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 2017

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SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (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	2017	2016
Statement of profit or loss			
Revenues	3.	144	134
Cost of sales	4.1.	(55)	(51)
Gross profit on sales		**89**	**83**
Administrative expenses	4.2.	(129)	(120)
Other operating income	5.1.	48	-
Other operating expenses	5.2.	(2)	(2)
Profit/(Loss) from operations		**6**	**(39)**
Finance income	6.1.	163	103
Finance costs	6.2.	(180)	(7)
Net finance income/(costs)		**(17)**	**96**
Profit/(Loss) before tax		**(11)**	**57**
Tax expense	7.	(18)	(10)
Net profit/(loss)		**(29)**	**47**
Total net comprehensive income		**(29)**	**47**
Net and diluted net profit/(loss) per share attributable to equity owners of the parent (in CZK per share)	14.5.	(0.16)	0.26

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-34.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

Separate statement of financial position

	Note	31/12/2017	31/12/2016
ASSETS			
Non-current assets			
Property, plant and equipment	8.	22	9
Investment property	9.	1 163	1 163
Shares in related parties	10.	17 419	17 579
		18 604	**18 751**
Current assets			
Trade and other receivables	11.	133	124
Other financial assets	12.	7 397	9 203
Cash and cash equivalents	13.	1 825	2 552
		9 355	**11 879**
Total assets		**27 959**	**30 630**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14.1.	18 133	18 133
Revaluation reserve	14.2.	503	503
Retained earnings	14.3.	7 705	9 239
Total equity		**26 341**	**27 875**
LIABILITIES			
Non-current liabilities			
Provisions	16.	50	50
Deferred tax liabilities	7.2.	106	106
		156	**156**
Current liabilities			
Trade and other liabilities	17.	100	115
Current tax liabilities		17	1
Other financial liabilities	18.	1 345	2 483
		1 462	**2 599**
Total liabilities		**1 618**	**2 755**
Total equity and liabilities		**27 959**	**30 630**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-34.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

Separate statement of changes in equity

	Share capital	Revaluation reserve	Retained earnings	Total equity
Note	14.1.	14.2.	14.3.	
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**
01/01/2016	18 133	503	10 193	28 829
Net profit	-	-	47	47
Total net comprehensive income	**-**	**-**	**47**	**47**
Dividends	-	-	(1 001)	(1 001)
31/12/2016	**18 133**	**503**	**9 239**	**27 875**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-34.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

Separate statement of cash flows

	Note	2017	2016
Cash flows from operating activities			
Profit/(Loss) before tax		**(11)**	**57**
Adjustments for:			
Foreign exchange (gain)/loss		19	(2)
Interest and dividends, net		(157)	(85)
Loss on investing activities		147	3
Change in working capital		1	(27)
receivables		*(4)*	*18*
liabilities		*5*	*(45)*
Income tax (paid)		(3)	13
Net cash used in operating activities		**(4)**	**(41)**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(6)	(2)
Dividends received	10.	88	30
Interest received		72	60
Proceeds/(Outflows) from loans granted		1 554	(1 401)
Proceeds/(Outflows) from cash pool assets		245	(561)
Other		1	-
Net cash provided by/(used in) investing activities		**1 954**	**(1 874)**
Cash flows from financing activities			
Proceeds/(Outflows) from cash pool liabilities		(1 138)	21
Dividends paid		(1 525)	(986)
Other		(6)	(5)
Net cash used in financing activities		**(2 669)**	**(970)**
Net decrease in cash and cash equivalents		**(719)**	**(2 885)**
Effect of exchange rate changes on cash and cash equivalents		(8)	2
Cash and cash equivalents, beginning of the year		2 552	5 435
Cash and cash equivalents, end of the year	**13.**	**1 825**	**2 552**

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-34.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

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

1. DESCRIPTION OF THE COMPANY

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

Identification number of the Company
616 72 190

Registered office of the Company
UNIPETROL, a.s.
Na Pankráci 127
140 00 Praha 4
Czech Republic

Principal activities
The Company operates as a holding company covering and administering a group of companies (the "Group"). The principal businesses of the Group include oil and petroleum products processing, production of commodity chemicals, polymer materials, mineral lubricants, plastic lubricants, paraffins, road and insulation bitumen, special refinery and petrochemical products. Furthermore, the Group is engaged in the distribution of fuels and operation of gas stations.
In addition to these principal activities, the Group is engaged in other activities that are necessary to support the principal activities, such as production, distribution and sale of heat and electricity, operation of railway tracks and railway transportation, advisory services relating to research and development, environmental protection, software and hardware advisory services and other services.

Statutory and supervisory bodies
Members of the statutory and supervisory bodies of UNIPETROL, a.s. as at 31 December 2017 were as follows:

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

Changes in the Board of Directors in 2017 were as follows:

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

Changes in the Supervisory Board in 2017 were as follows:

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

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

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

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 2017. 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 2017, results of its operations and cash flows for the year ended 31 December 2017.

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 24.3.

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

3. REVENUES

	2017	2016
Fees for use of lands	116	115
Other services	28	19
	144	**134**

3.1. Geographical information

All revenues were realized in the Czech Republic.

3.2. Major customers

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

4. OPERATING EXPENSES

4.1. Cost of sales

	2017	2016
Cost of services sold	(55)	(51)
	(55)	**(51)**

4.2. Cost by nature

	2017	2016
External services	(66)	(62)
Employee benefits	(77)	(78)
Taxes and charges	(19)	(19)
Insurance	(1)	(1)
Other	(23)	(13)
Operating expenses	**(186)**	**(173)**
Administrative expenses	129	120
Other operating expenses	2	2
Cost of sales	**(55)**	**(51)**

4.3. Employee benefits costs

	2017	2016
Wages and salaries	(60)	(61)
Social and health insurance	(11)	(12)
Social expense	(6)	(5)
	(77)	**(78)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

4.3.1. Employee benefits costs – additional information

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

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

5. OTHER OPERATING INCOME AND EXPENSES

5.1. Other operating income

	2017	2016
Profit on sale of non-current non-financial assets	1	-
Derecognition of dividends liability	34	-
Other	13	-
	48	**-**

5.2. Other operating expenses

	2017	2016
Donations	(1)	(1)
Other	(1)	(1)
	(2)	**(2)**

6. FINANCE INCOME AND COSTS

6.1. Finance income

	2017	2016
Interest	61	39
Dividends received	88	30
Income from guarantees granted	14	21
Other	-	13
	163	**103**

6.2. Finance costs

	2017	2016
Impairment to financial investment in PARAMO, a.s.	(160)	-
Net foreign exchange loss	(12)	(1)
Bank fees	(7)	(5)
Other	(1)	(1)
	(180)	**(7)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

7. TAX EXPENSE

	2017	2016
Tax expense in the statement of profit or loss		
Current tax	(18)	(4)
Deferred tax	-	(6)
	(18)	**(10)**

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2017 (2016: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2018 and forward, i.e. 19%.

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

	2017	2016
Profit/(Loss) for the year	(29)	47
Total tax expense	(18)	(10)
Profit/(Loss) before tax	(11)	57
Tax using domestic tax rate	2	(11)
Non-deductible expenses	(37)	(5)
Tax exempt income	17	6
Total tax expense	**(18)**	**(10)**
Effective tax rate	**162.82%**	**(17.54)%**

Effective tax rate in 2017 includes recognition of impairment to financial investment in PARAMO, a.s. at the amount of 160 mil. Kč, which belongs to non-deductible expenses.

7.2. Deferred tax

Deferred taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19% in 2018 and onward).

	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)**

7.3. Tax expense (paid)

	2017	2016
Tax expense on profit before tax	(18)	(10)
Change in deferred tax asset and liabilities	-	6
Change in current tax assets and liabilities	15	17
	(3)	**13**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

8. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment

	Land	Machinery and equipment	Vehicles and other	Total
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**
Reclassifications	-	-	(1)	**(1)**
Other increases	13	-	-	**13**
31/12/2017				
Net book value	**22**	**-**	**-**	**22**
Gross book value	22	-	-	**22**
Accumulated depreciation and impairment allowances	-	-	-	**-**
	22	**-**	**-**	**22**
01/01/2016				
Net book value				
Gross book value	9	2	3	14
Accumulated depreciation and impairment allowances	-	(2)	(3)	(5)
	9	**-**	**-**	**9**
increase/(decrease) net				
Investment expenditures	-	-	2	2
Depreciation	-	-	(2)	(2)
31/12/2016				
Net book value	**9**	**-**	**-**	**9**

Other information on property, plant and equipment

	31/12/2017	31/12/2016
The gross book value of fully depreciated property, plant and equipment still in use	-	2

9. INVESTMENT PROPERTY

	2017	2016
At the beginning of the year	1 163	1 161
Reclassification from property, plant and equipment	-	2
	1 163	**1 163**

Rental income amounted to CZK 116 million in 2017 (2016: CZK 115 million). Operating costs related to the investment property in reporting period amounted to CZK 21 million in 2017 (2016: CZK 22 million).

9.1. Fair value of investment property measurement

Investment property as at 31 December 2017 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 8.66% was used for the calculation of the investment property fair value.
In the year ended 31 December 2017 and the comparative period there were no changes in the measurement approach.

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

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

	Level 3			
	Increase by	Total impact	Decrease by	Total impact
Change in discount rate	+1 pp	(94)	-1 pp	94

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

10. 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 or, if the fair value cannot be determined reliably, at cost less impairment losses.

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	-
Unipetrol výzkumně vzdělávací centrum, a.s.	Ústí nad Labem	59	100.00	8	51	-
PARAMO, a.s.	Pardubice	1 251	100.00	1 233	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**

Changes in the related parties in 2017

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

Shares in related parties as at 31 December 2016 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries consolidated in full method						
UNIPETROL RPA, s.r.o.	Litvínov	11 643	100.00	-	11 643	-
ČESKÁ RAFINÉRSKÁ, a.s.	Litvínov	5 541	100.00	-	5 541	-
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59	100.00	8	51	-
PARAMO, a.s.	Pardubice	1 251	100.00	1 073	178	-
Joint operations consolidated based on shares in assets and liabilities						
Butadien Kralupy a.s.	Kralupy nad Vltavou	162	51.00	-	162	26
Other investments						
ORLEN MALTA HOLDING	La Valeta	1	-	-	1	-
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.0002	-	-	0.0002	-
UNIPETROL DOPRAVA, s.r.o.	Litvínov	2	0.12	-	2	0.1
UNIPETROL SLOVENSKO s.r.o.	Bratislava	0.1	13.04	-	0.1	4
PETROTRANS, s.r.o.	Praha 4	1	0.63	-	1	-
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	0.1	0.10	-	0.1	-
Total		**18 660**	**-**	**1 081**	**17 579**	**30**

The Company had equity investments of CZK 17 419 million as at 31 December 2017 and CZK 17 579 million as at 31 December 2016 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.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

11. TRADE AND OTHER RECEIVABLES

	31/12/2017	31/12/2016
Trade receivables	97	98
Other	24	19
Financial assets	**121**	**117**
Advances for construction in progress	5	-
Prepayments and deferred costs	7	7
Non-financial assets	**12**	**7**
Receivables, net	**133**	**124**
Receivables impairment allowance	100	100
Receivables, gross	**233**	**224**

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 19 and detailed information about receivables from related parties is presented in note 22.

12. OTHER FINANCIAL ASSETS

	31/12/2017	31/12/2016
Loans granted	-	1 565
Cash pool	7 397	7 638
	7 397	**9 203**

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 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. In 2016 the Company provided a current loan to SPOLANA a.s. in the amount of CZK 200 million. The loan was repaid in July 2016.
The analysis of current loans by currency of denomination is presented in the note 19.
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 15.

13. CASH AND CASH EQUIVALENTS

	31/12/2017	31/12/2016
Cash on hand and in bank	1 825	2 552
	1 825	**2 552**

The carrying amount of these assets approximates their fair value.

14. SHAREHOLDERS' EQUITY

14.1. Share capital

The issued capital of the Company as at 31 December 2017 amounted to CZK 18 133 million (31 December 2016: CZK 18 133 million). This represents 181 334 764 (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. The Company's shares are listed on the Prague Stock Exchange.

Shareholders' structure

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

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

A voluntary tender offer to acquire UNIPETROL, a.s. shares was announced by PKN ORLEN S.A. on 12 December 2017. According to the published bid document, the offer is made for all UNIPETROL, a.s. shares except for the shares already owned by PKN ORLEN S.A. The bid price 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.
Further information is presented in note 29.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

14.2. 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.

14.3. Retained earning

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profits of the parent company. On 7 June 2017 the Annual General Meeting of UNIPETROL, a.s. decided to pay a dividend equal to CZK 8.30 per share to the Company's shareholders.

The decision regarding appropriation of 2017 profit will be made at the annual meeting of shareholders, which will be held in May/June 2018.

14.4. 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 2017 and as at 31 December 2016 Company's financial leverage amounted to (1.82)% and (0.25)%, 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

14.4.1. Net debt

	31/12/2017	31/12/2016
Cash and cash equivalents	1 825	2 552
Cash pool liabilities	(1 345)	(2 483)
	480	**69**

14.4.2. Net working capital

	Receivables	Liabilities	Working capital
31/12/2016	124	115	9
31/12/2017	133	100	33
Net working capital change in statement of financial position	**(9)**	**(15)**	**(24)**
Adjustments:			
Movements in liabilities from dividends	-	20	20
Movements in prepayments for construction in progress	5	-	5
Change in working capital in statement of cash flows	**(4)**	**5**	**1**

14.5. Profit per share

	2017	2016
Profit/(Loss) for the year	(29)	47
Weighted average number of shares	181 334 764	181 334 764
Profit/(Loss) per share (in CZK per share)	**(0.16)**	**0.26**

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

15. LOANS AND BORROWINGS

Bank loans and cash pool agreements

During the year 2017 the Company had cash pool and loan agreements with the following banks, subsidiaries and related companies:
Banks: ING Bank N.V., organizační složka, Česká spořitelna, a.s., Komerční banka, a.s. and Commerzbank AG.
Subsidiaries and related companies: UNIPETROL RPA, s.r.o., PARAMO, a.s., UNIPETROL DOPRAVA, s.r.o.,PETROTRANS, s.r.o., UNIPETROL SLOVENSKO s.r.o., Butadien Kralupy a.s., ČESKÁ RAFINÉRSKÁ, a.s., Unipetrol výzkumně vzdělávací centrum, a.s., SPOLANA a.s. 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 10 070 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 19 and are presented jointly with other financial instruments.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

16. PROVISIONS

In 2015 following the decision of the Czech inspection of environment, the Company recognized a provision in the amount of CZK 50 million in respect of remediation of historical ecological contamination in the Kralupy location. Based on the decision the remediation works have to be finalized till 21 years after their start.

17. TRADE AND OTHER LIABILITIES

	31/12/2017	31/12/2016
Trade liabilities	24	25
Dividends	30	50
Other	10	10
Financial liabilities	**64**	**85**
Payroll liabilities	3	4
Value added tax	4	4
Other taxation, duties, social security and other benefits	15	8
Accruals	14	14
wages accrual	14	13
other	-	1
Non-financial liabilities	**36**	**30**
	100	**115**

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 19.4.1.

18. OTHER FINANCIAL LIABILITIES

The Company had cash pool liabilities to subsidiaries and related entities in the amount of CZK 1 345 million as at 31 December 2017 (31 December 2016: CZK 2 483 million). The description of cash pool agreements is presented in note 15.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

19.1. Financial instruments by category and class

Financial assets

31/12/2017		Financial instruments by category	
Financial instruments by class	Note	Loans and receivables	Total
Trade receivables	*11.*	97	97
Cash pool	*12.*	7 397	7 397
Cash and cash equivalents	*13.*	1 825	1 825
Other financial assets	*11.*	24	24
		9 343	**9 343**

31/12/2016		Financial instruments by category	
Financial instruments by class	Note	Loans and receivables	Total
Trade receivables	*11.*	98	98
Loans granted	*12.*	1 565	1 565
Cash pool	*12.*	7 638	7 638
Cash and cash equivalents	*13.*	2 552	2 552
Other financial assets	*11.*	19	19
		11 872	**11 872**

Financial liabilities

31/12/2017		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortised cost	Total
Trade liabilities	*17.*	24	24
Cash pool	*18.*	1 345	1 345
Other financial liabilities	*17.*	40	40
		1 409	**1 409**

31/12/2016		Financial instruments by category	
Financial instruments by class	Note	Financial liabilities measured at amortised cost	Total
Trade liabilities	*17.*	25	25
Cash pool	*18.*	2 483	2 483
Other financial liabilities	*17.*	60	60
		2 568	**2 568**

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

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)

2016	Financial instruments by category		
	Loans and receivables	Financial liabilities measured at amortised cost	Total
Interest income	39	-	39
Foreign exchange gain/(loss)	2	(3)	(1)
Other	34	(6)	28
	75	**(9)**	**66**
other, excluded from the scope of IFRS 7			
Dividends			30
			30

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

19.3. Fair value measurement

	Note	31/12/2017 Fair value	31/12/2017 Carrying amount	31/12/2016 Fair value	31/12/2016 Carrying amount
Financial assets					
Trade receivables	*11.*	97	97	98	98
Loans granted	*12.*	-	-	1 565	1 565
Cash pool	*12.*	7 397	7 397	7 638	7 638
Cash and cash equivalents	*13.*	1 825	1 825	2 552	2 552
Other	*11.*	24	24	19	19
		9 343	**9 343**	**11 872**	**11 872**
Financial liabilities					
Trade liabilities	*17.*	24	24	25	25
Cash pool	*18.*	1 345	1 345	2 483	2 483
Other	*17.*	40	40	60	60
		1 409	**1 409**	**2 568**	**2 568**

19.3.1. 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 2017 and the comparative period in the Company were no transfers between Levels 1, 2 and 3.
As at 31 December 2017 the Company held unquoted shares in entities amounting to CZK 17 419 million (31 December 2016: CZK 17 579 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 2017 there are no binding decisions relating to the means and dates of disposal of those assets.

19.4. 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.

19.4.1. 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 31/12/2017	EUR 31/12/2016	USD 31/12/2017	USD 31/12/2016	Total after translation to CZK 31/12/2017	Total after translation to CZK 31/12/2016
Financial assets						
Trade receivables	-	-	-	-	3	-
Loans granted	-	11	-	-	-	341
Cash pool	8	-	-	-	200	-
Cash and cash equivalents	1	3	-	1	33	111
	9	**14**	**-**	**1**	**236**	**452**
Financial liabilities						
Cash pool	9	3	-	1	232	111
Trade and other liabilities	-	-	-	-	-	2
	9	**3**	**-**	**1**	**232**	**113**

Sensitivity analysis for currency changes risk

The Company is mainly exposed to the fluctuation of exchange rates of EUR/CZK.
The influence of changes in carrying amount of financial instruments arising from hypothetical changes in exchange rates of relevant currencies in relation to presentation currency (CZK) on profit before tax is presented below:

	Assumed variation 31/12/2017	Assumed variation 31/12/2016	Influence on profit before tax 31/12/2017	Influence on profit before tax 31/12/2016	Total 31/12/2017	Total 31/12/2016
EUR/CZK	15%	15%	-	45	-	45
			-	**45**	**-**	**45**
EUR/CZK	-15%	-15%	-	(45)	-	(45)
			-	**(45)**	**-**	**(45)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

19.4.2. 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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets								
Loans granted	-	1 224	-	341	-	-	-	1 565
Cash pool	7 197	7 638	200	-	-	-	7 397	7 638
	7 197	**8 862**	**200**	**341**	**-**	**-**	**7 397**	**9 203**
Financial liabilities								
Cash pool	1 049	2 372	230	91	2	20	1 281	2 483
	1 049	**2 372**	**230**	**91**	**2**	**20**	**1 281**	**2 483**

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	
	31/12/2017	31/12/2016	2017	2016
PRIBOR	+0.5 pp	+0.5 pp	31	32
			31	**32**
PRIBOR	-0.5 pp	-0.5 pp	(31)	(32)
			(31)	**(32)**

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 2017 and as at 31 December 2016. The influence of interest rates changes was presented on annual basis.

19.4.3. 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

			31/12/2017		
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	*18.*	1 345	-	1 345	1 345
Trade and other liabilities	*17.*	64	-	64	64
		1 409	**-**	**1 409**	**1 409**

			31/12/2016		
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	*18.*	2 483	-	2 483	2 483
Trade and other liabilities	*17.*	85	-	85	85
		2 568	**-**	**2 568**	**2 568**

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 2017 and as at 31 December 2016, the maximum available credit facilities relating to bank loans and guarantees amounted to CZK 10 070 million and CZK 10 049 million respectively. Unused part of the credit facilities for bank loans or guarantees amounted to CZK 8 069 million and CZK 8 031 million as at 31 December 2017 and as at 31 December 2016. The description of the loans and guarantees drawn from credit facilities is presented in notes 15 and 27.

Credit risk
The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Loans granted (note 12) and receivables (note 11) 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.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

19.4.3. Liquidity and credit risk (continued)

Division of not past due receivables

	31/12/2017	31/12/2016
Group I	121	116
Group II	-	-
	121	**116**

Ageing analysis of receivables past due, but not impaired

	31/12/2017	31/12/2016
Above 1 year	-	1
	-	**1**

Change in impairment allowances of trade and other receivables

There were no changes in the impairment allowances of trade and other receivables in 2017 and 2016. The impairment allowances amounted to CZK 100 million as at 31 December 2017 and 31 December 2016.

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.

20. LEASE

20.1. The Company as a lessee

Operating lease

At the balance sheet date the Company is a lessee under non-cancellable operating lease arrangements.

Future minimum lease payments under non–cancellable operating lease agreements were as follows:

	31/12/2017	31/12/2016
Less than one year	2	1
Between one and five years	15	1
Later than five years	11	-
	28	**2**

The Company leases vehicles and offices under operating leases. The vehicle leases typically run for a two years 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:

	2017	2016
Non-cancellable operating lease	3	1

Finance lease

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

20.2. 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:

	31/12/2017	31/12/2016
Less than one year	119	115
Between one and five years	474	460
Later than five years	1 779	1 724
	2 372	**2 299**

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21. 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 31/12/2017	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**

	Total amount of funds to be provided	Used funds as at 31/12/2016	Unused funds as at 31/12/2016
UNIPETROL, a.s. / premises in Litvínov	6 012	4 186	1 826
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4 244	52	4 192
	10 256	**4 238**	**6 018**

22. RELATED PARTY TRANSACTIONS

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

In 2017 and in 2016 there were no transactions concluded by the Company with related parties on other than market terms.

22.2. Transactions with key management personnel

In 2017 and in 2016 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 2017 and as at 31 December 2016 there were no loans granted by the Company to managing and supervising persons and their relatives.

22.3. Transaction with related parties concluded through the key management personnel

In 2017 and in 2016 key management personnel of the Company, based on declaration sent, did not conclude any transaction with related parties.

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

Parent and ultimate controlling party
During 2017 and 2016 a majority (62.99%) of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A.

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

2016	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Sales	1	111	-
Purchases	2	22	-
Finance income, including	-	89	-
dividends	-	*30*	-

31/12/2016	PKN Orlen	Entities under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN Orlen
Other financial assets	-	9 203	-
Trade and other receivables	-	64	-
Trade and other liabilities, including loans	-	4	-
Other financial liabilities	-	2 308	175

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23. 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.

	2017		2016	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current period	65	1	66	3
Potentially due to be paid in the following year	*14*	*-*	*13*	*1*
Paid for previous year	13	1	12	-

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

23.1. Bonus system for key executive personnel of the Company

In 2017 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The regulations applicable to Management Board, directors directly reporting to Management Boards of entities and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Company. The goals so-said are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to results generated by the Company.

23.2. 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.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

24. ACCOUNTING PRINCIPLES

24.1. Impact of IFRS amendments and interpretations on separate financial statements of the Company

24.1.1. Binding amendments to IFRSs and interpretations

Standards and Interpretations adopted by the EU	Possible impact on financial statements
Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative	no impact
Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses	no impact

24.1.2. 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 9 Financial Instruments	impact*
IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15	impact**
IFRS 16 Leases	impact***
Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	no impact expected
Amendments to IFRS 15 Revenue from Contracts with Customers: Clarifications to IFRS 15 Revenue from Contracts with Customers	no impact expected

24.1.3. 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
Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions	no impact expected
Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	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 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures	no impact expected
Amendments to IAS 40 Transfers of Investment Property: Transfers of Investment	no impact expected
Amendments to various standards due to "Improvements to IFRSs (cycle 2014-2016)" 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	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
IFRIC 22 Foreign Currency Transactions and Advance Consideration	no impact expected
IFRIC 23 Uncertainty over Income Tax Treatments	no impact expected

* The new Standard will have 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, classification and valuation of financial assets will not change under the influence of the application of IFRS 9.
** Initial application of the Standard will not have a material impact on timing and amount of revenue recognized by the Company in its financial statements.
*** Bringing operating leases in statement of financial position will result in recognizing a new asset – the right to use the underlying asset – and a new liability – the obligation to make lease payments. The right-of-use of asset will be depreciated and the liability accrues interest.
It is expected that the standard, when initially applied, may have an impact on the amounts of non-current assets and lease liabilities reported in the Company financial statement, mainly in respect of vehicles and buildings. As at 31 December 2017 the Company does not have a reliable estimates of the influence of IFRS16 on the financial statements, as its analysis are in progress.

24.2. 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.

24.3. Applied accounting policies

24.3.1. 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.

24.3.2. Revenues

Revenues from sales (from operating activity) include revenues that relate to core activities, i.e. activities for which the Company was founded, these revenues being recurring and not of incidental character.
Revenues from sales are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from the sale of goods and services are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods and services decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges.
Revenues are measured at the fair value of the received or due payments. Revenues from sales are adjusted for profit or loss from settlement of cash flow hedging instruments related to the above mentioned revenues.
Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Company and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognized up to the cost incurred, but not greater than the cost which is expected to be recovered by the Company.

24.3.3. 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.

24.3.4. 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.

24.3.5. 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.

24.3.6. 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.

24.3.7. 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.

24.3.8. Property, plant and equipment

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

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

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.

24.3.9. 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.

24.3.10. Intangible assets

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

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

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.

24.3.11. 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.

24.3.12. 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.

24.3.13. Trade and other receivables

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

24.3.14. 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.

24.3.15. 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.

24.3.16. Equity

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

24.3.16.1. 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.

24.3.16.2. 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.

24.3.16.3. 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.

24.3.16.4. 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.

24.3.17. 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.

24.3.18. 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.

24.3.18.1. 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.

24.3.18.2. 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.

24.3.18.3. 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.

24.3.18.4. 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.

24.3.19. 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.

24.3.20. 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.

24.3.21. Financial instruments

24.3.21.1. 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.

24.3.21.2. Transfers

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

24.3.22. Fair value measurement

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

24.3.23. 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.

24.3.24. 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.

24.3.25. 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).

25. 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: 7. Tax expense, 9. Investment property, 10. Shares in related parties, 11. Trade and other receivables, 12. Other financial assets, 19. Financial instruments and financial risks.
The accounting policies described above have been applied consistently to all periods presented in these separate financial statements.

26. 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.

27. OTHER DISCOLURES

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 2017 financial statements.

Guarantees issued
As part of the operational financing of UNIPETROL, a.s., the bank guarantees in the amount of CZK 2 001 million (2016: CZK 2 018 million) were provided for the companies: UNIPETROL RPA, s.r.o. in the amount of CZK 887 million (2016: CZK 1 043 million), PARAMO, a.s. in the amount of CZK 381 million (2016: CZK 381 million), UNIPETROL SLOVENSKO s.r.o. in the amount of CZK 534 million (2016: CZK 543 million), SPOLANA a.s. in the amount of CZK 51 million (2016: CZK 51 million) and UNIPETROL RPA Hungary Kft. 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 2 850 million.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

28. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

28.1. 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 2017).

Name and place of business	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment	Website
Parent company				
UNIPETROL, a.s. Na Pankráci 127, 140 00 Praha 4, Czech Republic			Corporate Functions	www.unipetrol.cz
Subsidiaries consolidated in full method				
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
Paramo Oil s.r.o. (in liquidation) Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	--	100.00%	Downstream	
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Downstream	www.petrotrans.cz
SPOLANA a.s. ul. Práce 657, 277 11 Neratovice, Czech Republic	--	100.00%	Downstream	www.spolana.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B, 63225 Langen/Hessen, Germany	0.10%	99.90%	Downstream	www.unipetrol.de
UNIPETROL DOPRAVA s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12%	99.88%	Downstream	www.unipetroldoprava.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream Corporate Functions Retail	www.unipetrolrpa.cz
UNIPETROL RPA Hungary Kft. 2040 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.

28.2. Subsidiaries

Changes in structure of the Group

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

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

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2017 (in CZK million)

29. EVENTS AFTER THE REPORTING PERIOD

On 6 February 2018, Ms. Grażyna Baka resigned from her office as a Member of the Supervisory Board of UNIPETROL, a.s. in accordance with Section 16.5 of the Articles of Association of UNIPETROL, a.s., and with Section 59 (5) of Act. No. 90/2012 Coll., Commercial Corporations act. Ms. Baka´s office of a Member of the Supervisory Board terminated on 6 March 2018.
On 7 February 2018, Mr. Rafał Pasieka resigned from his office as a Member of the Supervisory Board of UNIPETROL, a.s. in accordance with Section 16.5 of the Articles of Association of UNIPETROL, a.s., and with Section 59 (5) of Act. No. 90/2012 Coll., Commercial Corporations act. Mr. Pasieka´s office of a Member of the Supervisory Board terminated on 7 March 2018.
On 8 February 2018, Mr. Wojciech Jasiński resigned from his office as a Chairman of the Supervisory Board of UNIPETROL, a.s. in accordance with Section 16.5 of the Articles of Association of UNIPETROL, a.s. and with Section 59 (5) of Act. No. 90/2012 Coll., Commercial Corporations act. Mr. Jasiński's office of a Member of the Supervisory Board will terminate on 8 March 2018.
On 21 February 2018, the Supervisory Board of UNIPETROL, a.s. elected Mr. Zbigniew Leszczyński as a Chairman of the Supervisory Board with the effect from 22 February 2018, and also appointed Wioletta Kandziak (with effect from 7 March 2018), Janusz Szurski (with effect from 8 March 2018) and Robert Harasimiuk (with effect from 9 March 2018) as Substitute Members of the Supervisory Board of UNIPETROL, a.s.
On 21 February 2018, the Supervisory Board of UNIPETROL, a.s. elected Mr. Tomasz Wiatrak as a Member of the Board of Directors with the effect from 1 March 2018.

On 23 February PKN ORLEN S.A. purchased 56 280 592 UNIPETROL, a.s. shares which were subscribed for the sale in response to the announcement of a voluntary tender offer as was described in note 14.1. As a result of the settlement of transaction, PKN ORLEN S.A. owns in total 170 507 091 shares of UNIPETROL, a.s., constituting 94.03% of the Company´s share capital and corresponding to 94.03% of votes at the General Meeting of UNIPETROL, a.s.

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 2017.

30. STATEMENT OF THE BOARD OF DIRECTORS AND APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors of UNIPETROL, a.s. hereby declares that to the best of its knowledge the foregoing separate financial statements and comparative data were prepared in compliance with the accounting principles adopted by the Company in force (disclosed in note 24.3.) 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 7 March 2018.

Signature of statutory representatives

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