



UNIPETROL, a.s.
SEPARATE HALF-YEAR REPORT

FOR THE 1ST HALF

2018

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



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**UNAUDITED CONDENSED SEPARATE
HALF-YEAR FINANCIAL STATEMENTS**

FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE

2018

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

CONDENSED SEPARATE HALF-YEAR 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	6 MONTH PERIOD ENDED 30/06/2018 (unaudited)	3 MONTH PERIOD ENDED 30/06/2018 (unaudited)	6 MONTH PERIOD ENDED 30/06/2017 (unaudited)	3 MONTH PERIOD ENDED 30/06/2017 (unaudited)
Statement of profit or loss					
Revenues	3.1.	73	37	74	36
Cost of sales	3.2.	(25)	(12)	(40)	(20)
Gross profit on sales		48	25	34	16
Administrative expenses	3.2.	(58)	(30)	(46)	(28)
Other operating income		12	12	-	-
Other operating expenses		-	-	(1)	(1)
Profit/(loss) from operations		2	7	(13)	(13)
Finance income	3.3.	51	30	117	104
Finance costs	3.3.	(3)	(1)	(79)	(77)
Net finance income		48	29	38	27
Profit before tax		50	36	25	14
Tax expense	3.4.	(11)	(7)	(3)	1
Net profit		39	29	22	15
Total net comprehensive income		39	29	22	15
Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share)		0.22	0.16	0.12	0.08

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-14.

Separate statement of financial position

	Note	30/06/2018 (unaudited)	31/12/2017 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		27	22
Investment property	3.9.	1 163	1 163
Shares in related parties		17 419	17 419
		18 609	18 604
Current assets			
Trade and other receivables		88	133
Other financial assets	3.5.	7 098	7 397
Cash and cash equivalents		2 255	1 825
		9 441	9 355
Total assets		28 050	27 959
EQUITY AND LIABILITIES			
EQUITY			
Share capital		18 133	18 133
Revaluation reserve		503	503
Retained earnings		7 744	7 705
Total equity		26 380	26 341
LIABILITIES			
Non-current liabilities			
Provisions	3.7.	50	50
Deferred tax liabilities		105	106
		155	156
Current liabilities			
Trade and other liabilities		85	100
Current tax liabilities		27	17
Other financial liabilities	3.8.	1 403	1 345
		1 515	1 462
Total liabilities		1 670	1 618
Total equity and liabilities		28 050	27 959

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-14.

Separate statement of changes in equity

	Share capital	Revaluation reserve	Retained earnings	Total equity
(unaudited)				
01/01/2018	18 133	503	7 705	26 341
Net profit	-	-	39	39
Total net comprehensive income	-	-	39	39
30/06/2018	18 133	503	7 744	26 380
(unaudited)				
01/01/2017	18 133	503	9 239	27 875
Net profit	-	-	22	22
Total net comprehensive income	-	-	22	22
Dividends	-	-	(1 505)	(1 505)
30/06/2017	18 133	503	7 756	26 392

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-14.

Separate statement of cash flows

	6 MONTH PERIOD ENDED 30/06/2018 (unaudited)	3 MONTH PERIOD ENDED 30/06/2018 (unaudited)	6 MONTH PERIOD ENDED 30/06/2017 (unaudited)	3 MONTH PERIOD ENDED 30/06/2017 (unaudited)
Cash flows from operating activities				
Profit before tax	50	36	25	14
Adjustments for:				
Foreign exchange (gain)/loss	1	(1)	14	11
Interest and dividends, net	(48)	(29)	(114)	(104)
Loss on investing activities	-	-	67	67
Change in working capital	30	(30)	10	(46)
<i>Receivables</i>	41	(28)	(2)	(65)
<i>Liabilities</i>	(11)	(2)	12	19
Income tax (paid)	(1)	-	(2)	(2)
Net cash from/(used in) operating activities	32	(24)	-	(60)
Cash flows from investing activities				
Dividends received	-	-	88	88
Interest received	57	30	33	17
Outflows from loans granted	-	-	(1 198)	(2 421)
Proceeds/(Outflows) from cash pool assets	292	845	927	(508)
Other	-	-	-	1
Net cash from/(used in) investing activities	349	875	(150)	(2 823)
Cash flows from financing activities				
Proceeds/(Outflows) from cash pool liabilities	58	139	(1 179)	(36)
Dividends paid	(4)	(1)	(3)	(3)
Other	(3)	(2)	(3)	(1)
Net cash from/(used in) financing activities	51	136	(1 185)	(40)
Net increase/(decrease) in cash and cash equivalents	432	987	(1 335)	(2 923)
Effect of exchange rate changes on cash and cash equivalents	(2)	-	(4)	-
Cash and cash equivalents, beginning of the period	1 825	1 268	2 552	4 136
Cash and cash equivalents, end of the period	2 255	2 255	1 213	1 213

The separate financial statements are to be read in conjunction with the notes forming part of the separate financial statements set out on pages 8-14.

EXPLANATORY NOTES TO THE CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Establishment of the Company

UNIPETROL, a.s. (the "Company", "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 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 June 2018 were as follows:

	Number of shares	Nominal value of shares (in CZK)	Share in share capital
POLSKI KONCERN NAFTOWY ORLEN S.A.	170 507 091	17 050 709 100	94.03%
Other shareholders	10 827 673	1 082 767 300	5.97%
	181 334 764	18 133 476 400	100%

A voluntary tender offer to acquire UNIPETROL, a.s. shares was announced by PKN ORLEN S.A. on 12 December 2017. According to the published bid document, the offer was made for all UNIPETROL, a.s. shares except for the shares already owned by PKN ORLEN S.A. The bid price was CZK 380 per share and the acceptance period was from 28 December 2017 to 30 January 2018. The transaction was settled on 23 February 2018, PKN ORLEN S.A. purchased 56 280 592 UNIPETROL, a.s. shares which represent ca. 31.04% of the Unipetrol share capital.

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 2017.

Paramo Oil s.r.o. liquidation

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

In 6 month period ended 30 June 2018 there were no other changes in Group's structure.

Statutory and supervisory bodies

Members of the statutory and supervisory bodies as at 30 June 2018 were as follows:

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

1. DESCRIPTION OF THE COMPANY (CONTINUED)

Changes in the Board of Directors during the 6 month period ended at 30 June 2018 were as follows:

Position	Name	Change	Date of change
Member	Tomasz Wiatrak	Elected to the office	with effect as of 1 March 2018
Chairman	Andrzej Mikołaj Modrzejewski	Recalled from the office	with effect as of 9 March 2018
Member	Robert Dominik Małek	Recalled from the office	with effect as of 9 March 2018
Chairman	Krzysztof Zdziarski	Elected as Chairman	with effect as of 10 March 2018
Vice-Chairman	Tomasz Wiatrak	Elected as Vice-Chairman	with effect as of 10 March 2018
Member	Maciej Andrzej Libiszewski	Elected to the office	with effect as of 14 March 2018
Member	Katarzyna Woś	Elected to the office	with effect as of 14 March 2018

Changes in the Supervisory Board during the 6 month period ended at 30 June 2018 were as follows:

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

2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1. Statement of compliance and general principles of preparation

These condensed separate 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 separate financial statements of the Company as at and for the year ended 31 December 2017.

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

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

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

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

3. OTHER NOTES

3.1. Revenues

	6 MONTH PERIOD ENDED 30/06/2018	3 MONTH PERIOD ENDED 30/06/2018	6 MONTH PERIOD ENDED 30/06/2017	3 MONTH PERIOD ENDED 30/06/2017
Fees for use of lands	59	30	58	29
Other services	14	7	16	7
	73	37	74	36

3.2. Operating expenses

Cost of sales

	6 MONTH PERIOD ENDED 30/06/2018	3 MONTH PERIOD ENDED 30/06/2018	6 MONTH PERIOD ENDED 30/06/2017	3 MONTH PERIOD ENDED 30/06/2017
Cost of services sold	(25)	(12)	(40)	(20)
	(25)	(12)	(40)	(20)

Cost by nature

	6 MONTH PERIOD ENDED 30/06/2018	3 MONTH PERIOD ENDED 30/06/2018	6 MONTH PERIOD ENDED 30/06/2017	3 MONTH PERIOD ENDED 30/06/2017
External services	(30)	(16)	(31)	(20)
Employee benefits	(43)	(20)	(42)	(21)
Taxes and charges	(10)	(5)	(10)	(5)
Other	-	(1)	(4)	(3)
Operating expenses	(83)	(42)	(87)	(49)
Administrative expenses	58	30	46	28
Other operating expenses	-	-	1	1
Cost of sales	(25)	(12)	(40)	(20)

3.3. Finance income and finance costs

Finance income

	6 MONTH PERIOD ENDED 30/06/2018	3 MONTH PERIOD ENDED 30/06/2018	6 MONTH PERIOD ENDED 30/06/2017	3 MONTH PERIOD ENDED 30/06/2017
Interest	43	26	20	12
Dividends	-	-	88	88
Income from guarantee given	8	4	9	4
	51	30	117	104

Finance costs

	6 MONTH PERIOD ENDED 30/06/2018	3 MONTH PERIOD ENDED 30/06/2018	6 MONTH PERIOD ENDED 30/06/2017	3 MONTH PERIOD ENDED 30/06/2017
Impairment to financial investment in PARAMO, a.s.	-	-	(67)	(67)
Net foreign exchange loss	-	-	(8)	(8)
Other	(3)	(1)	(4)	(2)
	(3)	(1)	(79)	(77)

3.4. Tax expense

	6 MONTH PERIOD ENDED 30/06/2018	3 MONTH PERIOD ENDED 30/06/2018	6 MONTH PERIOD ENDED 30/06/2017	3 MONTH PERIOD ENDED 30/06/2017
Current income tax	(11)	(8)	-	4
Deferred income tax	-	1	(3)	(3)
	(11)	(7)	(3)	1

3.5. Other financial assets

	30/06/2018	31/12/2017
Cash pool	7 098	7 397
	7 098	7 397

3.6. Retained earnings and dividends

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profits of the parent company. The Annual General Meeting of UNIPETROL, a.s. held place on 28 June 2018 resolved to approve to cover the whole non-consolidated loss of the company for 2017 in the amount of CZK 29 million from the company non-consolidated retained earnings of past years in the same amount.

3.7. Provisions

	Non-current		Current		Total	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Environmental provision	50	50	-	-	50	50
	50	50	-	-	50	50

3.8. Other financial liabilities

	30/06/2018	31/12/2017
Cash pool	1 403	1 345
	1 403	1 345

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

Methods applied in determining fair value have been described in the separate financial statements as at and for the year ended 31 December 2017 in note 19.3. As compared to the previous reporting period, the Company has not changed the valuation methodology concerning derivative instruments and investment property.

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

	30/06/2018		31/12/2017	
	Level 2	Level 3	Level 2	Level 3
Investment property	-	1 163	-	1 163
	-	1 163	-	1 163

During the 6 month period ended 30 June 2018 and year 2017 there were no transfers in the Company between Levels 1, 2 and 3 of the fair value hierarchy.

3.10. Guarantees

Based on the Company's request, the bank guarantees relating to the security of customs debt, excise tax at customs offices and other purposes were issued. The total amount of guarantees related to excise tax amounted to CZK 1 901 million as at 30 June 2018 (31 December 2017: CZK 1 898 million) and for other purposes amounted to CZK 61 million (31 December 2017: CZK 103 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 UNIPETROL RPA, s.r.o. in the amount of CZK 3 000 million.

3.11. Related parties' transactions

Material transactions concluded by the Company with related parties

In the 6 month period ended 30 June 2018 and 2017 there were no transactions concluded by the Company with related parties on other than arm's length terms.

Transactions with key management personnel

In the 6 month period ended 30 June 2018 and 2017 the Company 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 Company and related parties.

In the 6 month period ended 30 June 2018 and 2017 there were no significant transactions concluded with members of the Board of Directors, the Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

Transactions with related parties concluded by key management personnel of the Company

In the 6 month period ended 30 June 2018 and 2017 members of the key management personnel of the Company submitted statements that they have not concluded any transactions with related parties.

3.11. Related parties' transactions (continued)

Parent and ultimate controlling party

During 2018 and 2017 a majority (94.03%, respectively 62.99%) of the Company's shares were held by POLSKI KONCERN NAFTOWY ORLEN S.A. (PKN Orlen).

for 6 month period ended	PKN Orlen		Entities under control or significant influence of UNIPETROL, a.s.		Entities under control or significant influence of PKN Orlen	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Sales	-	-	61	62	-	-
Purchases	1	-	14	12	-	-
Finance income	-	-	50	117	-	-

for 3 month period ended	PKN Orlen		Entities under control or significant influence of UNIPETROL, a.s.		Entities under control or significant influence of PKN Orlen	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Sales	-	-	30	30	-	-
Finance income	-	-	30	105	-	-

	PKN Orlen		Entities under control or significant influence of UNIPETROL, a.s.		Entities under control or significant influence of PKN Orlen	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Other financial assets	-	-	7 098	7 396	-	-
Trade and other receivables	-	-	59	66	-	-
Trade and other liabilities	-	-	905	1 126	511	225

3.12. Contingent liabilities

Contingent liabilities and commitments related to squeeze-out of PARAMO, a.s. are described in the separate financial statements of the Company as at 31 December 2017.

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.

3.13. Accounting principles

Applied accounting principles and IFRS amendments

These interim condensed separate financial statements were prepared according to accounting principles described in note 24 in the separate financial statements of the Company as at and for the year ended 31 December 2017 except for the adopted new IFRS 9 Financial instruments and IFRS 15 Revenues from Contracts with Customers.

The Company 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 separate 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 Company's future separate financial statements was described in note 24.1. of the separate financial statements of the Company as at and for the year ended 31 December 2017.

The Company adopted the requirements of IFRS 15 prospectively and IFRS 9 with a modified retrospective approach with effect from 1 January 2018. According to the option allowed by the standard, the Company resigned from disclosing comparable data. Data as at 31 December 2017 and for the 1st half of 2017 were prepared based on IAS 39, IAS 18 and IAS 11. The previously adopted selected accounting principles within sales revenues (IAS 18, IAS 11) and financial instruments (IAS 39) were disclosed in the financial statements for 2017.

Application of IFRS 15

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The management of the Company have assessed that in relation to the products and services of the Company, revenue will be recognised for each performance obligations when control over the corresponding goods and services is transferred to the customer. This is similar to the identification of separate revenue components under IAS 18.

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

3.13. Accounting principles (continued)

Requirements to identify a contract with a customer

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

Identification of performance obligations

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

Determination of the transaction price

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

Allocating the transaction price to individual performance obligations

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

Recognition of revenue when performance obligations are satisfied

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

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

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

Application of IFRS 9

Measurement of financial assets and liabilities

From 1 January 2018, the Company classifies financial assets into one of the following categories:

- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss.

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

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

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

The Company classifies financial liabilities into one of the following categories:

- measured at amortized cost,
- measured at fair value through profit or loss.

The Company as liabilities measured at amortized cost classifies trade liabilities, loans and borrowings.

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

Financial instruments by class	Classification according to IAS 39	Classification according to IFRS 9
Unquoted shares	Available for sale	Financial assets at fair value through other comprehensive income
Loans granted	Loans and receivables	Measured at amortized cost
Trade and other receivables	Loans and receivables	Measured at amortized cost
Cash and cash equivalents	Loans and receivables	Measured at amortized cost

Measurement of financial assets at amortized cost

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

3.13. Accounting principles (continued)

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

Measurement of financial assets at fair value through other comprehensive income

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

Measurement of financial assets at fair value through profit or loss

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

Impairment of financial assets

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

The Company uses the simplified model for determining impairment allowances of trade receivables. In the model, the Company does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.

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

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

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

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

Application of professional judgement and assumption

In preparing these condensed separate interim financial statements, the significant judgements made by management in applying the Company's accounting policies and main uncertainties were the same as those presented in note 25 in the separate financial statements as at and for the year ended 31 December 2017.

Functional and presentation currency

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

3.14. Subsequent events after the reporting date

On 19 July 2018 UNIPETROL, a.s. received a request from PKN ORLEN S.A., to convene the General Meeting and to approve a proposal for transfer of all remaining UNIPETROL, a.s. shares to PKN ORLEN S.A.

The Company'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 June 2018.

3.15. Approval of the financial statements

The foregoing financial report for the period ended 30 June 2018 was authorized for issue by the Board of Directors on 19 July 2018.

Signature of statutory representatives



Krzysztof Zdziarski
Chairman of the Board of Directors



Mirosław Kastelik
Vice-chairman of the Board of Directors

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders of UNIPETROL, a.s.

Having its registered office at: Na Pankráci 127, 140 00 Praha 4

Introduction

We have reviewed the accompanying separate statement of financial position of UNIPETROL, a.s. as of 30 June 2018 and the related separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of this interim financial information that is free from material misstatement, whether due to fraud or error. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

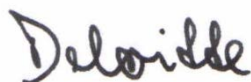
Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of UNIPETROL, a.s. as of 30 June 2018 and of its financial performance and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In Prague on 19 July 2018

Audit firm:

Deloitte Audit s.r.o.



Represented by:

Martin Tesař
statutory executive

