



UNIPETROL, a.s.
CONSOLIDATED QUARTERLY REPORT

FOR THE 3RD QUARTER

2016

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



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**UNAUDITED QUARTERLY CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 9 AND 3 MONTHS ENDED 30 SEPTEMBER

2016

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

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

Consolidated statement of profit or loss and other comprehensive income

	Note	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Statement of profit or loss					
Revenues	4.2.	61 347	23 110	85 950	29 452
Cost of sales	4.3.	(59 572)	(23 150)	(74 487)	(25 998)
Gross profit on sales		1 775	(40)	11 463	3 454
Distribution expenses		(1 908)	(625)	(1 629)	(561)
Administrative expenses		(1 060)	(376)	(916)	(306)
Other operating income	4.6.	6 421	2 203	568	65
Other operating expenses	4.6.	(459)	(270)	(1 014)	(677)
Profit from operations		4 769	892	8 472	1 975
Finance income	4.7.	344	92	713	232
Finance costs	4.7.	(241)	(89)	(794)	(253)
Net finance income/(costs)		103	3	(81)	(21)
Profit before tax		4 872	895	8 391	1 954
Tax expense	4.8.	(1 069)	(173)	(1 537)	(372)
Net profit		3 803	722	6 854	1 582
Other comprehensive income					
items which will be reclassified into profit or loss under certain conditions		(614)	(116)	(448)	21
<i>Hedging instruments</i>		(759)	(143)	(549)	27
<i>Foreign exchange differences on subsidiaries from consolidation</i>		1	-	(3)	(1)
<i>Deferred tax</i>		144	27	104	(5)
		(614)	(116)	(448)	21
Total net comprehensive income		3 189	606	6 406	1 603
Net profit attributable to equity owners of the parent		3 803	722	6 854	1 582
<i>equity owners of the parent</i>		3 806	724	6 857	1 584
<i>non-controlling interest</i>		(3)	(2)	(3)	(2)
Total comprehensive income attributable to equity owners of the parent		3 189	606	6 406	1 603
<i>equity owners of the parent</i>		3 192	608	6 409	1 605
<i>non-controlling interest</i>		(3)	(2)	(3)	(2)
Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share)		20.99	3.99	37.81	8.74

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

Consolidated statement of financial position

	Note	30/09/2016 (unaudited)	31/12/2015 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		26 848	19 398
Investment property		504	433
Intangible assets		1 405	1 514
Financial assets available for sale		2	1
Deferred tax assets		1 004	1 204
Other non-current assets		97	25
		29 860	22 575
Current assets			
Inventories		12 508	10 390
Trade and other receivables		14 441	11 258
Other financial assets	4.9.	372	4 281
Current tax receivables		133	107
Cash and cash equivalents		3 819	5 888
		31 273	31 924
Total assets		61 133	54 499
EQUITY AND LIABILITIES			
EQUITY			
Share capital		18 133	18 133
Statutory reserves		33	34
Hedging reserve		(70)	545
Revaluation reserve		10	10
Foreign exchange differences on subsidiaries from consolidation		16	15
Retained earnings		19 534	16 781
Total equity attributable to equity owners of the parent		37 656	35 518
Non-controlling interest		(12)	(9)
Total equity		37 644	35 509
LIABILITIES			
Non-current liabilities			
Provisions	4.10.	838	678
Deferred tax liabilities		1 178	809
Other non-current liabilities		169	166
		2 185	1 653
Current liabilities			
Trade and other liabilities		20 108	15 707
Current tax liabilities		213	602
Provisions	4.10.	415	892
Deferred income		179	8
Other financial liabilities	4.11.	389	128
		21 304	17 337
Total liabilities		23 489	18 990
Total equity and liabilities		61 133	54 499

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

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							Non-controlling interest	Total equity
	Share capital	Statutory reserves	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Revaluation reserve	Retained earnings	Total		
(unaudited)									
1 January 2016	18 133	34	545	15	10	16 781	35 518	(9)	35 509
Net profit	-	-	-	-	-	3 806	3 806	(3)	3 803
Items of other comprehensive income	-	-	(615)	1	-	-	(614)	-	(614)
Total net comprehensive income	-	-	(615)	1	-	3 806	3 192	(3)	3 189
Dividends	-	-	-	-	-	(1 001)	(1 001)	-	(1 001)
Equity resulting from acquisition under common control transaction	-	-	-	-	-	(53)	(53)	-	(53)
Transfer of statutory reserves to retained earnings	-	(1)	-	-	-	1	-	-	-
30 September 2016	18 133	33	(70)	16	10	19 534	37 656	(12)	37 644
(unaudited)									
1 January 2015	18 133	2 703	538	18	10	7 069	28 471	(9)	28 462
Net profit	-	-	-	-	-	6 857	6 857	(3)	6 854
Items of other comprehensive income	-	-	(445)	(3)	-	-	(448)	-	(448)
Total net comprehensive income	-	-	(445)	(3)	-	6 857	6 409	(3)	6 406
Transfer of statutory reserves to retained earnings	-	(2 646)	-	-	-	2 646	-	-	-
30 September 2015	18 133	57	93	15	10	16 572	34 880	(12)	34 868

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

Consolidated statement of cash flows

Note	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Cash flows - operating activities				
Profit before tax	4 872	895	8 391	1 954
Adjustments for:				
Depreciation and amortisation	1 441	499	1 463	496
Foreign exchange (gain)/loss	2	3	(37)	(36)
Interest and dividends, net	1	(2)	29	-
(Profit)/Loss on investing activities	(17)	28	628	715
Change in provisions	63	89	699	103
Gain on bargain purchase of share in Česká rafinérská	-	-	(429)	(429)
Other adjustments including change in financial instruments and deferred income 4.15.	(2 018)	(2 556)	79	210
Change in working capital	898	1 074	2 273	3 472
<i>inventories</i>	(1 626)	250	(792)	1 748
<i>receivables</i>	628	1 675	2 158	3 984
<i>liabilities</i>	1 896	(851)	907	(2 260)
Income tax (paid)	(768)	(696)	(34)	31
Net cash provided by/(used in) operating activities	4 474	(666)	13 060	6 514
Cash flows - investing activities				
Acquisition of property, plant and equipment and intangible assets	(8 368)	(2 429)	(1 487)	(710)
Disposal of property, plant and equipment and intangible assets	18	1	8	3
Acquisition of Spolana 4.1.	(27)	-	-	-
Cash acquired in acquisition of Spolana 4.1.	84	-	-	-
Acquisition of share in Česká rafinérská	-	-	(661)	-
Cash acquired in acquisition of share in Česká rafinérská	-	-	426	-
Settlement of financial derivatives	22	6	139	(91)
Proceeds/(outflows) from loans granted	(200)	-	4	-
Proceeds/(outflows) from cash pool assets	3 054	1 031	(1 911)	(1 911)
Other	3	3	5	13
Net cash used in investing activities	(5 414)	(1 388)	(3 477)	(2 696)
Cash flows - financing activities				
Proceeds/(outflows) from loans and borrowings	-	(1)	(4 326)	(411)
Proceeds/(outflows) from cash pool liabilities	(151)	(272)	-	-
Interest paid	(2)	(1)	(52)	-
Dividends paid	(969)	(969)	-	-
Other	(4)	1	(7)	(4)
Net cash used in financing activities	(1 126)	(1 242)	(4 385)	(415)
Net increase/(decrease) in cash and cash equivalents	(2 066)	(3 296)	5 198	3 403
Effect of exchange rate changes	(3)	(2)	33	34
Cash and cash equivalents, beginning of the period	5 888	7 117	1 682	3 476
Cash and cash equivalents, end of the period	3 819	3 819	6 913	6 913

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

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

Establishment of the parent company

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

Identification number of the Company

616 72 190

Registered office of the Company

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

Principal activities

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

Ownership structure

The shareholders as at 30 September 2016 are as follows:

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

* According to notification received on 21 June 2016

Consolidated group structure

The subsidiaries and jointly controlled entities forming the consolidated group of UNIPETROL, a.s., and the parent company’s interest in the capital of subsidiaries and jointly controlled entities held either directly by the parent company or indirectly by the consolidated subsidiaries are presented in the consolidated financial statements of the Group as at and for the year ended 31 December 2015. The liquidation of UNIPETROL AUSTRIA HmbH has been completed and the company was deleted from the Commercial register on 9 September 2016.

Statutory and supervisory bodies

Members of the statutory and supervisory bodies as at 30 September 2016 were as follows:

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

Changes in the Board of Directors during the 9 months ended 30 September 2016 were as follows:

Position	Name	Change	Date of change
Member/Vice-chairman	Mirosław Kastelik	Re-elected to the office	6 February 2016 (vice-chairman with the effect as of 1 July 2016)
Member	Andrzej Kozłowski	Re-elected to the office	9 April 2016
Vice-chairman	Piotr Wielowieyski	Recalled from the office	11 May 2016
Member/Vice-chairman/ Chairman	Andrzej Modrzejewski	Elected to the office	12 May 2016 (vice-chairman with the effect as of 25 May 2016 and chairman with the effect as of 2 July 2016)
Member	Robert Małek	Elected to the office	11 May 2016
Chairman	Marek Świtajewski	Recalled from the office	1 July 2016
Member/Vice-chairman	Krzysztof Zdziarski	Elected to the office	2 July 2016

1. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATION GROUP (CONTINUED)

Changes in the Supervisory Board during the 9 months ended 30 September 2016 were as follows:

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance and general principles of preparation

The consolidated financial statements of the Company as at and for the period ended 30 September 2016 include the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

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

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

2.2. Applied accounting principles and IFRS amendments

These interim condensed consolidated financial statements were prepared according to accounting principles described in note 3 in the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and main uncertainties were the same as those presented in note 4 in the consolidated financial statements as at and for the year ended 31 December 2015.

The Group intends to adopt new standards, amendments and interpretations to existing standards that have been published but are not effective as at the date of preparation of these interim condensed consolidated financial statements after their acceptance by the European Commission in accordance with their effective date. The possible impact of new standards, amendments and interpretations on the Group's future consolidated financial statements was described in note 3.2 of the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

2.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial data for consolidation purposes

2.3.1. Functional and presentation currency

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

2.3.2. Methods applied to translation of financial data for consolidation purposes

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

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

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

Currency	Average exchange rate for the reporting period		Exchange rate as at the end of reporting period	
	30/09/2016	30/09/2015	30/09/2016	31/12/2015
CZK/EUR	27.035	27.357	27.020	27.025
CZK/USD	24.225	24.564	24.210	24.824

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

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

3. OPERATING SEGMENTS

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

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

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

Allocation of subsidiaries into the operating activities is presented in the consolidated financial statements of the Group as at and for the year ended 31 December 2015. The company SPOLANA a.s. has been allocated into the Downstream segment. There were no other material changes in allocation of subsidiaries into the operating segments during the 9 months ended 30 September 2016.

Revenues and operating result by operating segments

For the 9 months ended 30 September 2016

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	54 721	6 512	114	-	61 347
Inter-segment revenues	5 187	45	549	(5 781)	-
Total segment revenue	59 908	6 557	663	(5 781)	61 347
Operating expenses	(61 592)	(6 086)	(643)	5 781	(62 540)
Other operating income	6 404	11	7	(1)	6 421
Other operating expenses	(414)	(6)	(40)	1	(459)
Segment operating profit/(loss)	4 306	476	(13)	-	4 769
Net finance income					103
Profit before tax					4 872
Tax expense					(1 069)
Net profit					3 803
Depreciation and amortisation	(1 168)	(235)	(38)	-	(1 441)
EBITDA	5 474	711	25	-	6 210
Additions to non-current assets	8 388	302	34	-	8 724

For the 3 months ended 30 September 2016

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	20 555	2 521	34	-	23 110
Inter-segment revenues	1 946	17	205	(2 168)	-
Total segment revenue	22 501	2 538	239	(2 168)	23 110
Operating expenses	(23 799)	(2 284)	(236)	2 168	(24 151)
Other operating income	2 195	3	6	(1)	2 203
Other operating expenses	(246)	(2)	(23)	1	(270)
Segment operating profit/(loss)	651	255	(14)	-	892
Net finance income					3
Profit before tax					895
Tax expense					(173)
Net profit					722
Depreciation and amortisation	(406)	(80)	(13)	-	(499)
EBITDA	1 057	335	(1)	-	1 391
Additions to non-current assets	1 612	145	12	-	1 769

For the 9 months ended 30 September 2015

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	78 634	7 247	69	-	85 950
Inter-segment revenues	6 039	69	222	(6 330)	-
Total segment revenue	84 673	7 316	291	(6 330)	85 950
Operating expenses	(75 973)	(7 024)	(365)	6 330	(77 032)
Other operating income	538	9	21	-	568
Other operating expenses	(958)	(5)	(51)	-	(1 014)
Segment operating profit/(loss)	8 280	296	(104)	-	8 472
Net finance costs					(81)
Profit before tax					8 391
Tax expense					(1 537)
Net profit					6 854
Depreciation and amortisation	(1 196)	(245)	(22)	-	(1 463)
EBITDA	9 476	541	(82)	-	9 935
Additions to non-current assets	1 272	104	84	-	1 460

3. OPERATING SEGMENTS (CONTINUED)

For the 3 months ended 30 September 2015

	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	26 772	2 660	20	-	29 452
Inter-segment revenues	2 107	23	72	(2 202)	-
Total segment revenue	28 879	2 683	92	(2 202)	29 452
Operating expenses	(26 471)	(2 483)	(113)	2 202	(26 865)
Other operating income	48	4	13	-	65
Other operating expenses	(674)	(2)	(1)	-	(677)
Segment operating profit/(loss)	1 782	202	(9)	-	1 975
Net finance costs					(21)
Profit before tax					1 954
Tax expense					(372)
Net profit					1 582
Depreciation and amortisation	(405)	(83)	(8)	-	(496)
EBITDA	2 187	285	(1)	-	2 471
Additions to non-current assets	638	49	7	-	694

Assets by operating segments

	30/09/2016	31/12/2015
Downstream Segment	48 797	37 652
Retail Segment	5 939	5 597
Segment assets	54 736	43 249
Corporate Functions	6 589	12 091
Adjustments	(192)	(841)
	61 133	54 499

4. OTHER NOTES

4.1. Acquisition of SPOLANA a.s.

On 10 June 2016 the Group concluded a purchase contract with ANWIL S.A., a Company owned by PKN ORLEN S.A., under which it acquired the production company SPOLANA a.s. The transaction supports Unipetrol's reorganization of activities, which was triggered by taking full control over the refining assets in the Czech Republic and will allow the Group to be more flexible and resilient in terms of production optimization, production and sales of ethylene as well as facilitate better coordination and extension of the Group's value chain.

The net book value of assets and liabilities of SPOLANA a.s. as at the acquisition date:

	Book value as at the acquisition day
Net assets	(26)
Share acquired	100%
Share on net assets	(26)
Cash paid/outflows on acquisition of shares	27
Equity resulting from acquisition under common control	(53)

Equity resulting from acquisition under common control is presented in the consolidated statement of changes in equity as at 30 September 2016.

4.2. Revenues

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Revenues from sales of finished goods and services, net	46 659	14 439	81 534	28 031
Revenues from sales of merchandise and raw materials, net	14 688	8 671	4 416	1 421
	61 347	23 110	85 950	29 452

4.3. Operating expenses

Cost of sales

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Cost of finished goods and services sold	(44 856)	(14 435)	(70 205)	(24 573)
Cost of merchandise and raw materials sold	(14 716)	(8 715)	(4 282)	(1 425)
	(59 572)	(23 150)	(74 487)	(25 998)

Cost by nature

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Materials and energy	(38 197)	(13 237)	(63 275)	(20 676)
Cost of merchandise and raw materials sold	(14 716)	(8 715)	(4 282)	(1 425)
External services	(4 156)	(1 427)	(5 594)	(1 925)
Employee benefits	(2 177)	(752)	(1 913)	(627)
Depreciation and amortisation	(1 441)	(499)	(1 463)	(496)
Taxes and charges	(186)	(43)	(337)	(95)
Other	(960)	(453)	(1 275)	(777)
	(61 833)	(25 126)	(78 139)	(26 021)
Change in inventories	(1 355)	705	10	(1 522)
Cost of products and services for own use	189	-	83	1
Operating expenses	(62 999)	(24 421)	(78 046)	(27 542)
Distribution expenses	1 908	625	1 629	561
Administrative expenses	1 060	376	916	306
Other operating expenses	459	270	1 014	677
Cost of sales	(59 572)	(23 150)	(74 487)	(25 998)

4.4. Impairment allowances of inventories to net realisable value

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Increase	(540)	(99)	(302)	(183)
Decrease	992	104	845	177

4.5. Impairment allowances of assets

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Property, plant and equipment				
Recognition	(22)	(9)	(718)	(606)
Reversal	8	1	8	6
Intangible assets				
Recognition	-	-	(7)	(4)
Reversal	-	-	-	-
Receivables				
Recognition	(3)	(1)	(51)	-
Reversal	1	-	-	-

4.6. Other operating income and expenses

Other operating income

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Profit on sale of non-current non-financial assets	18	2	8	4
Reversal of provisions	17	1	11	-
Reversal of receivables impairment allowances	1	-	-	-
Reversal of impairment allowances of property, plant and equipment and intangible assets	8	1	8	6
Penalties and compensations earned	6 150	2 190	42	29
Revaluation of provision to CO ₂ consumption	207	-	-	-
Gain on bargain purchase of share in Česká rafinérská	-	-	429	-
Other	20	9	70	26
	6 421	2 203	568	65

During the 9 and 3 months 2016 the Group recognized compensation from insurances in the amount of CZK 6 113 million and CZK 2 179 million in connection with the Steam cracker accident. Further information regarding the insurance claim and recoveries is presented in note 4.15.

4.6. Other operating income and expenses (continued)

Other operating expenses

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Loss on sale of non-current non-financial assets	(2)	-	(15)	(15)
Recognition of provisions	(8)	(2)	(171)	(2)
Recognition of receivables impairment allowances	(3)	(1)	(51)	-
Recognition of impairment allowances of property, plant and equipment and intangible assets	(22)	(9)	(726)	(611)
Penalties, damages and compensation	(392)	(254)	(46)	(46)
Other	(32)	(4)	(5)	(3)
	(459)	(270)	(1 014)	(677)

The other operating costs incurred in connection with the accident of the steam cracker unit which took place at the Chempark Záluží in Litvínov on 13 August 2015, amounted to CZK 284 and 146 million during the 9 and 3 months ended 30 September 2016 respectively (CZK 46 million during the 9 and 3 months ended 30 September 2015) and in connection with the accident on Fluid Catalytic Cracking unit which occurred on 17 May 2016 at the Kralupy refinery amounted to CZK 108 million during the 9 and 3 months ended 30 September 2016.

4.7. Finance income and finance costs

Finance income

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Interest	12	3	25	7
Foreign exchange gain, net	72	19	-	72
Settlement and valuation of financial instruments	260	70	687	153
Other	-	-	1	-
	344	92	713	232

Finance costs

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Interest	(1)	-	(32)	-
Foreign exchange loss, net	-	-	(166)	-
Settlement and valuation of financial instruments	(214)	(77)	(567)	(247)
Other	(26)	(12)	(29)	(6)
	(241)	(89)	(794)	(253)

4.8. Tax expense

	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015
Current income tax	(355)	(23)	(668)	(163)
Deferred income tax	(714)	(150)	(869)	(209)
	(1 069)	(173)	(1 537)	(372)

4.9. Other financial assets

	30/09/2016	31/12/2015
Cash flow hedge instruments		
<i>currency forwards</i>	2	30
<i>commodity swaps</i>	88	670
Derivatives not designated as hedge accounting		
<i>currency forwards</i>	17	14
<i>commodity swaps</i>	26	-
Cash pool	108	3 086
Receivables on settled cash flow hedge instruments	131	481
	372	4 281

4.10. Provisions

	Non-current		Current		Total	
	30/09/2016	31/12/2015	30/09/2016	31/12/2015	30/09/2016	31/12/2015
Environmental provision	731	571	3	3	734	574
Jubilee bonuses and retirement benefits provision	84	76	7	7	91	83
Provision for CO ₂ emission	-	-	310	772	310	772
Other provision	23	31	95	110	118	141
	838	678	415	892	1 253	1 570

A provision for CO₂ allowances was created for estimated CO₂ emissions in the periods ended 30 September 2016 and 31 December 2015.

4.11. Other financial liabilities

	30/09/2016	31/12/2015
Cash flow hedge instruments		
<i>currency forwards</i>	1	-
<i>commodity swaps</i>	175	27
Derivatives not designated as hedge accounting		
<i>currency forwards</i>	-	5
<i>commodity swaps</i>	12	-
Cash pool	195	31
Liabilities on settled cash flow hedge instruments	6	65
	389	128

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

Methods applied in determining fair value have been described in the consolidated financial statements as at and for the year ended 31 December 2015 in note 32.1. As compared to the previous reporting period, the Group has not changed valuation methods concerning derivative instruments and investment property.

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

	30/09/2016		31/12/2015	
	Level 2	Level 3	Level 2	Level 3
Financial assets				
Derivative instruments at fair value	133	-	714	-
Investment property	117	387	117	316
	250	387	831	316
Financial liabilities				
Derivative instruments at fair value	188	-	32	-
	188	-	32	-

During the 9 months ended 30 September 2016 and year 2015 there were no transfers in the Group between Levels 1, 2 and 3 of the fair value hierarchy.

4.13. Future commitments resulting from signed investment contracts

As at 30 September 2016 and as at 31 December 2015 the value of future commitments resulting from signed investment contracts amounted to CZK 7 585 million and CZK 11 121 million.

4.14. Retained earnings and dividends

Dividends

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

On 21 June 2016 the Annual General Meeting of Unipetrol decided to pay a dividend equal to CZK 5.52 per share to the Company's shareholders.

4.15. Contingent assets and liabilities

Contingent assets

Steam cracker unit accident

As a consequence of the steam cracker unit accident which took place at the Chempark Záluží in Litvínov on 13 August 2015, the Group recognized in the 3rd quarter 2015 an impairment charge of CZK 597 million in relation to damaged assets.

The Group is insured against property and mechanical damage as well as loss of business profits (business interruption) and is in the process of seeking recourse from the insurer. The Group expects that, based on the insurance policies and the internal estimates made at the end of September 2016, it should be in a position to recover repair costs estimated at approximately CZK 3.9 billion, as well as recoverable lost business profits estimated at CZK 9.9 billion. Out of these amounts in the period ended 30 September 2016, the Group has already recognized CZK 6.1 billion in Other operating income. The Group has received CZK 3.9 billion, CZK 2.2 billion is presented in Trade and other receivables in the Consolidated statement of financial position and in Other adjustments in the operating activities of the Consolidated statement of cash flows. The Group estimates value of the contingent asset from an insurance claim in the amount of CZK 7.7 billion as at 30 September 2016. The final amount of compensation will depend on the final agreement with insurers.

Fluid Catalytic Cracking unit accident

Following the accident of the Fluid Catalytic Cracking unit at the Kralupy refinery which occurred on 17 May 2016, crude oil processing in the Kralupy refinery was suspended. The assets damaged in the accident at the Kralupy refinery had already been fully impaired in June 2014.

The Group is insured against property and mechanical damage as well as loss of business profits (business interruption) and is in the process of seeking recourse from the insurer. The Group expects that, based on the insurance policies and the internal estimates made at the end of September 2016, it should be in a position to recover repair costs estimated at approximately CZK 0.3 billion, as well as recoverable lost business profits estimated at CZK 0.6 billion. The Group estimates value of the contingent asset from an insurance claim in the amount of CZK 0.9 billion as at 30 September 2016. The final amount of compensation will depend on the final agreement with insurers.

Tax proceeding

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

UNIPETROL RPA, s.r.o. complaint for annulment of the tax authority decisions

On 14 October 2015, the Czech Supreme Administrative Court annulled the Regional Court in Ústí nad Labem judgment and decided to return the case back to the Regional Court in Ústí nad Labem for re-examination. The Supreme Administrative Court commented that the Regional Court did not correctly deal with the legitimate expectations objection raised by UNIPETROL RPA, s.r.o. The case is now pending with the Regional Court in Ústí nad Labem.

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

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

During the 9 months ended 30 September 2016 there were no material changes in relation to this issue.

Contingent liabilities

Mercury electrolysis termination in SPOLANA a.s.

SPOLANA a.s. currently produces chlorine using a mercury electrolysis. In the event that production is terminated, the company is required to present a reclamation program after it stops using its fixed assets. On 9 September 2013, as a result of administrative proceedings, SPOLANA a.s. received a consent of the Regional Office of Central Bohemian Region to extend the integrated pollution prevention and control license from the end of 2014 until 30 June 2017. At the same time, the company is obliged to submit an action plan aiming to cease production of chlorine using mercury electrolysis by 31 December 2016. The company works on the relevant program and measures related to it.

Contingent liabilities and commitments related to Squeeze-out of PARAMO, a.s are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

During the 9 months ended 30 September 2016 there were no material changes in relation to this issue.

4.15. Contingent assets and liabilities (continued)

Claims regarding award for employees' intellectual work

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

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

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

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

During the 9 months ended 30 September 2016 there were no material changes in relation to this issue.

Transportation contracts

The transportation of crude oil supplies through pipelines for UNIPETROL RPA, s.r.o. is provided by MERO ČR, a.s. and TRANSPETROL, a.s. via ČESKÁ RAFINÉRSKÁ, a.s. As at 30 September 2016, ČESKÁ RAFINÉRSKÁ, a.s. held a contract for transportation with TRANSPETROL, a.s., covering crude oil supplies until 2020.

ČESKÁ RAFINÉRSKÁ, a.s. and MERO ČR, a.s. agreed on the terms and conditions of the crude oil transportation into the Czech Republic. The contract for storage and transportation of crude oil via the IKL and Družba pipelines came into force as of 1 January 2016. On 7 April 2016 ČESKÁ RAFINÉRSKÁ, a.s. and MERO ČR, a.s. entered into an amendment to the contract for storage and transportation of crude oil via the IKL and Družba pipelines setting for the transportation tariff for the crude oil transportation service and fees for certain related services. Furthermore, on 7 April 2016 ČESKÁ RAFINÉRSKÁ, a.s. and MERO ČR, a.s. entered into a contract for storage and transportation of crude oil via the TAL pipeline.

4.16. Guarantees

Based on the Group's request, the bank guarantees relating to the security of customs debt, excise tax at customs offices and other purposes were issued. The total amount of guarantees related to excise tax amounted to CZK 2 461 million as at 30 September 2016 (31 December 2015: CZK 2 415 million) and for other purposes amounted to CZK 184 million (31 December 2015: CZK 37 million).

The Group was the beneficiary of guarantees in the amount of CZK 677 million as at 30 September 2016 (31 December 2015: CZK 621 million).

4.17. Related party transactions

Material transactions concluded by the Group companies with related parties

In the 9 months ended 30 September 2016 and 2015 there were no transactions concluded by the Group with related parties on other than an arm's length terms.

Transactions with key management personnel

In the 9 months ended 30 September 2016 and 2015 the Group companies did not grant to key management personnel and their relatives any advances, borrowings, loans, guarantees and commitments or other agreements obliging them to render services to Group companies and related parties.

In the 9 months ended 30 September 2016 and 2015 there were no significant transactions concluded with members of the Board of Directors, the Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

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

In the 9 months ended 30 September 2016 and 2015 members of the key management personnel of the parent company and the Group companies submitted statements that they have not concluded any transactions with related parties.

4.17. Related party transactions (continued)

Parent and ultimate controlling party

During 2016 and 2015 a majority (62.99%) of the Company's shares were held by POLSKI KONCERN NAFTOWY ORLEN S.A. (PKN Orlen).

for 9 months ended	PKN Orlen		Joint operations		Entities under control or significant influence of PKN Orlen	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Sales	1 198	124	1	881	2 860	6 199
Purchases	29 226	50 230	23	1 140	2 377	1 326
Finance income	-	-	13	150	3	-
Finance costs	-	30	-	-	2	10

for 3 months ended	PKN Orlen		Joint operations		Entities under control or significant influence of PKN Orlen	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Sales	312	42	-	103	801	2 215
Purchases	8 936	18 454	4	68	862	432
Finance income	-	-	-	150	1	-
Finance costs	-	-	-	-	-	1

	PKN Orlen		Joint operations		Entities under control or significant influence of PKN Orlen	
	30/09/2016	31/12/2015	30/09/2016	31/12/2015	30/09/2016	31/12/2015
Current financial assets	-	-	-	-	108	3 086
Trade and other receivables	1	190	-	1	296	541
Trade and other liabilities	2 966	2 580	-	4	252	95

In June 2016 the Group signed a share purchase agreement with ANWIL S.A., 100% owned subsidiary of PKN ORLEN S.A., based on which the Group acquired the production company SPOLANA a.s. Further information is presented in note 4.1.

4.18. Subsequent events after the reporting date

The Group's management is not aware of any events that have occurred since the end of the reporting period that would have any material impact on the financial statements as at 30 September 2016.

**QUARTERLY CONDENSED SEPARATE
FINANCIAL STATEMENTS
UNIPETROL, a.s.**

FOR THE 9 AND 3 MONTHS ENDED 30 SEPTEMBER

2016

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

B. QUARTERLY CONDENSED 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

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Statement of profit or loss				
Revenues	101	34	125	42
Cost of sales	(56)	(20)	(69)	(14)
Gross profit on sales	45	14	56	28
Administrative expenses	(70)	(28)	(147)	(56)
Other operating income	-	-	5	-
Other operating expenses	(1)	(1)	(50)	-
Loss from operations	(26)	(15)	(136)	(28)
Finance income	83	30	415	325
Finance costs	(6)	(3)	(37)	(2)
Net finance income	77	27	378	323
Profit before tax	51	12	242	295
Tax expense	(11)	(2)	3	10
Net profit	40	10	245	305
Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share)	0.22	0.06	1.35	1.68

Separate statement of financial position

	30/09/2016 (unaudited)	31/12/2015 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	9	9
Investment property	1 162	1 161
Shares in related parties	17 579	17 582
Other non-current assets	-	24
	18 750	18 776
Current assets		
Trade and other receivables	171	142
Other financial assets	8 310	7 217
Current tax receivables	6	16
Cash and cash equivalents	3 304	5 435
	11 791	12 810
Total assets	30 541	31 586
EQUITY AND LIABILITIES		
EQUITY		
Share capital	18 133	18 133
Revaluation reserve	503	503
Retained earnings	9 232	10 193
Total equity	27 868	28 829
LIABILITIES		
Non-current liabilities		
Provisions	50	50
Deferred tax liabilities	109	100
	159	150
Current liabilities		
Trade and other liabilities	161	145
Other financial liabilities	2 353	2 462
	2 514	2 607
Total liabilities	2 673	2 757
Total equity and liabilities	30 541	31 586

Separate statement of changes in equity

	Share capital	Statutory reserves	Revaluation reserve	Retained earnings	Total equity
(unaudited)					
1 January 2016	18 133	-	503	10 193	28 829
Net profit	-	-	-	40	40
Total net comprehensive income	-	-	-	40	40
Dividends	-	-	-	(1 001)	(1 001)
30 September 2016	18 133	-	503	9 232	27 868
(unaudited)					
1 January 2015	18 133	1 719	503	6 331	26 686
Net profit	-	-	-	245	245
Total net comprehensive income	-	-	-	245	245
Transfer of statutory reserves to retained earnings	-	(1 719)	-	1 719	-
30 September 2015	18 133	-	503	8 295	26 931

Separate statement of cash flows

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Cash flows - operating activities				
Profit before tax	51	12	242	295
Adjustments for:				
Foreign exchange (gain)/loss	(1)	-	(3)	(6)
Interest and dividends, net	(66)	(15)	(378)	(324)
(Profit)/Loss on investing activities	3	3	(5)	(1)
Change in provisions	-	-	100	100
Change in working capital	(45)	(57)	35	49
<i>receivables</i>	(29)	(48)	2	(12)
<i>liabilities</i>	(16)	(9)	33	61
Income tax (paid)	8	-	(4)	(2)
Net cash provided by/(used in) operating activities	(50)	(57)	(13)	111
Cash flows - investing activities				
Acquisition of property, plant and equipment and intangible assets	(1)	(1)	-	-
Acquisition of share in Česká rafinářská	-	-	(1 118)	(457)
Dividends received	30	-	330	324
Interest received	43	17	91	20
Proceeds/(Outflows) from loans granted	(1 170)	(841)	13 568	7 523
Proceeds/(Outflows) from cash pool granted	98	(1 260)	(3 458)	(3 455)
Other	-	1	(1)	1
Net cash provided by/(used in) investing activities	(1 000)	(2 084)	9 413	3 957
Cash flows - financing activities				
Change in loans and borrowings	-	-	(4 000)	-
Proceeds/(Outflows) from cash pool liabilities	(109)	(153)	(576)	(563)
Dividends paid	(969)	(969)	-	-
Interest paid	-	-	(52)	-
Other	(3)	-	(5)	(2)
Net cash used in financing activities	(1 081)	(1 122)	(4 633)	(565)
Net increase/(decrease) in cash and cash equivalents	(2 131)	(3 263)	4 767	3 503
Effect of exchange rate changes	-	(2)	4	8
Cash and cash equivalents, beginning of the period	5 435	6 569	516	1 776
Cash and cash equivalents, end of the period	3 304	3 304	5 287	5 287

The foregoing financial report for the period ended 30 September 2016 was authorized for issue by the Board of Directors on 18 October 2016.

Signature of statutory representatives

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