.8.2007	indefinite	13.8.2007
0018-2017	Credit agreement B - Cashpooling	provision of loans	**PETROTRANS, s.r.o.**	15.11.2007	indefinite	15.11.2007
0017-2017	Credit agreement A - Cashpooling	provision of loans	**PETROTRANS, s.r.o.**	15.11.2007	indefinite	15.11.2007
417-2008	CLA Contract, as amended	provision of services	**PETROTRANS, s.r.o.**	1.1.2008	indefinite	1.1.2008
97-2011	Credit agreement	provision of loans	**UNIPETROL RPA, s.r.o.**	1.10.2011	indefinite	1.10.2011
98-2011	Credit agreement (overdraft)	provision of loans	**UNIPETROL RPA, s.r.o.**	1.10.2011	indefinite	1.10.2011
81-2009	CONTRACT on the provision of licenses (sublicenses) for the use of SAP Software and provision of SAP support, as amended	license provision	**UNIPETROL RPA, s.r.o.**	15.5.2009	indefinite	15.5.2009
76-2008	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group	Monitoring the surrounding environment of the Group	**UNIPETROL RPA, s.r.o.**	1.1.2008	indefinite	1.1.2008
204-2007	Credit agreement - use of cashpooling service	provision of loans	**UNIPETROL DOPRAVA, s.r.o.**	16.4.2007	indefinite	16.4.2007
143-2007	Credit Agreement No. S200 / 127/07	provision of loans	**UNIPETROL DOPRAVA, s.r.o.**	10.8.2007	indefinite	10.8.2007
2008-456	Agreement on the use of the Framework Agreement with DELL No. S400/082/00	Possibility to purchase IT goods	**UNIPETROL DOPRAVA, s.r.o.**	30.3.2000	indefinite	30.3.2000
2010-26	HSEQ cooperation agreement	Cooperation	**UNIPETROL DOPRAVA, s.r.o.**	5.10.2009	indefinite	5.10.2009
2010-53	HSE cooperation agreement	Cooperation	**UNIPETROL DOPRAVA, s.r.o.**	23.10.2009	indefinite	23.10.2009
2010-55	Cooperation agreement to improve business results	Cooperation	**UNIPETROL DOPRAVA, s.r.o.**	2.11.2009	indefinite	2.11.2009
203-2007	Credit Agreement No. S200/087/07	provision of loans	**UNIPETROL DOPRAVA, s.r.o.**	16.7.2007	indefinite	16.7.2007
167-2009	Framework contract on ensuring the development and use of a shared information environment for the monitoring the surroundings of the Unipetrol Group, as amended	providing services to monitor the Group's surroundings	**UNIPETROL DOPRAVA, s.r.o.**	16.2.2010	indefinite	1.1.2010
15-2010	Agreement on the use of GOODWILL UNIPETROL, as amended	use of Goodwill Unipetrol	**UNIPETROL DOPRAVA, s.r.o.**	1.1.2009	indefinite	11.2.2010
0133-2015	CLA Contract - Internal Audit Area	services - internal audit	**UNIPETROL DOPRAVA, s.r.o.**	1.1.2016	indefinite	14.3.2016
0841 - 2018 rev. 0 amend. 0	Framework contract on the provision of certain information and access to information systems	Making information and data available to other Unipetrol subsidiaries as well	**UNIPETROL RPA, s.r.o.**	1.1.2018	indefinite	3.12.2018
0668 - 2018 rev. 0 amend. 0	Contract on the establishment of an easement	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	8.10.2012	indefinite	8.10.2012

Contract / amendment number	Subject of the document	Reason for entering into the contract/amendment	Company	Valid from	Valid until	Date of conclusion of contract
0602 - 2018 rev. 0 amend. 0	Contract No. 0046-2018 on insurance and its management - Liability insurance - 1st Category	Liability insurance coverage - 1st category	**UNIPETROL RPA, s.r.o.**	1.5.2018	30.4.2019	10.9.2018
0213 - 2018 rev. 0 amend. 0	Contract No. 0020-2018 on insurance and its management - insurance of non-technological property	Non-tech property insurance	**UNIPETROL RPA, s.r.o.**	1.1.2018	31.12.2018	30.4.2018
0205 - 2018 rev. 0 amend. 0	Contract No. 0010-2018 on insurance and its management - Liability insurance for members of statutory bodies	Insurance of liability of members of statutory bodies	**UNIPETROL RPA, s.r.o.**	1.11.2017	31.10.2018	30.4.2018
0187 - 2018 rev. 0 amend. 0	Credit agreement - the provision of a non-binding line of credit of Uni Services	Credit agreement - the provision of a non-binding line of credit of Uni Services	**UNIPETROL RPA, s.r.o.**	3.9.2007	indefinite	3.9.2007
0117 - 2018 rev. 0 amend. 0	Assignment of the contract to UNIPETROL RPA	Assignment of the contract to UNIPETROL RPA	**UNIPETROL RPA, s.r.o.**	1.5.2016	Until meeting the obligation	29.6.2016
0497 - 2017 rev. 0 amend. 0	Contract on the assignment of a contract on the provision of services	Contract on the assignment of a contract on the provision of services	**UNIPETROL RPA, s.r.o.**	30.5.2017	indefinite	19.6.2017
0491 - 2017 rev. 0 amend. 0	Contract No. 0071-2017 on insurance and its management - Liability insurance - 1st Category	Liability insurance coverage - 1st category	**UNIPETROL RPA, s.r.o.**	1.5.2017	30.4.2018	23.8.2017
0388 - 2017 rev. 0 amend. 0	Contract on the establishment of an easement	Contract on the establishment of an easement	**UNIPETROL RPA, s.r.o.**	10.4.2017	indefinite	18.7.2017
1087 - 2016 rev. 0 amend. 0	CONTRACT ON THE LEASE OF NON-RESIDENTIAL PREMISES AND RELATED SERVICES	The lease of non-residential premises	**UNIPETROL RPA, s.r.o.**	1.2.2009	31.12.2018	13.2.2009
1086 - 2016 rev. 0 amend. 0	AGREEMENT ON THE ASSUMPTION OF RIGHTS AND OBLIGATIONS - Vila Property	Assumption of rights and obligations	**UNIPETROL RPA, s.r.o.**	1.2.2009	indefinite	1.2.2009
0679 - 2016 rev. 0 amend. 0	Contract on the facilitation of construction	Contract on the facilitation of construction	**UNIPETROL RPA, s.r.o.**	10.8.2016	indefinite	5.9.2016
0578 - 2016 rev. 0 amend. 0	Contract on lease of premises (provision of premises for fire fighters for the purposes of an on call service, compliance with the requirements of Act No. 262/2006 Coll., Labour Code, relating to the emergency service of employees of the fire brigade at Unipetrol RPA)	Lease agreement (providing space for firefighters for on-call duty)	**UNIPETROL RPA, s.r.o.**	1.8.2016	indefinite	1.8.2016
0133 - 2016 rev. 0 amend. 0	Comprehensive Services Agreement	Provision of internal audit services within the UNIPETROL Group	**UNIPETROL RPA, s.r.o.**	1.1.2016	indefinite	15.3.2016
0016 - 2016 rev. 0 amend. 0	Contract on the provision of services	Contract for the provision of services transferred from UNIPETROL SERVICES with effect from 1 January 2016. Contractual counterparties are companies of the UNIPETROL Group or related parties.	**UNIPETROL RPA, s.r.o.**	1.1.2016	indefinite	23.2.2016
0558 - 2015 rev. 0 amend. 0	Contract on the supply of energy services	Contract on the supply of energy services	**UNIPETROL RPA, s.r.o.**	1.8.2015	indefinite	23.10.2016
165-2011 rev. 0 amend. 0	Contract on the use of goodwill UNIPETROL, a.s.	Contract on the use of goodwill UNIPETROL, a.s.	**UNIPETROL RPA, s.r.o.**	1.1.2009	indefinite	11.2.2010
516-2010 rev. 0 amend. 0	Contract on the establishment of an easement	Establishment of an easement	**UNIPETROL RPA, s.r.o.**	27.8.2010	indefinite	11.11.2010
154-2010 rev. 0 amend. 0	Contract on the termination and creation of an easement	Contract on the termination and creation of an easement	**UNIPETROL RPA, s.r.o.**	10.1.2001	indefinite	10.1.2001
153-2010 rev. 0 amend. 0	Contract on the establishment of an easement	Contract on the establishment of an easement	**UNIPETROL RPA, s.r.o.**	27.12.1999	indefinite	27.12.1999
627-2009 rev. 0 amend. 0	Provision of SAP licenses	Provision of SAP licenses	**UNIPETROL RPA, s.r.o.**	1.5.2009	indefinite	30.6.2009
579-2009 rev. 0 amend. 0	Contract on the lease and provision of services (reduction by two offices in building no. 2859)	Contract on the lease and provision of services (reduction by two offices in building no. 2859)	**UNIPETROL RPA, s.r.o.**	1.4.2009	indefinite	6.7.2009
424-2009 rev. 0 amend. 0	Contract on property management no. S400/250/99	Contract on property management no. S400/250/99	**UNIPETROL RPA, s.r.o.**	1.1.2000	indefinite	1.1.2000
1032-2008 rev. 0 amend. 0	Corporate Level Agreement	Corporate Level Agreement	**UNIPETROL RPA, s.r.o.**	18.12.2008	indefinite	19.12.2008
1017-2008 rev. 0 amend. 0	Contract on the termination and establishment of an easement	Contract on the termination and establishment of an easement	**UNIPETROL RPA, s.r.o.**	12.5.2008	indefinite	26.8.2008
763-2008 rev. 0 amend. 0	Credit agreement - CZK 9.75 billion	Credit agreement - CZK 9.75 billion	**UNIPETROL RPA, s.r.o.**	25.6.2008	indefinite	25.6.2008
548-2008 rev. 0 amend. 0	Contract on the lease and provision of services (lease of premises in building no. 2838)	Contract on the lease and provision of services (lease of premises in building no. 2838)	**UNIPETROL RPA, s.r.o.**	1.3.2008	indefinite	6.3.2008
471-2008 rev. 0 amend. 0	Contract on the termination and establishment of an easement	Contract on the termination and establishment of an easement	**UNIPETROL RPA, s.r.o.**	1.1.2008	indefinite	11.7.2008
457-2008 rev. 0 amend. 0	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group - trade	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group - trade	**UNIPETROL RPA, s.r.o.**	1.1.2008	indefinite	1.4.2008
455-2008 rev. 0 amend. 0	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group - manufacturing	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group - manufacturing	**UNIPETROL RPA, s.r.o.**	1.1.2008	indefinite	1.4.2008
895-2006 rev. 0 amend. 0	Contract on the termination of an easement and on establishment of an easement	Contract on the termination of an easement and on establishment of an easement	**UNIPETROL RPA, s.r.o.**	1.12.2006	indefinite	20.12.2006
402-2006 rev. 0 amend. 0	Contract on the termination and establishment of an easement (exchange with Dopravní podnik)	Contract on the termination and establishment of an easement (exchange with Dopravní podnik)	**UNIPETROL RPA, s.r.o.**	1.4.2006	indefinite	x
No. 01656 / 2004	Contract on the termination and establishment of an easement	Contract on the termination and establishment of an easement	**UNIPETROL RPA, s.r.o.**	8.12.2004	indefinite	x
S 400/020/03	Establishment of an easement and termination of an easement	Establishment of an easement and termination of an easement	**UNIPETROL RPA, s.r.o.**	11.3.2003	indefinite	x
GR_2009_002_00	HSE Cooperation Agreement_Amended_CRC	HSE Cooperation Agreement_Amended_CRC	**UNIPETROL RPA, s.r.o.**	1.9.2009	indefinite	29.9.2009
SHP_2015_014_00	credit agreement - tranche	credit agreement - tranche	**UNIPETROL RPA, s.r.o.**	31.5.2015	31.5.2030	x
SHP_2015_015_00	credit agreement - revolving credit	credit agreement - revolving credit	**UNIPETROL RPA, s.r.o.**	22.6.2015	22.6.2030	x
SHP_2015_016_00	credit agreement - Unipetrol (debtor)	credit agreement - Unipetrol (debtor)	**UNIPETROL RPA, s.r.o.**	22.6.2015	22.6.2030	x
SLU_2005_051_00	Contract on an easement - Chvatěruby, Lobeček, Veltrusy	Contract on an easement - Chvatěruby, Lobeček, Veltrusy	**UNIPETROL RPA, s.r.o.**	11.4.2000	indefinite	10.4.2000
SLU_2005_052_00	contract on the termination of an easement	contract on the termination of an easement	**UNIPETROL RPA, s.r.o.**	10.4.2000	indefinite	10.4.2000
SLU_2005_053_00	Contract on the termination and establishment of an easement - Veltrusy	Contract on the termination and establishment of an easement - Veltrusy	**UNIPETROL RPA, s.r.o.**	30.10.2000	indefinite	30.10.2000
SLU_2005_054_00	Contract on an easement - Veltrusy, Zlončice	Contract on an easement - Veltrusy, Zlončice	**UNIPETROL RPA, s.r.o.**	30.1.2000	indefinite	30.1.2000
SLU_2005_055_00	Contract on the termination of an easement - Chvatěruby, Veltrusy	Contract on the termination of an easement - Chvatěruby, Veltrusy	**UNIPETROL RPA, s.r.o.**	21.3.2003	indefinite	x
SLU_2005_056_00	Contract on an easement - Chvatěruby, Zlončice, Veltrusy	Contract on an easement - Chvatěruby, Zlončice, Veltrusy	**UNIPETROL RPA, s.r.o.**	1.1.2003	indefinite	25.3.2003
SLU_2005_058_00	Contract on an easement - Dolní Jiřetín, Záluží u Litvínova	Contract on an easement - Dolní Jiřetín, Záluží u Litvínova	**UNIPETROL RPA, s.r.o.**	11.4.2000	indefinite	10.4.2000
SLU_2005_059_00	Contract on the termination and establishment of an easement - Dolní Jiřetín, Záluží u Litvínova	Contract on the termination and establishment of an easement - Dolní Jiřetín, Záluží u Litvínova	**UNIPETROL RPA, s.r.o.**	1.1.2003	indefinite	11.3.2003
SLU_2005_060_00	Contract on the termination and establishment of an easement - Dolní Jiřetín, Záluží u Litvínova	Contract on the termination and establishment of an easement - Dolní Jiřetín, Záluží u Litvínova	**UNIPETROL RPA, s.r.o.**	1.1.2004	indefinite	18.3.2004
SLU_2006_014_00	Contract on the termination of an easement - Dolní Jiřetín	Contract on the termination of an easement - Dolní Jiřetín	**UNIPETROL RPA, s.r.o.**	1.1.2006	indefinite	20.6.2006
SLU_2006_015_00	Contract on an easement - Veltrusy	Contract on an easement - Veltrusy	**UNIPETROL RPA, s.r.o.**	1.1.2006	indefinite	28.8.2006
SLU_2006_016_00	Contract on an easement - Veltrusy, Lobeček	Contract on an easement - Veltrusy, Lobeček	**UNIPETROL RPA, s.r.o.**	1.1.2006	indefinite	28.8.2006
SLU_2007_012_00	Contract on an easement - Chvatěruby, Veltrusy, Lobeček, Zlončice	Contract on an easement - Chvatěruby, Veltrusy, Lobeček, Zlončice	**UNIPETROL RPA, s.r.o.**	1.1.2007	indefinite	16.10.2007
SLU_2007_017_00	Contract on the establishment and termination of an easement - Záluží u Litvínova, Dolní Jiřetín	Contract on the establishment and termination of an easement - Záluží u Litvínova, Dolní Jiřetín	**UNIPETROL RPA, s.r.o.**	1.1.2006	indefinite	5.3.2007
SLU_2007_018_00	Contract on an easement - Dolní Jiřetín	Contract on an easement - Dolní Jiřetín	**UNIPETROL RPA, s.r.o.**	1.1.2007	indefinite	29.6.2007
SLU_2007_019_00	Agreement on contracts on an easement	Agreement on contracts on an easement	**UNIPETROL RPA, s.r.o.**	15.5.2007	indefinite	15.5.2007
SLU_2008_004_00	Contract on the termination and establishment of an easement - Chvatěruby, Veltrusy	Contract on the termination and establishment of an easement - Chvatěruby, Veltrusy	**UNIPETROL RPA, s.r.o.**	1.1.2008	indefinite	22.4.2008

Contract / amendment number	Subject of the document	Reason for entering into the contract/amendment	Company	Valid from	Valid until	Date of conclusion of contract
SLU_2009_002_00	Contract on an easement - Záluží u Litvínova	Contract on an easement - Záluží u Litvínova	**UNIPETROL RPA, s.r.o.**	1.1.2009	indefinite	19.8.2009
SLU_2009_005_00	Contract on an easement - Chvatěruby	Contract on an easement - Chvatěruby	**UNIPETROL RPA, s.r.o.**	31.12.2008	indefinite	15.10.2009
VSN_2009_014_00	Unipetrol_free use of bores	Unipetrol_free use of bores	**UNIPETROL RPA, s.r.o.**	17.3.2009	indefinite	17.3.2009
137-2007	Credit agreement - provision of a cash pool in the amount of CZK 1,300,000,000	Credit agreement - provision of a cash pool in the amount of CZK 1,300,000,000	**UNIPETROL RPA, s.r.o.**	20.3.2007	indefinite	20.3.2007
0293 - 2014 rev. 0 amend. 0	Unipetrol - Framework contract on the use of PKB	Unipetrol - Framework contract on the use of PKB	**UNIPETROL RPA, s.r.o.**	20.11.2014	1.4.2015	2.12.2014
0221 - 2014 rev. 0 amend. 0	Comprehensive Services Agreement (CLA)	Comprehensive Services Agreement (CLA)	**UNIPETROL RPA, s.r.o.**	25.11.2008	indefinite	25.11.2008
0119 - 2015 rev. 0 amend. 0	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group	**UNIPETROL RPA, s.r.o.**	1.1.2008	indefinite	21.4.2008
0143 - 2015 rev. 0 amend. 0	Unipetrol - Framework contract on the use of a Benzina payment card	Unipetrol - Framework contract on the use of a Benzina payment card	**UNIPETROL RPA, s.r.o.**	1.4.2015	indefinite	1.4.2015
0047 - 2018 rev. 0 amend. 0	Contract No. 0021-2018 on insurance and its management - insurance of non-technological property	Contract No. 0021-2018 on insurance and its management - insurance of non-technological property	**UNIPETROL RPA, s.r.o.**	1.1.2018	31.12.2018	x
0062 - 2017	Real Estate Management Agreement No. S400/250/99, as amended	Monitoring the surrounding environment of the Group	**UNIPETROL RPA Hungary Korlátolt Felelősségű Társaság, Kft.**	1.1.2017	indefinite	
0049-2016	Corporate Level Agreement, as amended	provision of loans	**UNIPETROL RPA Hungary Korlátolt Felelősségű Társaság, Kft.**	11.5.2016	indefinite	11.5.2016
0022 - 2015	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the UNIPETROL Group	Framework contract on the provision of certain information and access to information systems	**UNIPETROL DEUTSCHLAND GmbH**	1.7.2014	indefinite	9.7.2015
0048-2018/	Loan Agreement	Liability insurance coverage - 1st category	**Unipetrol výzkumně vzdělávací centrum a.s.**	1.5.2018	30.4.2019	25.5.2018
0005 - 2016	Frame contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the UNIPETROL Group	provision of loans	**Unipetrol výzkumně vzdělávací centrum a.s.**	1.2.2016	indefinite	x
0004 - 2016	Contract No. 0048-2018 on insurance and its management - Liability insurance - 1st Category	provision of loans	**Unipetrol výzkumně vzdělávací centrum a.s.**	1.2.2016	indefinite	x
0006-2016	Credit agreement B	provision of loans	**ORLEN Asfalt Česká republika s.r.o.**	1.2.2016	indefinite	12.4.2016
0043-2018	Credit agreement A, as amended	Liability insurance coverage - 1st category	**ORLEN Asfalt Česká republika s.r.o.**	1.5.2018	30.4.2019	10.9.2018
0007-2016	Credit agreement - A	provision of loans	**ORLEN Asfalt Česká republika s.r.o.**	1.2.2016	indefinite	12.4.2016
57-2012	Contract No. 0043-2018 on insurance and its management - Liability insurance - 1st Category	Accession to the company	**ORLEN FINANCE AB**	30.6.2012	indefinite	30.6.2012
0129 - 2015	Credit agreement - B	Supplementation of an internal agreement	**ORLEN FINANCE AB**	31.12.2015	indefinite	20.11.2015
100-2010	Accession agreement, as amended	Health services	**ORLEN Medica, Sp. z o.o.**	1.2.2010	indefinite	1.2.2010
225-2007	ACCESSION AGREEMENT regarding the Internal Agreement on Group Accounts System dated 12 April 2010 as amended, supplemented or restated from time to time	Provision of services	**Polski Koncern Naftowy ORLEN S.A.**	31.8.2007	indefinite	31.8.2007
20-2009	Contract on the provision of health services	Provision of IT services	**Polski Koncern Naftowy ORLEN S.A.**	1.1.2009	indefinite	1.1.2009
112-2011	Internal audit cooperation agreement	Provision of personnel	**Polski Koncern Naftowy ORLEN S.A.**	1.1.2011	indefinite	1.1.2011
61-2013	Framework Contract	Provision of information	**Polski Koncern Naftowy ORLEN S.A.**	1.7.2013	indefinite	1.7.2013
13-2010	Agreement on the mutual provision of personnel	Cooperation	**Polski Koncern Naftowy ORLEN S.A.**	1.2.2010	indefinite	1.2.2010
0171-2014	Internal audit cooperation agreement	Collaboration and sharing of market and business conditions	**Polski Koncern Naftowy ORLEN S.A., ANWIL S.A.**	24.10.2014	indefinite	24.10.2014
40-2016	Cooperation agreement	Cooperation	**Polski Koncern Naftowy ORLEN S.A.**	31.8.2014	indefinite	31.8.2014
0060-2018	Contract on the establishment of an easement	Making information and data available to other Unipetrol subsidiaries as well	**SPOLANA, a.s.**	1.1.2018	indefinite	19.11.2018
0047-2018	Contract on Property Management, as amended	Liability insurance coverage - 1st category	**SPOLANA, a.s.**	1.5.2018	30.4.2019	10.9.2018
0061-2017	Framework contract on the provision of certain information and access to information systems	Making information and data available to other Unipetrol subsidiaries as well	**SPOLANA, a.s.**	1.1.2017	indefinite	8.8.2017
0077 - 2016	Contract No. 0047-2018 on insurance and its management - Liability insurance - 1st category	provision of loans	**SPOLANA, a.s.**	11.7.2016	indefinite	x
0076 - 2016	Framework contract on ensuring the development and use of a shared information environment for monitoring the surroundings of the Unipetrol Group	provision of loans	**SPOLANA, a.s.**	11.7.2016	indefinite	x

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 sulphur 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, Switzerland).

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 fluidised 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 the transportation of 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 labelling, 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%, Sulphur 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 distilled in a 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 organisation

OECD

Organisation for Economic Co-operation and Development

OPEC

Organisation of the Petroleum Exporting Countries

R&D

Research and development

REACH

Registration, evaluation, authorisation 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:	Milevská 2095/5, 140 00 Praha 4
Company number:	61672190
Tax ID:	CZ61672190
Bank:	Česká spořitelna, a.s.
	Olbrachtova 1929/62, 140 00, Prague 4, Account No. 910952/0800
Date of establishment:	27 December 1994 – established for an indeterminate period of time
Datum of incorporation:	Incorporated on 17 February 1995
Incorporation registration:	Municipal Court in Prague, Section B, File 3020
Tel.:	+420 225 001 425 (Investor Relations Department)
	+420 225 001 407 (Press Department)
Website:	www.unipetrol.cz
E-mail:	info@unipetrol.cz
Auditor:	Deloitte Audit s.r.o.

Law and legal regulation under which the Company was established

Law:	Czech Republic jurisdiction
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, PARAMO, a.s., UNIPETROL RPA, s.r.o., SPOLANA s.r.o. and others) appear in this report also in their simplified form (Unipetrol, Benzina, Paramo, Unipetrol RPA, Spolana etc.).

The English language version of Unipetrol's Annual Report 2018 is a convenience translation. The version in the Czech language is the definitive version.

UNIPETROL, a.s. Annual Report 2018 was approved for issue by the Board of Directors of UNIPETROL, a.s. on the meeting held on 4 March 2019.