UNIPETROL, a.s.

CONSOLIDATED
FINANCIAL STATEMENTS
Translation from the Czech original

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

FOR THE YEAR 2015

Index

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

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

Consolidated statement of profit or loss and other comprehensive income

	Note	2015	2014 (reclassified)
Statement of profit or loss			
Revenues	8.	108 907	123 938
Cost of sales	9.1.	(96 144)	(118 203)
Gross profit on sales		**12 763**	**5 735**
Distribution expenses	9.2.	(2 140)	(2 090)
Administrative expenses	9.2.	(1 302)	(1 274)
Other operating income	10.1.	616	1 645
Other operating expenses	10.2.	(1 221)	(5 264)
Profit/(loss) from operations		**8 716**	**(1 248)**
Finance income	11.1.	1 260	1 232
Finance costs	11.2.	(1 307)	(1 346)
Net finance income/(costs)		**(47)**	**(114)**
Profit/(loss) before tax		**8 669**	**(1 362)**
Tax expense	12.	(1 633)	806
Net profit/(loss)		**7 036**	**(556)**
Other comprehensive income			
items which will not be reclassified into profit or loss		**7**	**(10)**
Actuarial gains and losses		*9*	*(12)*
Deferred tax		*(2)*	*2*
items which will be reclassified into profit or loss under certain conditions		**4**	**728**
Hedging instruments		*9*	*899*
Foreign exchange differences on subsidiaries from consolidation		*(3)*	*-*
Deferred tax		*(2)*	*(171)*
		11	**718**
Total net comprehensive income		**7 047**	**162**
Net profit/(loss) attributable to		**7 036**	**(556)**
equity owners of the parent		*7 036*	*(556)*
non-controlling interest		*-*	*-*
Total comprehensive income attributable to		**7 047**	**162**
equity owners of the parent		*7 047*	*162*
non-controlling interest		*-*	*-*
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity owners of the parent (in CZK per share)	24.8.	38.80	(3.07)

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-55.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

Consolidated statement of financial position

	Note	31/12/2015	31/12/2014
ASSETS			
Non-current assets			
Property, plant and equipment	13.	19 398	18 893
Investment property	14.	433	419
Intangible assets	15.	1 514	1 792
Financial assets available for sale	17.	1	1
Deferred tax assets	12.2	1 204	1 039
Other non-current assets	18.	25	29
		22 575	**22 173**
Current assets			
Inventories	20.	10 390	10 320
Trade and other receivables	21.	11 258	12 506
Other financial assets	22.	4 281	1 764
Current tax receivables		107	72
Cash and cash equivalents	23.	5 888	1 682
		31 924	**26 344**
Total assets		**54 499**	**48 517**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24.1.	18 133	18 133
Statutory reserves	24.2.	34	2 703
Hedging reserve	24.3.	545	538
Revaluation reserve	24.4.	10	10
Foreign exchange differences on subsidiaries from consolidation	24.5.	15	18
Retained earnings	24.6.	16 781	7 069
Total equity attributable to equity owners of the parent		**35 518**	**28 471**
Non-controlling interest		**(9)**	**(9)**
Total equity		**35 509**	**28 462**
LIABILITIES			
Non-current liabilities			
Loans, borrowings	25.	-	4 000
Provisions	26.	678	457
Deferred tax liabilities	12.2	809	203
Other non-current liabilities	27.	166	185
		1 653	**4 845**
Current liabilities			
Trade and other liabilities	28.	15 707	13 582
Loans, borrowings	25.	-	350
Current tax liabilities		602	8
Provisions	26.	892	782
Deferred income	29.	8	76
Other financial liabilities	30.	128	412
		17 337	**15 210**
Total liabilities		**18 990**	**20 055**
Total equity and liabilities		**54 499**	**48 517**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-55.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent								
	Share capital	**Statutory reserves**	**Hedging reserve**	**Foreign exchange differences on subsidiaries from consolidation**	**Revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Note	24.1.	24.2.	24.3.	24.5.	24.4.	24.6.			
01/01/2015	18 133	2 703	538	18	10	7 069	28 471	(9)	28 462
Net profit	-	-	-	-	-	7 036	7 036	-	7 036
Items of other comprehensive income	-	-	7	(3)	-	7	11	-	11
Total net comprehensive income	**-**	**-**	**7**	**(3)**	**-**	**7 043**	**7 047**	**-**	**7 047**
Transfer of statutory reserves to retained earnings	-	(2 669)	-	-	-	2 669	-	-	-
31/12/2015	**18 133**	**34**	**545**	**15**	**10**	**16 781**	**35 518**	**(9)**	**35 509**
01/01/2014	18 133	2 643	(190)	18	10	7 695	28 309	(9)	28 300
Net loss	-	-	-	-	-	(556)	(556)	-	(556)
Items of other comprehensive income	-	-	728	-	-	(10)	718	-	718
Total net comprehensive income	**-**	**-**	**728**	**-**	**-**	**(566)**	**162**	**-**	**162**
Allocation of profit	-	60	-	-	-	(60)	-	-	-
31/12/2014	**18 133**	**2 703**	**538**	**18**	**10**	**7 069**	**28 471**	**(9)**	**28 462**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-55.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

Consolidated statement of cash flows

	Note	2015	2014
Cash flows - operating activities			
Net profit/(loss)		**7 036**	**(556)**
Adjustments for:			
Depreciation and amortisation	9.2.	1 927	2 270
Foreign exchange (gain)/loss		(7)	7
Interest and dividends, net		31	105
(Profit)/Loss on investing activities		523	4 371
Change in provisions		985	807
Tax expense	12.	1 633	(805)
Income tax (paid)		(150)	(124)
Gain on bargain purchase		(429)	(1 186)
Other adjustments including change from financial instruments and movements in deffered income		(262)	(1 125)
Change in working capital		3 644	(3 027)
inventories		234	548
receivables		3 827	551
liabilities		(417)	(4 126)
Net cash provided by operating activities		**14 931**	**737**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(3 357)	(2 093)
Disposal of property, plant and equipment and intangible assets		11	39
Acquisition of share in Česká rafinérská		(661)	(547)
Cash acquired in acquisition of share in Česká rafinérská		426	141
Settlement of financial derivatives		286	533
Proceeds/(outflows) from loans granted		4	29
Proceeds/(outflows) from cash pool assets		(3 054)	-
Other		5	(20)
Net cash used in investing activities		**(6 340)**	**(1 918)**
Cash flows - financing activities			
Proceeds/(outflows) from loans and borrowings		(4 329)	1 824
Proceeds/(outflows) from cash pool liabilities		1	-
Interest paid		(49)	(90)
Payments of liabilities under finance lease agreements		(1)	(1)
Other		(7)	(5)
Net cash provided by/(used in) financing activities		**(4 385)**	**1 728**
Net increase in cash and cash equivalents		**4 206**	**547**
Effect of exchange rate changes		-	18
Cash and cash equivalents, beginning of the year		1 682	1 117
Cash and cash equivalents, end of the year	**23.**	**5 888**	**1 682**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-55.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

ACCOUNTING PRINCIPLES AND OTHER EXPLANATORY NOTES

1. DESCRIPTION OF THE COMPANY

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

Identification number of the Company
616 72 190

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

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

Ownership structure
The shareholders as at 31 December 2015 were 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*	42 976 339	4 297 633 900	23.70%
Investment funds and other minority shareholders	24 131 926	2 413 192 600	13.31%
	181 334 764	**18 133 476 400**	**100%**

**As of 19 March 2014 (last available data) - According to notification received on 31 March 2014 PAULININO LIMITED holds directly 17.97% share of votes and 5.73% shares of votes is held by following companies acting in concert with PAULININO LIMITED under a contract: EGNARO INVESTMENTS LIMITED, LEVOS LIMITED, LCE COMPANY LIMITED, NEEVAS INVESTMENT LIMITED, UPRECHT INVESTMENT LIMITED, MUSTAND INVESTMENT LIMITED.*

Statutory and supervisory bodies
Members of the statutory and supervisory bodies of UNIPETROL, a.s. as at 31 December 2015 were as follows:

	Position	Name
Board of Directors	Chairman	Marek Świtajewski
	Vice-chairman	Piotr Wielowieyski
	Member	Martin Durčák
	Member	Mirosław Kastelik
	Member	Andrzej Kozłowski
	Member	Lukasz Piotrowski
Supervisory Board	Chairman	Dariusz Jacek Krawiec
	Vice-chairman	Ivan Kočárník
	Vice-chairman	Sławomir Jędrzejczyk
	Member	Piotr Kearney
	Member	Zdeněk Černý
	Member	Krystian Pater
	Member	Rafał Sekuła
	Member	Piotr Chełminski
	Member	Bogdan Dzudzewicz

Changes in the Board of Directors in 2015 were as follows:

Position	Name	Change	Date of change
Vice-chairman	Piotr Wielowieyski	Re-elected to the office	28 March 2015
Chairman	Marek Świtajewski	Re-elected to the office	25 June 2015
Member	Martin Durčák	Re-elected to the office	5 December 2015

Changes in the Supervisory Board in 2015 were as follows:

Position	Name	Change	Date of change
Vice-chairman	Ivan Kočárník	Re-elected to the office	25 June 2015
Member	Bogdan Dzudzewicz	Re-elected to the office	25 June 2015

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

2. STATEMENTS OF THE BOARD OF DIRECTORS

The Board of Directors of UNIPETROL, a.s. hereby declares that to the best of its knowledge the foregoing consolidated financial statements and comparative data were prepared in compliance with the applicable accounting principles adopted by in the Group (disclosed in note 3) and that they reflect true and fair view on the financial position and financial result of the Group, including basic risks and exposures.

3. ACCOUNTING PRINCIPLES

3.1. Principles of preparation of financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations approved by the International Accounting Standards Board (IASB) which were adopted by the European Union (EU) and were in force as at 31 December 2015. The financial statements have been prepared based on historical cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investment properties stated at fair value.

The consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2015, results of its operations and cash flows for the year ended 31 December 2015.

The consolidated financial statements of the Group for the year ended 31 December 2015 include the Company and its subsidiaries and the Group's interest in jointly controlled entities.

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

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

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

3.2.1. Binding amendments to IFRSs and interpretations

The amendments to the standards and IFRS interpretations, in force from 1 January 2015 until the date of publication of these consolidated financial statements had no impact on the foregoing consolidated financial statements.

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

Standards and Interpretations adopted by the EU	Possible impact on financial statements
Amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions	no impact expected
Improvements to IFRS 2010-2012; 2012-2014	no impact expected
Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	no impact expected
Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Agriculture: Bearer Plants	no impact expected
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation	no impact expected
Amendments to IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements	no impact expected
Amendments to IAS 1 Presentation of Financial Statements: Disclosure initiative	no impact expected

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

Standards and Interpretations waiting for approval of the EU	Possible impact on financial statements
New standard IFRS 9 Financial Instruments	impact*
New standard IFRS 14 Regulatory Deferral Accounts	no impact expected
New standard IFRS 15 Revenue from Contracts with Customers	impact**
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate of Joint Venture	no impact expected
Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception	no impact expected
IFRS 16 – Leasing	impact***
Ammendments to IAS 12 – Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses	no impact expected
Amendments to IAS 7 – Statement of Cash Flows – Disclosure initiative	no impact expected

*At the time of the implementation of the new IFRS 9, allocation of the appropriate financial assets to the new categories of financial instruments will be made.

**At the time of the implementation, i.e. on 1 January 2017, the impact of the new IFRS 15 will depend on the specific facts and conditions of the contracts with customers, to which the Group will be a party.

***At the time of implementation, the impact of the new IFRS 16 will depend on the specific facts and circumstances relating to the lease contracts, to which the Group will be a party.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

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

3.3.1. Functional currency and presentation currency

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

3.3.2. Methods applied to translation of 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 on subsidiaries from consolidation.

Currency	Average exchange rate for the reporting period 2015	2014	Exchange rate as at the end of reporting period 2015	2014
CZK/EUR	27.283	27.533	27.025	27.730
CZK/USD	24.600	20.746	24.824	22.797

Accounting policies for foreign currency transactions are presented in note 3.4.2.

3.4. Applied accounting policies

3.4.1. Changes in accounting policies, estimates and prior period errors

An entity shall change an accounting policy only if the change:
- is required by an IFRS, or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the financial position, financial performance or cash flows.

In the case of a change in accounting policy it is assumed that the new policy had always been applied. The amount of the resulting adjustment is made to the equity. For comparability, the entity shall adjust the financial statements (comparative information) for the earliest prior period presented as if the new accounting policy had always been applied, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.
Items of financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.
The correction of a material prior period error is made to =equity. When preparing the financial statements it is assumed that the errors were corrected in the period in which they occurred.
Starting from 1 January 2014 the Group has applied hedge accounting in relation to commodity swaps on crude oil. The accounting principles were applied in accordance with note 3.4.25.3. Hedge accounting. Consequently, the result of commodity swaps settlement is included in the operating part of the statement of profit or loss and other comprehensive income, not financial part as previously reported. In accordance with IFRSs the change was applied prospectively. The details are presented in note 5. Changes in disclosure of comparative period.

3.4.2. Transactions in foreign currency

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
At the end of the reporting period:
- foreign currency monetary items including units of currency held by the Group as well as receivables and liabilities due in defined or definable units of currency are translated using the closing rate, i.e. spot exchange rate as at the end of the reporting period,
- non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition as finance income or expense in the period in which they arise, except for monetary items which hedge the currency risk are accounted for in accordance with cash flow hedge accounting principles.
Additional information is presented in note 3.3.

3.4.3. Principles of consolidation

The consolidated financial statements of the Group include financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent company and its subsidiaries and joint arrangements (jointly controlled entities) are presented as those of a single economic entity and are prepared as at the same reporting period as separate financial statements of the parent and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.
The subsidiaries are consolidated using the full consolidation method and joint operations by recognition of respective share in assets, liabilities, revenues and cost. The joint ventures as well as investments in associates are accounted for under equity method.
In preparing consolidated financial statements using the full consolidation method, the Group combines the assets, liabilities, revenue and cost of the parent company and its subsidiaries line by line and then performs adequate consolidation procedures, in particular:

- the carrying amount at the day of acquisition of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated;
- non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;
- non-controlling interests in the net assets of consolidated subsidiaries are identified and presented separately from the parent's ownership interests in them;
- intra group balances are eliminated;
- unrealized profits or losses from intra group transactions are eliminated;
- intra group revenues and expenses are eliminated;
- intra group cash flow are eliminated.

A joint operator recognizes:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenues from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost and the carrying amount is increased or decreased in order to recognise the investor's share of the profit or loss of the investee from the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss as other operating activity.

3.4.3.1. Investments in subsidiaries

Subsidiaries are entities under the parent’s control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.
Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

3.4.3.2. Investments in joint arrangements (jointly controlled entities)

A joint arrangement (jointly controlled entity) is a joint venture or a joint operation, in which the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Such an entity operates on the same basis as other entities, except that the contractual arrangements between the operators of the arrangement establish joint control on the economic activity of the entity.
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

3.4.3.3. Investments in associates

Investments in associates relate to the entities over which investor has significant influence and that are neither controlled nor jointly controlled.
Significant influence is the ability to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
If an entity holds directly or indirectly (e.g. through subsidiaries), 20% or more of the voting rights of the investee, it is presumed that the investor has significant influence, unless it can be clearly stated otherwise.

3.4.4. Business combinations

Business combinations under common control, including the acquisition of an organized part of the enterprise is settled by adding together, the particular items of assets and liabilities, revenues and costs of the combined companies, as at the date of the merger.
The effect of business combinations under common control has no effect on the consolidated financial data. Other business combinations are accounted for by applying the acquisition method. Applying the acquisition method requires:
- identifying the acquirer,
- determining the acquisition date,
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire, and
- recognising and measuring goodwill or a gain from a bargain purchase.

Assets, liabilities and contingent liabilities for the purpose of allocating the acquisition cost are determined at the fair value at the acquisition date with the following exceptions:
- deferred assets and liabilities arising from the assets acquired and liabilities assumed in a business combination are recognized according to general principles of deferred tax,
- assets and liabilities related to the acquiree's employee benefit arrangements are recognized according to general principles of IAS 19 Employee benefits,
- non-current assets (or disposal group) that are classified as held for sale at the acquisition date are recognized according to the general principles for non-current assets held for sale.

3.4.5. Operating segments

An operating segment is a component of the Group:
- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

The operating activities of the Group are divided into the following segments:
- the Downstream Segment, which includes integrated refining, petrochemical, sales and energy production activities,
- the Retail Segment, which comprises sales at petrol stations,

and Corporate Functions, which are reconciling items and include activities related to management, administration and other support functions as well as remaining activities not allocated to separate operating segments.
Segment revenues are revenues from sales to external customers and revenues from transactions with other operating segments, which are directly attributable to the segment.
Segment expenses are expenses relating to sales to external customers and expenses relating to transactions with other operating segments, which result from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Group's expenses that can be allocated on a reasonable basis to a segment.
Segment expenses do not include: income tax expense, interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature, losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature, administrative expenses and other expenses arising at the level of the Group as a whole, unless they are directly attributable to the segment and can be allocated to the segment on a reasonable basis. The segment result is determined at the level of operating result.
Segment assets are those operating assets that are employed by that segment in operating activity and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. In particular income tax items are not allocated to reportable segments.
Sales prices used in transactions between segments are close to market prices.

3.4.6. Revenues

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

3.4.7. Costs

Costs (relating to operating activity) include costs that relate to core activities, i.e. activities for which the Group was founded, costs are recurring and are not of incidental character.
Cost of sales comprises costs of finished goods, merchandise and raw materials sold and adjustments related to inventories written down to net realizable value.
Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.
Administrative expenses include expenses relating to management and administration of the Group as a whole.

3.4.8. Other operating income and expenses

Other operating income includes, in particular income from liquidation and sale of non-financial non-current assets, surplus assets, return of court fees, penalties earned, excess of grants received to revenues over the value of costs, assets received free of charge, reversal of receivable impairment allowances and some provisions, compensations earned and revaluation gains, gain on the sale of investment property.
Other operating expenses include in particular loss on liquidation and sale of non-financial non-current assets, assets deficit, court fees, contractual penalties and fines, penalties for non-compliance with environmental protection regulations, cash and tangible assets transferred free of charge, impairment allowances (except those that are recognized as financial costs and cost of sales), compensation paid, write-off of construction in progress which have not produced the desired economic effect, cost of recovery of receivables and revaluation losses, loss on sale of investment property.

3.4.9. Finance income and costs

Finance income includes, in particular, income from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and net foreign exchange gains.
Dividend income from investments is recognized when the shareholders’ rights to receive payment have been established.
Finance costs include, in particular, loss on sale of shares and securities and costs associated with such sale, impairment losses relating to financial assets such as shares, securities and interest, net foreign exchange losses, interest on own bonds and other securities issued, interest on finance lease, commissions on bank loans, borrowings and guarantees.

3.4.10. 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 the 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.

3.4.11. Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the net profit or loss for a given period which is attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.
The Group has no potential dilutive shares.

3.4.12. 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 recognised (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

3.4.12. Property, plant and equipment (continued)

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.

3.4.13. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both.
Investment property shall be recognized as an asset when, and only when:
- it is probable that the future economic benefits that are associated with the investment property will flow to the Group, and
- the cost of the investment property can be measured reliably.

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. For internally constructed investment property the cost is set at the date of construction completion when the asset is brought into use, in accordance with rules set for property, plant and equipment.
After initial recognition investment property shall be measured at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the statement of profit or loss and other comprehensive income in the period which they arise. The Group determines fair value without any deduction for transaction costs it may incur on sale or other disposal.
If the Group determines that the fair value of an investment property is not reliably determinable on a continuing basis, the Group shall measure that investment property at cost in accordance with rules set for property, plant and equipment.
An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected.

3.4.14. Intangible assets

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

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

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

3.4.14.1. Goodwill

Goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, (or groups of cash-generating units), that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.
The acquirer shall recognise goodwill as of the acquisition date measured as the excess of a) over b) where:
the value of a) corresponds to the aggregate of:

- the consideration transferred, which generally requires acquisition-date fair value,
- the amount of any non-controlling interest in the acquiree, and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;

the value of b) corresponds to: the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount at (b) above exceeds the aggregate of the amounts specified at (a) above. If that excess remains, after reassessment of correct identification of all acquired assets and liabilities, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date as other operating profit for the period.
The acquirer shall measure goodwill in the amount recognised at the acquisition date less any accumulated impairment allowances.
A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired. The annual impairment test may be performed at any time during an annual period, provided that the test is performed at the same time every year.
A cash-generating unit to which no goodwill has been allocated shall be tested for impairment only when there are indicators that the cash-generating unit might be impaired.
An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

3.4.14.2. Carbon dioxide emission allowances

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.e. carbon dioxide (CO_2).
In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in an emissions trading system. All mentioned entities are allowed to emit CO_2 or they are partially granted free of charge in a specified quantity under the derogations provided in article 10a and 10c of the EU Directive 2009/29/EC and are obliged to redeem them in a number corresponding to the size of emission realized in a given year.
CO_2 emission rights are initially recognised as intangible assets, which are not amortized (assuming the high residual value), but tested for impairment.
Granted emission allowances should be presented separately as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.
For the estimated CO_2 emission during the reporting period, a provision should be created (taxes and charges).
Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate.
Consumption of allowances is recognised using FIFO method (First In, First Out) within the individual types of rights (EUA - European Union Allowances, ERU – Emission Reductions Units, CER – Certified Emission Reduction).

3.4.15. Impairment of property, plant and equipment and intangible assets

At the end of the reporting period the Group assesses whether there are any indicators that an asset or cash generating unit (CGU) may be impaired. If any such indicator exists, the entity shall estimate the recoverable amount of the asset (CGU).
The recoverable amount of other assets is the higher of the fair value less costs to sell and value in use.
Fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs to sell.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.
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 the 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, the impairment tests are carried out. The tests are also carried out annually for intangible assets with indefinite useful life and for goodwill.
When the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

3.4.15. Impairment of property, plant and equipment and intangible assets (continued)

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 recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard.

3.4.16. Inventories

Inventories are assets held for sale in the ordinary course of business, or in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Inventories comprise products, semi-finished products and work in progress, merchandise and materials.
Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period. Costs of production also include a systematic allocation of fixed and variable production overheads estimated for normal production level.
Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost or net realisable value, after deducting any impairment losses.
Disposals of finished goods, semi-finished products and work in progress are determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.
Merchandise and materials are measured initially at acquisition cost.
As at the end of the reporting period merchandise and raw materials are measured at the lower of cost or net realizable value, considering any impairment allowances. Disposals of merchandise and raw materials are determined based on the weighted average acquisition cost or production cost formula. Impairment tests for specific items of inventories are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.
Raw materials held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.
Expenses and revenues connected with inventory write-offs or establishment and release of allowances are included in cost of sales.

3.4.17. Trade and other receivables

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

3.4.18. Cash and cash equivalents

Cash comprises cash on hand and in a 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.

3.4.19. 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.

3.4.19. Non-current assets held for sale and discontinued operations (continued)

Immediately, before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (excluding financial assets) are measured at the lower of their carrying amount or fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Group's accounting policies. While a non-current asset is classified as held for sale it shall not be depreciated (or amortized). A gain is recognized for any subsequent increase in fair value less costs to sell an asset, but not in excess of the cumulative impairment loss that has been previously recognized.
A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

The Group shall re-present the disclosures presented with refer to discontinued operation for prior periods presented in the consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.
If the Group ceases to classify a 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.

3.4.20. Equity

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

3.4.20.1. Share capital

The share capital is paid by shareholders and is stated at nominal value in accordance with the parent company's articles of association and the entry in the Commercial Register.

3.4.20.2. Hedging reserve

The hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting. The Group applies cash flow hedge accounting to hedge commodity risk, exchange rate risk and interest rate risk. Changes in fair value, which are an ineffective part of the hedge relationship, are recognized in the statement of profit or loss.

3.4.20.3. Revaluation reserve

The revaluation reserve includes revaluation of items, which, according to the Group's regulations, relates to the revaluation reserve, including particularly:
- change in the fair value of the available-for-sale financial assets;
- differences between the net book value and the fair value of a investment property at the date of reclassification from the property occupied by the Group to a investment property.

3.4.20.4. Foreign exchange differences on subsidiaries from consolidation

Foreign exchange differences on subsidiaries from consolidation result mainly from translation of financial statements of subsidiaries into the presentation currency of the Group.

3.4.20.5. Retained earnings

Retained earnings include:
- the amounts arising from profit distribution/loss cover,
- the undistributed result from prior periods,
- the current reporting period profit/loss,
- the corrections (profit/loss) of prior period errors,
- changes in accounting principles,
- other reserve capital as additional payments to equity,
- actuarial gains and losses from retirement benefits.

3.4.21. 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.

3.4.22. Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured reliably. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.
Provisions are not recognized for future operating losses.

3.4.22.1. Environmental provision

The Group creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. The environmental provision for reclamation is periodically reviewed on the basis of expert assessment.

3.4.22.2. Jubilee bonuses and retirement benefits

Under the Group's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. Jubilee bonuses are paid to employees after an elapse 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.

3.4.22.3. Shield programs

Shield programs provision (restructuring provision) is created when the Group initiated a restructuring plan or announced the main features of the 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.

3.4.22.4. CO_2 emissions costs

The Group creates a provision for the estimated CO_2 emissions during the reporting period in operating activity costs (taxes and charges).

3.4.22.5. Other provisions

Other provisions include mainly provisions for legal proceedings and are recognized after consideration of all available information, including opinions of independent experts. If on the basis of such information it is more likely than not that a present obligation exists at the end of the reporting period, the Group recognizes a provision (if the recognition criteria are met).
If it is more probable that no present obligation exists at the end of the reporting period, the Group discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

3.4.23. Government grants

Government grants are transfers of resources to the Group by the government, government agencies and similar bodies whether local, national or international, in return for past or future compliance with certain conditions relating to the activities of the entity.
Government grants are recognized in the statement of financial position as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it.
Grants related to costs are presented as compensation to the given cost in the period they are incurred. Surplus of the received grant over the value of the given cost is presented as other operating income.
If the government grant relates to assets, it is presented net with the related asset and is recognized in the statement of profit or loss on a systematic basis over the useful life of the related asset through decreased depreciation charges. The treatment regarding Carbon dioxide emission allowances granted is described in note 3.4.14.2.

3.4.24. Consolidated statement of cash flows

The consolidated statement of cash flows is prepared using the indirect method.
Cash and cash equivalents presented in the consolidated statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Group's cash management.
Dividends received are presented in cash flows from investing activities.
Dividends paid are presented in cash flows from financing activities.
Interest received from finance leases, loans granted, short-term securities and cash pooling system are presented in cash flows from investing activities. Other interests received are presented in cash flows from operating activities.
Interest paid and provisions on bank loans and borrowings received, cash pool facility, debt securities issued and finance leases are presented in cash flows from financing activities. Other interests paid are presented in cash flows from operating activities.

3.4.25. Financial instruments

3.4.25.1. Measurement of financial assets and liabilities

At initial recognition, the Group measures financial assets and liabilities at their fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
At the end of the reporting period the Group measures loans and receivables including trade receivables at amortized cost using the effective interest rate method. The effective interest is the rate which discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and for shorter period in justified situations, up to the net book value of financial asset or liability.
At the end of the reporting period, the Group measures its financial liabilities at amortized cost using the effective interest rate method.

3.4.25.2. Transfers

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

3.4.25.3. Hedge accounting

Derivatives designated as hedging instruments whose cash flows are expected to offset changes in cash flows of a hedged item are accounted for in accordance with cash flow hedge accounting, if all of the following conditions are met:
- at the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately impact profit or loss,
- the effectiveness of the hedge can be reliably measured,
- the hedge is assessed on an ongoing basis and actualy determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group does not apply hedge accounting in the case when an embedded derivative instrument is separated from the host contract.
The Group assesses effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Group assesses a hedge as effective, for external reporting purposes only if the actual results of the hedge are within a range of 80% - 125%. The Group uses statistical methods, in particular regression analysis, to assess the effectiveness of the hedge. The Group uses simplified analytical methods, when a hedged item and a hedging instrument are of the same nature i.e. maturity dates, amounts, changes affecting fair value risk or cash flow changes.
A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could impact profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

3.4.25.3. Hedge accounting (continued)

If a cash flow hedge is used, it is accounted for as follows:
- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, and
- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies the amount that is not expected to be recovered to profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes the associated gains and losses that were recognized in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.

If a hedge of a forecast transaction results in recognition of revenues from sales of finished goods, merchandise, materials and services, the Group removes the associated gains and losses that were recognised in other comprehensive income and adjusts these revenues.

The Group discontinues cash flow hedge accounting if:
- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains separately recognized in equity until the forecast transaction occurs,
- the hedge no longer meets the criteria for hedge accounting - in this case, the cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains separately recognised in equity until the forecast transaction occurs,
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognised in other comprehensive income is recognized in profit or loss,
- the designation is revoked – in this case the cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains separately recognised in equity until the forecast transaction occurs or is no longer expected to occur.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment on disposal of foreign operations.

3.4.26. Fair value measurement

The Group maximises the use of relevant observable inputs and minimizes the use of unobservable inputs to meet the objective of fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets.

The fair value of derivatives is based on discounted future flows related to contracted transactions as the difference between term price and transaction price.

Forward rates of exchange are not modeled 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 recognised in the current year profit or loss.

As compared to the previous reporting period, the Group has not changed valuation methods concerning derivative instruments.

3.4.27. 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 recognised 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.

3.4.28. Contingent assets and liabilities

Contingent liabilities are defined as possible obligations that arise from past events and which are dependent on the occurrence or non-occurrence of some uncertain future events not wholly within the control of the Group or present obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the statement of financial position. However, the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote. Contingent liabilities acquired as the result of a business combination are recognized as provisions in the statement of financial position.
Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.
Contingent assets are not recognized in the statement of financial position as it may lead to recognition of the income, which will never be realized; however, the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable the Group discloses respective information on the contingent asset in the additional information to financial statements and if practicable, estimates the influence on financial results, according to the accounting principles for valuation of provisions.
Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it becomes virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised 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.

3.4.29. Subsequent events after the reporting date

Subsequent events after the reporting date are those events, favourable and unfavourable that occur between the end of the reporting period and date when the financial statements are authorized for issue. Two types of subsequent events can be identified:

- those, that provide evidence of conditions that existed as at the end of the reporting period (events after the reporting period requiring adjustments) and
- those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments).

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

4. APPLICATION OF PROFESSIONAL JUDGEMENT AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, equity, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In the matters of considerable weight, the Group's management bases its estimates on opinions of independent experts.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 12. Tax credit/(expense), 13. Property, plant and equipment, 14. Investment property, 15. Intangible assets in relation to impairment, 19. Impairment of property, plant and equipment and intangible assets, 20.1. Changes in impairment allowances of inventories to net realizable value, 21.1. Changes in impairment allowances of trade and other receivables, 31. Financial instruments and 35. Contingent assets and liabilities.

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

5. CHANGES IN DISCLOSURE OF COMPARATIVE PERIOD

Starting from 1 January 2015 the Group unified its presentation of the cash flow hedge instruments' settlement. Consequently, the result of settlement of foreign currency forwards designated as hedge accounting instruments is included in the operating part of the statement of profit or loss and other comprehensive income, not the financial part as previously reported. Management believes that the unified presentation provides users of the financial statements with better information concerning the operations of the Group.

The changes in the consolidated statement of profit or loss for 2014 are presented in the following table:

	Previously reported	Presentation of results from foreign currency forwards	2014 (reclassified)
Statement of profit or loss			
Revenues	124 229	(291)	123 938
Cost of sales	(118 243)	40	(118 203)
Gross profit on sales	**5 986**	**(251)**	**5 735**
Distribution expenses	(2 090)	-	(2 090)
Administrative expenses	(1 274)	-	(1 274)
Other operating income	1 645	-	1 645
Other operating expenses	(5 264)	-	(5 264)
Loss from operations	**(997)**	**(251)**	**(1 248)**
Finance income	1 272	(40)	1 232
Finance costs	(1 637)	291	(1 346)
Net finance income (costs)	**(365)**	**251**	**(114)**
Loss before tax	**(1 362)**	**-**	**(1 362)**
Tax expense	806	-	806
Net loss	**(556)**	**-**	**(556)**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

6. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

The following table shows subsidiaries and joint operations forming the consolidated group of UNIPETROL, a.s., and the parent company's interest in the capital of subsidiaries and joint operations held either directly by the parent company or indirectly by the consolidated subsidiaries and allocation of subsidiaries into the Operating segments (as of 31 December 2015).

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				
BENZINA, s.r.o. Na Pankráci 127, 140 00 Praha 4, Czech Republic	100.00%	--	Retail	www.benzinaplus.cz
ČESKÁ RAFINÉRSKÁ, a.s. Záluží 2, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream	www.ceskarafinerska.cz
HC VERVA Litvínov, a.s. Litvínov, S.K. Neumanna 1598, Czech Republic	--	70.95%	Corporate Functions	www.hokej-litvinov.cz
CHEMOPETROL, a.s. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	--	100.00%	Downstream	
MOGUL SLOVAKIA s.r.o. Hradiště pod Vrátnom, U ihriska 300, Slovak Republic	--	100.00%	Downstream	www.mogul.sk
PARAMO, a.s. Přerovská 560, 530 06 Pardubice, Czech Republic	100.00%	--	Downstream	www.paramo.cz
Paramo Oil s.r.o. (dormant entity) Přerovská 560, 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
UNIPETROL AUSTRIA HmbH in Liquidation Víenna, Apfelgasse 2, Austria	100.00%	--	Downstream	
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 RAFINÉRIE, s.r.o. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream	
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream Corporate Functions	www.unipetrolrpa.cz
UNIPETROL RPA Hungary Kft. (dormant entity) 1042 Budapest, Arpad ut 48-50. I. em.5, Hungary	--	100.00%	Downstream	
UNIPETROL SERVICES, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Corporate Functions	www.unipetrolservices.cz
UNIPETROL SLOVENSKO s.r.o. Panónská cesta 7, 850 00 Bratislava, Slovak Republic	13.04%	86.96%	Downstream	www.unipetrol.sk
Výzkumný ústav anorganické chemie, a.s. Revoluční 84/č.p. 1521, Ústí nad Labem, Czech Republic	100.00%	--	Corporate functions	www.vuanch.cz
Joint operations consolidated based on shares in assets and liabilities				
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic	51.00%	--	Downstream	www.butadien.cz

The Group has a 70.95% interest in HC VERVA LITVÍNOV, a.s., the remaining non-controlling interest in this company is owned by municipality of Litvínov.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

6. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP (CONTINUED)

Changes in structure of the Group

Acquisition of 32.445% stake in ČESKÁ RAFINÉRSKÁ, a.s. from Eni International B.V.
On 30 April 2015 UNIPETROL, a.s. completed the acquisition of 303 301 shares of ČESKÁ RAFINÉRSKÁ, a.s. ("Česká rafinérská") amounting to 32.445% of the Česká rafinérská's share capital from Eni International B.V. ("Eni") following the conclusion of a share purchase agreement on 3 July 2014. The acquisition price for the shares in amount of EUR 24 million was settled in cash.
Based on the completion of the transaction the Company's stake in the Česká rafinérská's share capital has increased from 67.555% to 100%. After settlement of the transaction, the Company obtained control over Česká rafinérská, and adopted the full method of consolidation.
As a result of the completion of the transaction, the Company recognized a gain on bargain purchase (the excess of fair value of net assets purchased by UNIPETROL, a.s. over the price paid) in the amount of CZK 429 million in the consolidated statement of profit or loss and other comprehensive income. The gain was calculated in accordance with the accounting principles described in note 3.4.4. Business combinations and 3.4.14.1. Goodwill in Group accounting principles and policies included in the consolidated financial statements of the Group as at and for the year ended 31 December 2014 based on the financial data of ČESKÁ RAFINÉRSKÁ, a.s. used for UNIPETROL Group consolidation purposes as at 30 April 2015.
The recognition of the gain on bargain purchase was preceded by verification of completeness and accuracy of the values of the identified assets and liabilities purchased as part of the transaction and determination of the fair value of identified assets and liabilities.
The fair value of identifiable assets and liabilities of ČESKÁ RAFINÉRSKÁ, a.s. as at the acquisition day:

	Book value as at the acquisition day	Adjustments to fair value	Fair value
Non-current assets	2 307	(629)	1 678
Current assets	7 967	(100)	7 867
Total assets	**10 274**	**(729)**	**9 545**
Non-current liabilities	34	164	198
Current liabilities	5 933	55	5 988
Total liabilities	**5 967**	**219**	**6 186**
Identifiable net assets at fair value			**3 359**
Share acquired			32.445%
Share on identifiable net assets as fair value			**1 090**
Cash paid/outflows on acquisition of shares			(661)
Gain on bargain purchase			**429**

The revenues of ČESKÁ RAFINÉRSKÁ, a.s. in the period from 1 May 2015 till 31 December 2015 amounted to CZK 6 073 million. These revenues were fully eliminated in the consolidated statement of profit or loss, because the sole clients are the companies from the Group.

Liquidation of UNIPETROL TRADE Group
CHEMAPOL (SCHWEIZ) AG was deleted from Commercial register on 18 August 2015.
The liquidation of UNIPETROL AUSTRIA HmbH is ongoing.

UNIPETROL RPA Hungary Kft.
UNIPETROL RPA, s.r.o. has established a new subsidiary UNIPETROL RPA Hungary Kft. in Hungary. The subject of its business will be wholesale sale of of solid, liquid and gaseous fuels and related products as well as retail sales of motor fuels in the specialized shops.

Merger between UNIPETROL RPA, s.r.o. and POLYMER INSTITUTE BRNO, spol. s r.o.
The merger by amalgamation of UNIPETROL RPA, s.r.o. and POLYMER INSTITUTE BRNO, spol. s r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 28 December 2015. The legal effects of the merger came into force as at 31 December 2015.

Merger between UNIPETROL RPA, s.r.o. and BENZINA, s.r.o.
The merger by amalgamation of UNIPETROL RPA, s.r.o. and BENZINA, s.r.o was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 21 December 2015. The legal effects of the merger came into force as at 1 January 2016.

Merger between UNIPETROL SLOVENSKO s.r.o. and MOGUL SLOVAKIA s.r.o.
The merger by amalgamation of UNIPETROL SLOVENSKO s.r.o. and MOGUL s.r.o was approved by the companies' General Meetings with legal succession of UNIPETROL SLOVENSKO s.r.o. on 21 December 2015. The legal effects of the merger came into force as at 1 January 2016.

Change in the official name of Výzkumný ústav anorganické chemie, a.s.
As of 1 January 2016 the company Výzkumný ústav anorganické chemie, a.s. was changed to the name of Unipetrol výzkumně vzdělávací centrum, a.s. Other requirements listed in the Commercial Register as well as the company´s registered office remain unchanged.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

7. OPERATING SEGMENTS

7.1. Revenues, costs, financial results, increase in investment expenditures by operating segments

2015	Note	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	8.	99 314	9 491	102	-	108 907
Transactions with other segments		7 770	87	324	(8 181)	-
Total segment revenue		107 084	9 578	426	(8 181)	108 907
Operating expenses		(98 171)	(9 066)	(530)	8 181	(99 586)
Other operating income	10.1.	582	11	23	-	616
Other operating expenses	10.2.	(1 133)	(22)	(66)	-	(1 221)
Segment operating profit/(loss)		**8 362**	**501**	**(147)**	**-**	**8 716**
Net finance costs	11.					(47)
Profit before tax						**8 669**
Tax expense	12.					(1 633)
Net profit						**7 036**
Depreciation and amortisation	13.,15.	**(1 568)**	**(328)**	**(31)**	**-**	**(1 927)**
EBITDA*		**9 930**	**829**	**(116)**	**-**	**10 643**
Additions to non-current assets	13.,14,.15.	**2 989**	**222**	**133**	**-**	**3 344**

*Operating profit before tax, depreciation and amortisation

2014	Note	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	8.	112 656	11 190	92	-	123 938
Transactions with other segments		9 651	251	568	(10 470)	-
Total segment revenue		122 307	11 441	660	(10 470)	123 938
Operating expenses		(120 160)	(11 085)	(792)	10 470	(121 567)
Other operating income	10.1.	1 584	31	30	-	1 645
Other operating expenses	10.2.	(5 192)	(65)	(7)	-	(5 264)
Segment operating profit/(loss)		**(1 461)**	**322**	**(109)**	**-**	**(1 248)**
Net finance costs	11.					(114)
Loss before tax						**(1 362)**
Tax credit	12.					806
Net loss						**(556)**
Depreciation and amortisation	13.,15.	**(1 863)**	**(323)**	**(84)**	**-**	**(2 270)**
EBITDA*		**402**	**645**	**(25)**	**-**	**1 022**
Additions to non-current assets	13.,14.,15.	**1 773**	**187**	**47**	**-**	**2 007**

*Operating profit before tax, depreciation and amortisation

7.2. Other segment data

7.2.1. Assets by operating segments

	31/12/2015	31/12/2014
Downstream Segment	37 652	38 138
Retail Segment	5 597	5 835
Segment assets	**43 249**	**43 973**
Corporate Functions	12 091	5 355
Adjustments	(841)	(811)
	54 499	**48 517**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

7.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	2015	2014	2015	2014
Downstream Segment	(1 541)	(5 851)	92	271
Retail Segment	(19)	(61)	3	17
Impairment allowances by segments	**(1 560)**	**(5 912)**	**95**	**288**
Corporate Functions	-	(1)	-	22
Impairment allowances in operating activities	**(1 560)**	**(5 913)**	**95**	**310**
	(1 560)	**(5 913)**	**95**	**310**

including impairment allowances of property, plant and equipment and intangible assets

	Recognition		Reversal	
	2015	2014	2015	2014
Downstream Segment	(732)	(4 986)	17	45
Retail Segment	(17)	(58)	3	16
Impairment allowances by segments	**(749)**	**(5 044)**	**20**	**61**
	(749)	**(5 044)**	**20**	**61**

The impairment allowances of assets by segment include items recognized in the consolidated statement of profit or loss and other comprehensive income i.e. receivables allowances, inventories allowances, non-current assets impairment allowances.
Other impairment allowances recognitions and reversals were recorded in relation to CO_2 emission allowances, petrol stations, inventories, overdue receivables, uncollectible receivables or receivables in court.

7.2.3. Geographical information

	Revenues		Non-current assets	
	2015	2014	2015	2014
Czech Republic	69 358	83 114	21 336	21 094
Germany	14 366	13 555	1	1
Poland	1 750	2 624	-	-
Slovakia	7 694	10 721	8	9
Austria	4 549	3 600	-	-
Hungary	5 912	3 974	-	-
Other countries	5 278	6 350	-	-
	108 907	**123 938**	**21 345**	**21 104**

No other country than the Czech Republic and Germany accounted for more than 10% of consolidated revenues. No other country than the Czech Republic accounted more than 10% of consolidated assets. Revenues are based on the country in which the customer is located. Total non-current assets are based on the location of the assets and consist of property, plant and equipment, intangible assets and investment property.

7.3. Revenues from major products and services

The following is an analysis of the Group's external revenues from its major products and services:

	2015	2014
Downstream Segment	**99 314**	**112 656**
Light distillates	20 676	19 301
Medium distillates	40 116	40 688
Heavy fractions	4 587	5 715
Monomers	3 486	6 031
Polymers	15 371	19 145
Aromas	2 513	5 974
Plastics	800	873
Others	8 446	10 441
Services	3 319	4 778
Retail Segment	**9 491**	**11 190**
Light distillates	3 089	3 753
Medium distillates	6 045	7 073
Others	24	2¨3
Services	332	341
Corporate Functions	**102**	**92**
	108 907	**123 938**

7.4. Information about major customers

Revenues from 1 individual customer in the amount of CZK 11 792 million represented more than 10% of the Group's total revenues of the downstream segment.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

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

8. REVENUES

	2015	2014
Sales of finished goods	98 433	112 271
Sales of services	3 754	5 210
Revenues from sales of finished goods and services, net	**102 187**	**117 481**
Sales of merchandise	6 243	5 598
Sales of raw materials	477	859
Revenues from sales of merchandise and raw materials, net	**6 720**	**6 457**
	108 907	**123 938**

9. OPERATING EXPENSES

9.1. Cost of sales

	2015	2014
Cost of finished goods and services sold	(89 590)	(112 017)
Cost of merchandise and raw materials sold	(6 554)	(6 186)
	(96 144)	**(118 203)**

9.2. Cost by nature

	2015	2014
Materials and energy	(79 958)	(100 944)
Cost of merchandise and raw materials sold	(6 554)	(6 186)
External services	(7 423)	(7 911)
Employee benefits	(2 617)	(2 500)
Depreciation and amortization	(1 927)	(2 270)
Taxes and charges	(425)	(433)
Other	(1 631)	(5 629)
	(100 535)	**(125 873)**
Change in inventories	(355)	(958)
Cost of products and services for own use	83	-
Operating expenses	**(100 807)**	**(126 831)**
Distribution expenses	2 140	2 090
Administrative expenses	1 302	1 274
Other operating expenses	1 221	5 264
Cost of sales	**(96 144)**	**(118 203)**

9.3. Employee benefits costs

	2015	2014
Wages and salaries	(1 885)	(1 801)
Change of employee benefits provision	(7)	(7)
Social and health insurance	(617)	(582)
Social expense	(108)	(110)
	(2 617)	**(2 500)**

2015	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(1 722)	(123)	(1)	(32)	(7)	(1 885)
Social and health insurance	(580)	(30)	-	(5)	(2)	(617)
Social expense	(94)	(10)	-	(4)	-	(108)
Change of employee benefits provision	(7)	-	-	-	-	(7)
	(2 403)	**(163)**	**(1)**	**(41)**	**(9)**	**(2 617)**
Number of employees average per year*	3 778	49				3 827
Number of employees as at balance sheet day*	3 760	60				3 820

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

2014	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(1 632)	(157)	(1)	(3)	(8)	(1 801)
Social and health insurance	(545)	(34)	-	(1)	(2)	(582)
Social expense	(96)	(14)	-	-	-	(110)
Change of employee benefits provision	(7)	-	-	-	-	(7)
	(2 280)	**(205)**	**(1)**	**(4)**	**(10)**	**(2 500)**
Number of employees average per year*	3 624	50				3 674
Number of employees as at balance sheet day*	3 622	49				3 671

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

10. OTHER OPERATING INCOME AND EXPENSES

10.1. Other operating income

	2015	2014
Profit on sale of non-current non-financial assets	9	38
Reversal of provisions	13	13
Reversal of receivables impairment allowances	-	23
Reversal of impairment allowances of property, plant and equipment and intangible assets	20	61
Penalties and compensations earned	61	104
Gain on bargain purchase	429	1 186
Other	84	220
	616	**1 645**

The line „Gain on bargain purchase" relates to the settlement of ČESKÁ RAFINÉRSKÁ, a.s. shares acquisition - additional information is presented in note 6.

10.2. Other operating expenses

	2015	2014
Loss on sale of non-current non-financial assets	(27)	(15)
Recognition of provisions	(196)	(59)
Recognition of receivables impairment allowances	(81)	(27)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(749)	(5 044)
Donations	(6)	(3)
Other	(162)	(116)
	(1 221)	**(5 264)**

Following the decision of the Czech inspection of environment, the Group recognized a provision in amount of CZK 160 million in respect of remediation of historical ecological contamination in the Kralupy location.

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 an estimated impairment charge in the amount of CZK 597 million in relation to damaged assets. Impairment charges of CZK 508 million were allocated to machinery and equipment, and CZK 89 million to buildings and constructions and these were recorded in other operating costs. The amount of the impairment charge may be changed until the completion of technical works on the site.
The other operating costs incurred by the Group in connection with the accident as at 31 December 2015 are estimated in the amount of CZK 156 million.

11. FINANCE INCOME AND COSTS, NET

	2015	2014
Interest	(2)	(68)
Foreign exchange loss	(273)	(825)
Settlement and valuation of financial instruments	261	821
Other	(33)	(42)
	(47)	**(114)**

11.1. Finance income

	2015	2014
Interest	30	48
Settlement and valuation of financial instruments	1 229	1 183
Other	1	1
	1 260	**1 232**

11.2. Finance costs

	2015	2014
Interest	(32)	(116)
Foreign exchange loss	(273)	(825)
Settlement and valuation of financial instruments	(968)	(362)
Other	(34)	(43)
	(1 307)	**(1 346)**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

12. TAX CREDIT/(EXPENSE)

	2015	2014
Tax credit/(expense) in the statement of profit or loss		
Current tax	(709)	(112)
Deferred tax	(924)	918
	(1 633)	**806**
Deferred tax recognized in other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	(2)	(171)
Actuarial gains or losses	(2)	2
	(4)	**(169)**
	(1 637)	**637**

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2015 (2014: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2016 and forward i.e. 19%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2015	2014
Profit/(loss) for the year	7 036	(556)
Total tax credit/(expense)	(1 633)	806
Profit/(loss) before tax	8 669	(1 362)
Income tax using domestic income tax rate	(1 647)	259
Effect of tax rates in foreign jurisdictions	9	7
Non-deductible expenses	34	(6)
Tax exempt income	13	-
Changes in estimates related to prior periods	(45)	367
Change in not recognized deferred tax assets	14	(40)
Under (over) provided in prior periods	(1)	(1)
Gain on bargain purchase	82	225
Other differences	(92)	(5)
Total tax credit/(expense)	**(1 633)**	**806**
Effective tax rate	**(18.84%)**	**(59.18%)**

12.2. 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 2015 and onward).
The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) recognized by the Group during the year is as follows:

	31/12/2014	Deferred tax recognized in statement of profit or loss	Deferred tax recognized in other comprehensive income	Transfers	Change in Group structure	31/12/2015
Deferred tax assets						
Property, plant and equipment	940	(345)	-	110	421	1 126
Provisions	172	113	(2)	9	19	311
Unused tax losses carried forward	734	(741)	-	20	47	60
Inventories	139	-	-	(139)	-	-
Other	118	(25)	-	-	-	93
	2 103	**(998)**	**(2)**	**-**	**487**	**1 590**
Deferred tax liabilities						
Property, plant and equipment	(1 109)	43	-	-	-	(1 066)
Inventories	(18)	81	-	-	-	63
Finance lease	(14)	5	(2)	-	-	(11)
Derivative instruments	(126)	-	-	-	-	(126)
Other	-	(55)	-	-	-	(55)
	(1 267)	**74**	**(2)**	**-**	**-**	**(1 195)**
	836	**(924)**	**(4)**	**-**	**487**	**395**

12.2. Deferred tax (continued)

The above positions of deferred tax assets and liabilities are netted of on the level of particular financial statements of the Group´s companies for presentation purposes in the consolidated financial statement of UNIPETROL, a.s. As at 31 December 2015 deferred tax assets and liabilities amounted to CZK 1 204 million (31 December 2014: CZK 1 039 million) and CZK 809 million (31 December 2014: CZK 203 million).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

Deferred tax assets are recognized for tax losses and deductible temporary differences carried forward to the extent that realization of the related tax benefit through the future taxable profit is probable based on financial projections for years 2016 - 2020.

In the calculation of deferred tax assets as at 31 December 2015 the Group has not recognized unused tax losses in amount of CZK 1 221 million due to the unpredictability of future taxable income (31 December 2014: CZK 1 571 million). These unrecognised tax losses will expire by the end of 2019.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

13. PROPERTY, PLANT AND EQUIPMENT

	31/12/2015	31/12/2014
Land	821	820
Buildings and constructions	8 793	9 056
Machinery and equipment	7 157	7 656
Vehicles and other	519	582
Construction in progress	2 108	779
	19 398	**18 893**

13.1. Changes in property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2015						
Net book value						
Gross book value*	1 171	25 442	43 881	2 928	1 270	**74 692**
Accumulated depreciation and impairment allowances*	(351)	(16 326)	(36 055)	(2 344)	(340)	**(55 416)**
Government grants	-	(60)	(170)	(2)	(151)	**(383)**
	820	**9 056**	**7 656**	**582**	**779**	**18 893**
increase/(decrease) net						
Investment expenditures	1	657	1 422	156	961	**3 197**
Depreciation	-	(470)	(1 136)	(157)	-	**(1 763)**
Impairment allowances	-	(241)	(634)	44	219	**(612)**
Reclassifications	-	(10)	1	-	(5)	**(14)**
Sale	-	(1)	(5)	(43)	-	**(49)**
Liquidation	-	(9)	(4)	(61)	-	**(74)**
Government grants - received,settled	-	(186)	(81)	1	151	**(115)**
Other increases/(decreases)	-	(3)	(62)	(3)	3	**(65)**
31/12/2015						
Net book value	**821**	**8 793**	**7 157**	**519**	**2 108**	**19 398**
Gross book value	1 172	26 029	45 025	2 854	2 229	**77 309**
Accumulated depreciation and impairment allowances	(351)	(16 989)	(37 617)	(2 334)	(121)	**(57 413)**
Government grants	-	(246)	(251)	(1)	-	**(498)**
	821	**8 793**	**7 157**	**519**	**2 108**	**19 398**
01/01/2014						
Net book value						
Gross book value	1 160	24 699	42 435	2 942	1 130	**72 366**
Accumulated depreciation and impairment allowances	(350)	(14 186)	(32 228)	(2 126)	(103)	**(48 993)**
Government grants	-	(27)	(21)	(2)	(146)	**(196)**
	810	**10 486**	**10 186**	**814**	**881**	**23 177**
increase/(decrease) net						
Investment expenditures	10	368	1 205	171	112	1 866
Depreciation	-	(474)	(1 455)	(204)	-	(2 133)
Change in Group structure*	-	392	644	46	38	1 120
Impairment allowances	(1)	(1 674)	(2 717)	(231)	(237)	(4 860)
Reclassifications	1	2	5	(1)	(10)	(3)
Sale	-	(11)	-	(9)	-	(20)
Liquidation	-	-	(3)	(4)	-	(7)
Government grants - received,settled	-	(33)	(149)	-	(5)	(187)
Other increases/(decreases)	-	-	(60)	-	-	(60)
31/12/2014						
Net book value	**820**	**9 056**	**7 656**	**582**	**779**	**18 893**

* In 2015 the Group changed presentation of additions to non-current assets arised from acquisitions of shares in Česká rafinérská, a.s. for the year 2014 and 2015.

Material additions

The major additions to non-current assets were the capitalized repairs of the steam cracker unit the after accident in the amount of CZK 318 million, construction of the new unit PE3 of CZK 311 million, reconstruction of the sewerage and waste water treatment plant in the Kralupy grounds in the amount of CZK 234 million , PP to 300 kt intensification of CZK 86 million, renovation of pyrolitic furnance BA-102 of CZK 49 million, renovation of the international ethylene pipeline of CZK 35 million, renovation of substation R200 of CZK 29 million.

According to IAS 23, the Group capitalizes those borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in the year ended 31 December 2015 amounted to less than CZK 1 million (31 December 2014: less than CZK 1 million).

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

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

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2015*	351	5 435	7 177	303	340	13 606
Recognition	-	93	531	46	72	742
Reversal	-	(4)	(15)	-	-	(19)
Usage	-	(7)	(7)	(91)	-	(105)
Reclassifications	-	159	125	1	(291)	(6)
	351	**5 676**	**7 811**	**259**	**121**	**14 218**
increase/(decrease) net	-	241	634	(44)	(219)	612
01/01/2014	350	3 761	4 460	72	103	8 746
Recognition	1	1 670	2 630	232	404	4 937
Reversal	-	(33)	(23)	-	-	(56)
Usage	-	(8)	(11)	(1)	-	(20)
Reclassifications	-	45	121	-	(167)	(1)
	351	**5 435**	**7 177**	**303**	**340**	**13 606**
increase/(decrease) net	1	1 674	2 717	231	237	4 860

* In 2015 the Group reclassified additions to non-current assets arising from acquisitions of shares in Česká rafinérská, a.s. for the year 2014 and 2015.

Detailed information regarding impairment recognized in 2015 is presented in note 19.

The Group reviews useful lives of property, plant and equipment and introduces adjustments to depreciation charges prospectively according to its accounting policy. Should the depreciation policy from the previous year be applied, the depreciation expense for 2015 would be higher by CZK 144 million.

13.3. Other information on property, plant and equipment

	31/12/2015	31/12/2014
The gross book value of all fully depreciated property, plant and equipment still in use	12 503	9 970
The net book value of temporarily idle property, plant and equipment	-	16
The net book value of leased non-current assets	232	276

The Group obtained in 1994 a government grant from the German Ministry for Environmental Protection and Safety of Reactors in amount of CZK 260 million. This environmental project targeted at limiting cross-border pollution, in connection with the reconstruction of the T-700 power station and its desulphurization. The carrying amount of the asset financed from the grant was CZK 32 million as at 31 December 2015 (31 December 2014: CZK 35 million).

The Group obtained a support grant from the European Regional Development Fund (ERDF) and the Czech national budget for the new research and education centre UniCRE construction for CZK 592 million. The resources provided will be used mainly for restoration of research laboratories, conference and education areas and the purchase of modern equipment and laboratory equipment. The carrying amount of the asset financed from the grant was CZK 417 million (in 2014: CZK 295 million).

14. INVESTMENT PROPERTY

	2015	2014
At the beginning of the year	419	427
Reclassification to property, plant and equipment	-	(3)
Transfer from property, plant and equipment	9	-
Fair value measurement	5	(5)
increase	5	15
decrease	-	(20)
	433	**419**

Rental income amounted to CZK 48 million in 2015 (2014: CZK 46 million). Operating costs related to investment property amounted to CZK 4 million in 2015 (2014: CZK 6 million).

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

14.1. Fair value of investment property measurement

Investment property as at 31 December 2015 included the land and buildings owned by the Group and leased to third parties, which fair value was estimated depending on the characteristics based on comparison or revenue approach.
The comparison approach was applied assuming, that the value of the assessed property was equal to the market price of similar property (such assets belong to Level 2 as defined by IFRS 7).
In the revenue approach the calculation was based on the discounted cash flow method. 10 year period forecasts were applied in the analysis. The discount rate used reflects the relation, as expected by the buyer, between annual revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the property consider arrangements included in all rent agreements as well as external data, e.g. current market rent charges for similar property, in the same location, technical conditions, standard and designed for similar purposes (investment property valued under the revenue approach belong to Level 3 as defined by IFRS 7). The discount rate of 8.10% was used for the calculation of the investment property fair value.

		Fair value hierarchy		
	Carrying amount	Fair value	Level 2	Level 3
31/12/2015	433	433	116	317
31/12/2014	419	419	117	302

14.2. 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	(19)	-1 pp	19

15. INTANGIBLE ASSETS

	31/12/2015	31/12/2014
Internally generated intangible assets	**65**	**50**
Assets under development	43	29
Other intangible assets	22	21
Other intangible assets	**1 449**	**1 742**
Software	100	107
Licences, patents and trade marks	649	710
Assets under development	414	346
CO_2 emission allowance	271	520
Other intangible assets	15	59
	1 514	**1 792**

15.1. Changes in internally generated intangible assets

In 2015, the Group recognized internally generated intangible assets in the amount of CZK 27 million, which include development studies (2014: CZK 30 million).

	Assets under development	Other intangible assets	Total
01/01/2015			
Net book value			
Gross book value	29	31	**60**
Accumulated depreciation and impairment allowances	-	(10)	**(10)**
	29	**21**	**50**
increase/(decrease) net			
Investment expenditures	14	13	**27**
Amortization	-	(12)	**(12)**
31/12/2015			
Net book value	**43**	**23**	**66**
Gross book value	43	44	**87**
Accumulated depreciation and impairment allowances	-	(22)	**(22)**
	43	**22**	**65**
01/01/2014			
Net book value			
Gross book value	29	-	29
	29	**-**	**29**
increase/(decrease) net			
Investment expenditures	-	30	30
Amortization	-	(6)	(6)
Change in Group structure	1	-	1
Impairment allowances	-	(4)	(4)
Reclassifications	(1)	1	-
31/12/2014			
Net book value	**29**	**21**	**50**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

15.2. Changes in impairment allowances of internally generated intangible assets

	Assets under development	Other intangible assets	Total
01/01/2015	-	4	4
	-	**4**	**4**
increase/(decrease) net	-	-	-
01/01/2014	-	-	-
Recognition	4	-	4
Reclassifications	(4)	4	-
	-	**4**	**4**
increase/(decrease) net	-	4	4

15.3. Changes in other intangible assets

	Software	Licences, patents and trade marks	Goodwill	Assets under development	CO_2 emission allowance	Other intangible assets	Total
01/01/2015							
Net book value							
Gross book value*	1 146	2 027	51	376	541	458	**4 599**
Accumulated depreciation and impairment allowances*	(1 022)	(1 317)	(51)	(29)	(21)	(399)	**(2 839)**
Government grants	(17)	-	-	(1)	-	-	**(18)**
	107	**710**	**-**	**346**	**520**	**59**	**1 742**
increase/(decrease) net							
Investment expenditures	45	5	-	65	-	-	**115**
Amortization	(42)	(66)	-	-	-	(44)	**(152)**
Change in Group structure*	-	-	-	-	64	-	**64**
Impairment allowances	(9)	(4)	-	2	6	-	**(5)**
Reclassifications	5	-	-	-	-	-	**5**
Government grants - received,settled	(3)	-	-	1	-	-	**(2)**
Other increases/(decreases)	(3)	4	-	-	(319)	-	**(318)**
31/12/2015							
Net book value	**100**	**649**	**-**	**414**	**271**	**15**	**1 449**
Gross book value	1 192	2 030	51	441	287	428	**4 429**
Accumulated depreciation and impairment allowances	(1 072)	(1 381)	(51)	(27)	(16)	(413)	**(2 960)**
Government grants	(20)	-	-	-	-	-	**(20)**
	100	**649**	**-**	**414**	**271**	**15**	**1 449**
01/01/2014							
Net book value							
Gross book value	1 095	2 076	52	349	523	488	4 583
Accumulated depreciation and impairment allowances	(951)	(1 297)	(52)	(7)	(157)	(399)	(2 863)
Government grants	(1)	-	-	-	-	-	(1)
	143	**779**	**-**	**342**	**366**	**89**	**1 719**
increase/(decrease) net							
Investment expenditures	58	8	-	26	-	4	96
Amortization	(49)	(66)	-	-	-	(16)	(131)
Change in Group structure*	7	1	-	6	1	1	16
Impairment allowances	(44)	(13)	1	(22)	136	(21)	37
Reclassifications	9	1	-	(5)	-	1	6
Government grants - received,settled	(16)	-	-	(1)	-	-	(17)
Other increases/(decreases)	(1)	-	(1)	-	17	-	15
31/12/2014							
Net book value	**107**	**710**	**-**	**346**	**520**	**59**	**1 742**

* In 2015 the Group changed presentation of additions to non-current asset arising from the increase of shares in Česká rafinérská, a.s. for years 2014 and 2015.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

15.4. Changes in impairment allowances of other intangible assets

	Software	Licences, patents and trade marks	Goodwill	Assets under development	CO_2 emission allowance	Other intangible assets	Total
01/01/2015*	78	212	51	29	21	43	434
Recognition	3	4	-	-	-	-	7
Reversal	-	-	-	(1)	-	-	(1)
Usage	-	-	-	-	(6)	-	(6)
Reclassifications	6	-	-	(1)	-	-	5
	87	**216**	**51**	**27**	**15**	**43**	**439**
increase/(decrease) net	9	4	-	(2)	(6)	-	5
01/01/2014	34	199	52	7	157	22	471
Recognition	37	5	-	35	-	26	103
Reversal	-	-	-	-	-	(5)	(5)
Usage	-	-	-	-	(136)	-	(136)
Reclassifications	7	8	-	(14)	-	-	1
Other increases/(decreases)	-	-	(1)	1	-	-	-
	78	**212**	**51**	**29**	**21**	**43**	**434**
increase/(decrease) net	44	13	(1)	22	(136)	21	(37)

* In 2015 the Group changed presentation of additions to non-current asset arising from the increase of shares in Česká rafinérská, a.s. for years 2014 and 2015.

Recognition and reversal of impairment allowances for intangible assets are recognized in other operating activities. Detailed information regarding impairment recognized in 2015 is presented in note 19.

15.5. Other information on other intangible assets

	31/12/2015	31/12/2014
The gross book value of all fully depreciated intangible assets still in use	1 437	1 748
The net book value of intangible assets with indefinite useful life	10	10

The increase of assets under development in 2015 includes the new PE3 licence – project in the amount of CZK 29 million.
The Group reviews useful lives of intangible assets and introduces an adjustment to amortization charges prospectively according to its accounting policy. Should the amortization rates from the previous year be applied, amortization expense for 2015 would be higher by CZK 4 million.

15.6. CO_2 emission allowances

Based on the Czech National Allocation Scheme for the years 2013-2020 the Group was to obtain CO_2 emission allowances free of charge. During the year ended 31 December 2015 the Group obtained CO_2 emission allowances in the amount of 1 918 475 tons.

	Value	Quantity (in tonnes)
01/01/2015	520	2 893 260
Granted free of charge for 2015	389	1 918 475
Settlement for 2014	(707)	(3 767 104)
Change in Group structure	64	319 085
Impairment allowances	6	-
	272	**1 363 716**
Estimated annual consumption 2015	772	3 754 786

As at 31 December 2015 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 8.22 (31 December 2014: EUR 7.24).
CO_2 emission allowances acquired and sold by the Group are included in the statement of consolidated cash flows, under investing activities in Acquisition of property, plant and equipment and intangible assets and Proceeds from disposals of property, plant and equipment and intangible assets, respectively.

16. JOINT OPERATIONS

	Place of business	Ownership interest of the parent company in share capital	Principal activities	Method of consolidation
Butadien Kralupy a.s.	Czech Republic	51.00%	Production of butadiene	Share in assets and liabilities

The Group in accordance with IFRS 11 classified Butadien Kralupy a.s. in as joint operations. Detailed information is described in note 3.4.3.2.

Until 30 April 2015, the Group´s wnership interest in ČESKÁ RAFINÉRSKÁ, a.s. was 67.56% and was classified as joint operations until that date. Detailed information is described in note 6.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

17. FINANCIAL ASSETS AVAILABLE FOR SALE

	31/12/2015	31/12/2014
Unquoted shares		
Orlen Holding Malta LTD	1	1
	1	**1**

The Group had equity investments of CZK 0.5 million as at 31 December 2015 (31 December 2014: CZK 0.5 million) which represent ownership interests in companies that do not have a quoted market price and whose fair value cannot be reliably measured and therefore are carried at acquisition cost less any impairment losses.

18. OTHER NON-CURRENT ASSETS

	31/12/2015	31/12/2014
Loans granted	1	6
Other non-current receivables	20	20
Financial assets	**21**	**26**
Prepayments	4	3
Non-financial assets	**4**	**3**
	25	**29**

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

The Group has assessed the requirements presented in IAS 36 for determination of Impairment indicators for single assets and for CGU as at 31 December 2015. The Group has identified an internal indicator, i.e. evidence of physical damage of an asset within a CGU after an accident on 13 August 2015 in Litvínov. The damaged assets are part of the Petrochemical CGU. After the fire, the Petrochemical CGU continues in operation to a limited extent with external feedstock deliveries of ethylen and propylen. In relation to damaged assets, the Group has selected a repair scenario which is intanded to obtain the lowest estimated lost profit and shortest estimated shutdown duration.

The Group is insured against property and mechanical damage as well as loss of business profits (business interruption) and it is in the process of seeking recourse from the insurer. The Group expects that based on conditions envisaged in the insurance policy, it will recover from the insurer the cost of repair in relation to property damage insurance. The Group also expects that the compensation from business interruption insurance will cover expected profit loss during the period of steam cracker rebuilding. Further information is presented in note 35.

Considering these facts, in relation to the net book value of assets as at 31 December 2015, the Group hasn not identified any indicators of impairment at the CGU´s level. The individually damaged assets were written down to their fair value less costs of disposal as required by IAS 36 and impairment of CZK 597million was recognized.

The Group has not identified deterioration of the indicators (deterioration of external refinery environment, performance of refinery activities below forecasted level, surplus of refinery production capacities and increased supply of products) based on which the impairment was recognized in 2014. The Company also has not identified any indicators which would lead to the reversal of the impairment.

As at 31 December 2015 the indicators of the impairment were identified for Cash Generating Units (CGUs) in the retail segment, based on which the impairment tests have been performed. Based on the impairment tests´ analysis the Group increased its impairment allowance by CZK 14 million as at 31 December 2015 (31 December 2014: CZK 26 million).

The Group's future financial performance is based on a number of factors and assumptions in respect of macroeconomics development, such as foreign exchange rates, commodity prices, interest rates, outside the Group's control. The change of these factors and assumptions might influence the Group's financial position, including the results of the impairment test of non-current assets, and consequently might lead to changes in the financial position and performance of the Group.

20. INVENTORIES

	31/12/2015	31/12/2014
Raw materials	4 567	4 382
Work in progress	1 347	1 049
Finished goods	2 999	3 548
Merchandise	254	367
Spare parts	1 223	974
Inventories, net	**10 390**	**10 320**
Impairment allowances of inventories to net realizable value	864	957
Inventories, gross	**11 254**	**11 277**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

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

	2015	2014
At the beginning of the year	957	386
Recognition	730	842
Usage	(826)	(95)
Reversal	(75)	(226)
Change in Group structure	78	50
	864	**957**

Changes in the net realizable value allowances for inventories amount to CZK 655 million and are included in cost of sales (2014: CZK 617 million) presented in note 9.

21. TRADE AND OTHER RECEIVABLES

	31/12/2015	31/12/2014
Trade receivables	9 437	11 951
Other	17	18
Financial assets	**9 454**	**11 969**
Excise tax and fuel charge receivables	312	401
Other taxation, duty, social security receivables	19	24
Advances for construction in progress	1 033	-
Prepayments and deferred costs	440	112
Non-financial assets	**1 804**	**537**
Receivables, net	**11 258**	**12 506**
Receivables impairment allowance	646	623
Receivables, gross	**11 904**	**13 129**

Trade receivables result primarily from sales of finished goods and sales of merchandise. The management considers that the carrying amount of trade receivables approximates their fair value. The average credit period on sales of goods is 34 days. No interest is charged on the trade receivables for the first 4 days after the due date. Thereafter, a interest is based on terms agreed in the selling contracts.
The Group exposure to credit and currency risk related to trade and other receivables is disclosed in note 31.4.2. and detailed information about receivables from related parties is presented in note 37.

21.1. Changes in impairment allowances of trade and other receivables

	31/12/2015	31/12/2014
At the beginning of the year	623	637
Recognition	81	27
Change in Group structure	18	8
Reversal	-	(23)
Usage	(74)	(44)
Other	-	5
Foreign exchange differences	(2)	13
	646	**623**

The Group sets impairment charges based on analysis of customers' creditworthiness and ageing of receivables. In determining the recoverability of trade receivable, the Group considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management considers that there is no further credit risk allowance required in excess of the allowance for impairment charges.
Increases and reversals of impairment allowances in respect of the principal amount of trade and other receivables are included in other operating expense or income and in respect of interest for delayed payments in finance costs or income.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

22. OTHER FINANCIAL ASSETS

	31/12/2015	31/12/2014
Cash flow hedge instruments	700	887
currency forwards	*30*	*15*
commodity swaps	*670*	*872*
Derivatives not designated as hedge accounting	14	188
currency forwards	*14*	*23*
commodity swaps	*-*	*165*
Loans granted	-	6
Cash pool	3 086	36
Receivables on settled cash flow hedge instruments	481	647
	4 281	**1 764**

Information regarding cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 31.3.

The Group presents the assets in the PKN group´s cash pool system in the amount of CZK 3 086 million as at 31 December 2015 (CZK 36 million as at 31 December 2014). The interest rates were based on appropriate inter-bank rates and the fair value of the assets approximates their carrying amount.

The Group provided current loans to related entities and to operators of fuel stations. The carrying amount of the loans amounted to less than CZK 1 million as at 31 December 2015 (31 December 2014: CZK 6 million). The interest rates are variable and are based on appropriate inter-bank rates. The fair value of the loans approximates the carrying amount as at 31 December 2015.

23. CASH AND CASH EQUIVALENTS

	31/12/2015	31/12/2014
Cash on hand and in bank	5 888	1 682
	5 888	**1 682**

24. SHAREHOLDERS' EQUITY

24.1. Share capital

The issued capital of the Company as at 31 December 2015 amounted to CZK 18 133 million (31 December 2014: CZK 18 133 million). This represents 181 334 764 (31 December 2014: 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.

24.2. Statutory reserves

The Group established a reserve fund for possible future losses. The balance of the Statutory reserve fund as at 31 December 2015 amounted to CZK 34 million (31 December 2014: CZK 2 703 million).

24.3. Hedging reserve

The amount of the hedging reserve of CZK 545 million as at 31 December 2015 resulted from the valuation of derivatives meeting the requirements of cash flow hedge accounting (31 December 2014: CZK 538 million).

24.4. Revaluation reserve

Revaluation reserve comprises the difference between the net book value and the fair value of the property as at the date of reclassification of the property occupied by the Group and recognized as an investment property.

24.5. Foreign exchange differences on subsidiaries from consolidation

The amount of reserve is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into CZK. The balance of this reserve as at 31 December 2015 amounted to CZK 15 million (31 December 2014: CZK 18 million).

24.6. Retained earnings

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profits of the parent company. The Annual General Meeting of UNIPETROL, a.s. held on 2 June 2015 decided, pursuant to Article 8 (2) (k) of the Articles of Association of UNIPETROL, a.s., on transfer of the Company's profit generated on separate basis in 2014 in amount of CZK 328 million to retained earnings.

The decision regarding appropriation of 2015 profit will be made at the annual meeting of shareholders, which will be held in May/June 2016.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

24.7. Equity management policy

Equity management is performed on the Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.
The Group monitors the equity debt ratio (net financial leverage). As at 31 December 2015 and as at 31 December 2014 Group´s financial leverage amounted to -16.49% and 9.49%, respectively.

Net financial leverage = net debt/equity x 100%
Net debt =non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents

24.8. Profit/(loss) per share

Basic profit/(loss) per share

	2015	2014
Profit/(loss) for the year attributable to equity owners	7 036	(556)
Weighted average number of shares	181 334 764	181 334 764
Profit/(loss) per share (in CZK per share)	**38.80**	**(3.07)**

Diluted profit/(loss) per share
Diluted profit/(loss) per share are the same as basic profit/(loss) per share.

25. LOANS AND BORROWINGS

	Non-current		Current		Total	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Bank loans	-	-	-	327	-	327
Borrowings	-	4 000	-	23	-	4 023
	-	**4 000**	**-**	**350**	**-**	**4 350**

Loan granted by PKN Orlen S.A.
During the 12 months ended 31 December 2015 the Group repaid a CZK 4 billion mid-term loan received from its majority shareholder POLSKI KONCERN NAFTOWY ORLEN S.A. under a loan agreement dated 12 December 2013.

25.1. Bank loans

by currency (translated into CZK)/by interest rate

	31/12/2015	31/12/2014
CZK/PRIBOR	-	327
	-	**327**

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 31 and are presented together with other financial instruments.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

26. PROVISIONS

	Non-current		Current		Total	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Environmental provision	571	350	3	-	574	350
Jubilee bonuses and retirement benefits provision	76	71	7	5	83	76
Provision for CO_2 emission allowances	-	-	772	707	772	707
Other provision	31	36	110	70	141	106
	678	**457**	**892**	**782**	**1 570**	**1 239**

Change in provisions in 2015

	Environmental provision	Jubilee bonuses and retirement benefits provision	Shield programs provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2015	350	76	-	707	106	1 239
Recognition	169	4	-	754	27	954
Discounting	6	-	-	-	-	6
Usage	(3)	(3)	-	(707)	-	(713)
Reversal	(1)	(3)	-	-	(12)	(16)
Change in Group structure	53	9	-	18	20	100
	574	**83**	**-**	**772**	**141**	**1 570**

Change in provisions in 2014

	Environmental provision	Jubilee bonuses and retirement benefits provision	Shield programs provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2014	340	57	-	514	63	974
Recognition	4	18	1	775	55	853
Discounting	7	-	-	-	-	7
Usage	(1)	(3)	-	(562)	(2)	(568)
Reversal	-	-	(1)	(41)	(12)	(54)
Change in Group structure	-	4	-	21	2	27
	350	**76**	**-**	**707**	**106**	**1 239**

26.1. Environmental provision

Under the environmental provision the Group had the provision for land restoration created as a result of the legal obligation to restore the fly-ash dump after it is discontinued, which is expected after 2043. The provision amounted to CZK 339 million as at 31 December 2015 (31 December 2014: CZK 335 million).
Following the decision of the Czech inspection of environment, the Group recognized a provision in the amount of CZK 160 million in respect of remediation of historical ecological contamination in the Kralupy location.
Additionally, the Group had the provision for compensation of damages to Lesy České republiky, s.p. in the amount of CZK 18 million included as at 31 December 2015 (31 December 2014: CZK 15 million).

26.2. Provision for jubilee bonuses and retirement benefits

The companies of the Group realize the program of paying out retirement benefits and jubilee bonuses in line with remuneration policies in force. The jubilee bonuses are paid to employees after the elapse of a defined number of years in service. Rtirement benefits are paid as a one-time payment at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service. The base for the calculation of the provision for an employee is the expected benefit which the Group is obliged to pay in accordance with internal regulations.
The present value of these obligations is estimated at the end of each reporting year and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation.
Employment benefit provisions for retirement and anniversary benefits received by employees were created using discount rates in the range 0.54% - 2.3% p.a. in 2015 (2014: 0.62% - 2.6%), assumptions used were based on the Collective Agreement.
Should the prior year’s assumptions be used, the provision for the jubilee bonuses and retirement benefits would be lower by CZK 1 million.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

26.2.1. Change in employee benefits obligations

	Provision for jubilee bonuses	Retirement benefits	Total
01/01/2015	3	73	76
Current service costs	1	3	4
Interest expenses	-	1	1
Actuarial gains and losses arising from changes:	5	(9)	(4)
financial assumptions	*-*	*1*	*1*
other	*5*	*(10)*	*(5)*
Change in Group structure	-	9	9
Payments under program	(1)	(2)	(3)
	8	**75**	**83**

	Provision for jubilee bonuses	Retirement benefits	Total
01/01/2014	3	54	57
Current service cost	1	5	6
Interest expense	-	1	1
Actuarial gains and losses arising from changes:	-	12	12
financial assumptions	*-*	*12*	*12*
Change in Group structure	-	3	3
Payments under program	*(1)*	(2)	(3)
	3	**73**	**76**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2015 and as at 31 December 2014.

26.2.2. Division of employee benefits liabilities by employees

	Active employees		Pensioners		Total	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Czech Republic	83	76	-	-	83	76
					83	**76**

26.2.3. Geographical division of employee benefits liabilities

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Czech Republic	8	3	75	73	83	76
					83	**76**

26.2.4. Sensitivity analysis to changes in actuarial assumptions

Actuarial assumptions	Assumed variations as at 31/12/2015	Czech Republic: Influence on provision for jubilee bonuses 2015	Czech Republic: Influence on retirement benefits 2015
Demographic assumptions (+)	0.5pp	-	(3)
staff turnover rates, disability and early retirement	*0.5pp*	-	*(3)*
Financial assumptions (+)	0.5pp	-	(4)
discount rate	*0.5pp*	-	*(4)*
		-	**(7)**
Demographic assumptions (-)	-0.5pp	-	4
staff turnover rates, disability and early retirement	*-0.5pp*	-	*4*
Financial assumptions (-)	-0.5pp	-	5
discount rate	*-0.5pp*	-	*5*
		-	**9**

Actuarial assumptions	Assumed variations as at 31/12/2014	Czech Republic: Influence on provision for jubilee bonuses 2014	Czech Republic: Influence on retirement benefits 2014
Demographic assumptions (+)	0.5pp	-	(3)
staff turnover rates, disability and early retirement	*0.5pp*	-	*(3)*
Financial assumptions (+)	0.5pp	-	(3)
discount rate	*0.5pp*	-	*(3)*
		-	**(6)**
Demographic assumptions (-)	-0.5pp	-	3
staff turnover rates, disability and early retirement	*-0.5pp*	-	*3*
Financial assumptions (-)	-0.5pp	-	3
discount rate	*-0.5pp*	-	*3*
		-	**6**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

26.2.5. Employee benefits maturity and payments of liabilities analysis

26.2.5.1. Maturity of employee benefits analysis

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Less than one year	1	1	6	4	7	5
Between one and three years	1	1	6	9	7	10
Between three and five years	1	-	8	6	9	6
Later than five years	5	1	55	54	60	55
	8	**3**	**75**	**73**	**83**	**76**
Weighted average duration of liability (years)			13	15	13	15

26.2.5.2. Ageing of employee benefits payments analysis

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Less than one year	1	1	6	5	7	6
Between one and three years	2	1	7	9	9	10
Between three and five years	2	2	10	8	12	10
Later than five years	23	8	219	204	242	212
	28	**12**	**242**	**226**	**270**	**238**

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

	31/12/2015	31/12/2014
In profit and loss		
Current service costs	(4)	(6)
Interest expenses	(1)	(1)
Actuarial gains and losses arising from changes	(5)	-
other	*(5)*	-
Payments under program	3	-
	(7)	**(7)**
In components of other comprehensive income		
Gains and losses arising from changes	9	(12)
financial assumptions	*(1)*	*(12)*
other	*10*	-
	9	**(12)**
	2	**(19)**

Payments under program were settled to Employee benefits costs in amount of CZK 3 million in 2014.

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

	31/12/2015	31/12/2014
Cost of sales	(5)	(4)
Administrative expenses	(2)	(3)
	(7)	**(7)**

Based on current legislation, the Group is obliged to pay contributions to the national pension insurance. These costs are recognized as expenses on social security and health insurance. The Group does not have any other commitments in this respect. Additional information about the retirement benefits is in note 3.4.22.2.

26.3. Provision for CO_2 emission allowances

The provision for CO_2 emission allowances is created for estimated CO_2 emission allowances in the reporting period.

26.4. Other provision

The Group created other provisions in respect of future liabilities related to dismantling costs connected with liquidation of unused assets and in respect of expected future outflows arising from legal disputes with third parties where the Group is the defendant.

27. OTHER NON-CURRENT LIABILITIES

	31/12/2015	31/12/2014
Investment liabilities	1	1
Other	-	20
Financial liabilities	**1**	**21**
Guarantee payment received	165	164
Non-financial liabilities	**165**	**164**
	166	**185**

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

(in CZK million)

28. TRADE AND OTHER LIABILITIES

	31/12/2015	31/12/2014
Trade liabilities	7 574	7 404
Investment liabilities	1 482	580
Dividends	35	35
Financial lease liabilities	-	1
Other	325	49
Financial liabilities	**9 416**	**8 069**
Prepayments for deliveries	102	42
Prepayments for fixed assets	8	-
Payroll liabilities	280	283
Excise tax and fuel charge	4 786	3 987
Value added tax	918	1 003
Other taxation, duties, social security and other benefits	99	92
Accruals	98	106
holiday pay accrual	17	15
wages accrual	80	90
other	1	1
Non-financial liabilities	**6 291**	**5 513**
	15 707	**13 582**

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

29. DEFERRED INCOME

	31/12/2015	31/12/2014
Government grants received from the European Regional Development Fund	3	72
Other	5	4
	8	**76**

The information about the government grants is presented in note 13.

30. OTHER FINANCIAL LIABILITIES

	31/12/2015	31/12/2014
Cash flow hedge instruments	27	224
currency forwards	*-*	*55*
commodity swaps	*27*	*169*
Derivatives not designated as hedge accounting	5	155
currency forwards	*5*	*-*
commodity swaps	*-*	*155*
Cash pool	31	33
Liabilities on settled cash flow hedge instruments	65	-
	128	**412**

Information about cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 31.3.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

31. FINANCIAL INSTRUMENTS

31.1. Financial instruments by category and class

Financial assets
31/12/2015

Financial instruments by class	Note	Financial instruments by category: Financial assets at fair value through profit of loss	Loans and receivables	Hedging financial instruments	Total
Trade receivables	21.	-	9 437	-	9 437
Borrowings granted	18.,22.	-	1	-	1
Cash pool	22.	-	3 086	-	3 086
Financial derivatives	22.	14	-	700	714
Cash and cash equivalents	23.	-	5 888	-	5 888
Receivables on settled cash flow hedge instruments	22.	-	481	-	481
Other	18.,21.	-	37	-	37
		14	**18 930**	**700**	**19 644**

31/12/2014

Financial instruments by class	Note	Financial instruments by category: Financial assets at fair value through profit of loss	Loans and receivables	Hedging financial instruments	Total
Trade receivables	21.	-	11 951	-	11 951
Borrowings granted	18.,22.	-	6	-	6
Cash pool	22.	-	36	-	36
Financial derivatives	22.	188	-	887	1 075
Cash and cash equivalents	23.	-	1 682	-	1 682
Receivables on settled cash flow hedge instruments	22.	647	-	-	647
Other	18.,21.	-	44	-	44
		835	**13 719**	**887**	**15 441**

Financial liabilities
31/12/2015

Financial instruments by class	Note	Financial instruments by category: Financial liabilities at fair value through profit of loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Trade liabilities	28.	-	7 574	-	-	7 574
Investment liabilities	27.,28.	-	1 483	-	-	1 483
Cash pool	30.	-	31	-	-	31
Financial derivatives	30.	5	-	27	-	32
Liabilities on settled cash flow hedge instrument	30.	-	65	-	-	65
Other	27.,28.	-	360	-	-	360
		5	**9 513**	**27**	**-**	**9 545**

31/12/2014

Financial instruments by class	Note	Financial instruments by category: Financial liabilities at fair value through profit of loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Borrowings	25.	-	4 023	-	-	4 023
Loans	25.	-	327	-	-	327
Trade liabilities	28.	-	7 404	-	-	7 404
Investment liabilities	27.,28.	-	581	-	-	581
Cash pool	30.	-	33	-	-	33
Financial derivatives	30.	155	-	224	-	379
Other	27.,28.	-	104	-	1	105
		155	**12 472**	**224**	**1**	**12 852**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

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

2015

	Financial instruments by category			
	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortized cost	Total
Interest income	-	30	-	30
Interest costs	-	-	(32)	(32)
Foreign exchange gain/(loss)	-	(47)	(226)	(273)
(Recognition)/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	-	(81)	-	(81)
Settlement and valuation of financial instruments	261	-	-	261
Other	-	1	(28)	(27)
	261	**(97)**	**(286)**	**(122)**
other, excluded from the scope of IFRS 7				
Provisions discounting				(6)
				(6)

2014

	Financial instruments by category			
	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortized cost	Total
Interest income	-	48	-	48
Interest costs	-	-	(116)	(116)
Foreign exchange gain/(loss)	-	229	(1 054)	(825)
(Recognition)/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	-	(4)	-	(4)
Settlement and valuation of financial instruments	570	-	-	570
Other	-	1	(36)	(35)
	570	**274**	**(1 206)**	**(362)**
other, excluded from the scope of IFRS 7				
Provisions discounting				(7)
				(7)

31.3. Hedge accounting

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/CZK for sale and USD/CZK for purchases and sale). Foreign exchange forwards are used as hedging instruments.
The Group has derivative financial instruments, which serve as a hedging instrument pursuant to the Group's risk management strategy. Changes in the fair value of derivatives that do not meet the hedge accounting criteria are included in derivatives held for trading and their fair value changes are reported in profit or loss.
The fair value of derivative instruments are designated as hedging instruments according to the hedging cash flow planned realization date and the planned date of the influence on the result of the hedged cash flow as well as the net fair value which will be recognized in the profit or loss at the realization date:

Planned realization date of hedged cash flows	31/12/2015	31/12/2014
Currency operating exposure		
2015	-	(40)
2016	30	-
Commodity risk exposure		
2015	-	704
2016	643	-
	673	**664**

31.4. Financial risk management

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the risks outlined below relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including commodity risk, foreign currency risk, interest rate risk and other market price risk), credit risk and liquidity risk.
The Group seeks to minimize the effects of these risks by using natural hedging and derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign currency risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess funds. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

31.4.1. Market risks

The Group is exposed to commodity price risk resulting from adverse changes in raw material, mainly crude oil prices. Management addresses these risks by means of a commodity, supplier and client risk management. The Group analyzes the exposure and enters into derivative commodity instruments to minimize the risk associated with the purchase of crude oil.
The Group's activities are exposed to the risks of changes in foreign currency exchange rates, and interest rates. The Group can enter into financial derivative contracts to manage its exposure to interest rate and foreign currency risk.

31.4.1.1. Commodity risks

As part of its operating activity the Group is exposed mainly to the following commodity risks:

- risk of changes in refining and petrochemical margins on the sale of products and Ural/Brent differential fluctuations-hedges on an irregular basis as a part of hedging strategies;
- risk of changes in crude oil and products prices related to the time mismatch between the date of the crude oil and/or products, as well as future sales transactions-identified and hedged in a systematic and regular manner;
- risk of changes in CO_2 emmission allowances prices-hedged on regular basis through periodic verification of numbers of owned and required rights to CO_2 emission with determining the method of balancing of the future shortages or surpluses. In 2015 and in 2014, the Group concluded forward and spot transations for purchase of rights which in the future will be amortized as a settlement of CO_2 emmissions. Valuations of these transactions are no subject to recognition in the financial statements, as purchased emission rights will be used for own purposes;
- risk of changes in crude oil and refinery product prices related to the obligation to maintain mandatory reserves of crude oil and fuels-is not hedged on purpose due to the permanent exposure and non-cash impact on the Group's results.

Sensitivity analysis for commodity risk

Analysis of the influence of potential changes in the book values of financial instruments on the hedging reserve in relation to a hypothetical change in prices of crude oil:

31/12/2015

	Influence on hedging reserve			
	Increase of price by	Influence	Decrease of price by	Influence
Crude oil USD/BBL	5 USD/BBL	(309)	5 USD/BBL	309

31/12/2014

	Influence on hedging reserve			
	Increase of price by	Influence	Decrease of price by	Influence
Crude oil USD/BBL	5 USD/BBL	(218)	5 USD/BBL	218

31.4.1.2. Currency risk

A currency risk arises most significantly from the exposure of trade receivables and liabilities denominated in foreign currencies, and the foreign currency denominated loans and borrowings. Foreign exchange risk regarding trade receivables and receivables is mostly covered by natural hedging of trade and receivables and liabilities denominated in the same currencies. Hedging instruments (forwards, currency swaps) also could be used, to cover significant foreign exchange risk exposure of trade receivables and liabilities not covered by natural hedging.

Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2015

Financial instruments by class	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	114	25	3 695
Cash pool	95	21	3 086
Financial derivatives	-	28	684
Receivables from settled financial derivatives	-	19	481
Cash and cash equivalents	7	2	243
	216	**95**	**8 189**
Financial liabilities			
Cash pool	1	-	30
Trade liabilities	61	117	4 534
Investment liabilities	21	1	575
Financial derivatives	-	1	32
Liabilities from settled financial derivatives	-	3	65
	83	**122**	**5 236**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

31.4.1.2. Currency risk (continued)

Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2014

Financial instruments by class	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	168	23	5 181
Cash pool	1	-	36
Financial derivatives	-	7	165
Cash and cash equivalents	13	-	373
	182	**30**	**5 755**
Financial liabilities			
Cash pool	1	-	33
Trade liabilities	51	112	3 970
Investment liabilities	8	-	225
Financial derivatives	-	7	155
	60	**119**	**4 383**

Sensitivity analysis for currency changes risk

The influence of potential changes in carrying amounts of financial instruments as at 31 December 2015 and as at 31 December 2014 arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency on profit before tax and hedging reserve:

31/12/2015

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/CZK	15%	410	15%	(410)
USD/CZK	15%	437	15%	(437)
		847		**(847)**

		Influence on profit before tax		
	Increase of exchange rate	Influence	Decrease of exchange rate	Influence
EUR/CZK	15%	542	15%	(542)
USD/CZK	15%	315	15%	(315)
		857		**(857)**

		Influence on hedging reserve		
	Increase of exchange rate	Influence	Decrease of exchange rate	Influence
EUR/CZK	15%	(132)	15%	132
USD/CZK	15%	122	15%	(122)
		(10)		**10**

31/12/2014

	Increase of exchange rate	Total influence	Increase of exchange rate	Total influence
EUR/CZK	15%	(419)	15%	419
USD/CZK	15%	(258)	15%	258
		(677)		**677**

		Influence on profit before tax		
	Increase of exchange rate	Influence	Decrease of exchange rate	Influence
EUR/CZK	15%	508	15%	(508)
USD/CZK	15%	(302)	15%	302
		206		**(206)**

		Influence on hedging reserve		
	Increase of exchange rate	Influence	Decrease of exchange rate	Influence
EUR/CZK	15%	(927)	15%	927
USD/CZK	15%	44	15%	(44)
		(883)		**883**

Variations of currency rates described above were calculated based on the historical volatility of particular currency rates and analysts' forecasts.

Sensitivity of financial instruments for currency risk was calculated as the difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/(decreases) in currency rates. In the case of derivative instruments, the influence of currency rate variations on fair value was examined at a constant level of interest rates. The fair value of foreign currency forward contracts is determined based on the discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction price.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

31.4.1.3. Interest rate risk

The Group is exposed to the risk of volatility of cash flows arising from interest rate loans, bank loans and cash pool based on floating interest rates.

Interest rate structure of financial instruments:

	PRIBOR		EURIBOR		LIBOR		Total	
Financial instruments by class	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Financial assets								
Borrowings granted	1	6	-	-	-	-	1	6
Cash pool	-	-	2 571	34	515	2	3 086	36
	1	**6**	**2 571**	**34**	**515**	**2**	**3 087**	**42**
Financial liabilities								
Loans	-	327	-	-	-	-	-	327
Borrowings	-	4 023	-	-	-	-	-	4 023
Cash pool	1	-	30	33	-	-	31	33
	1	**4 350**	**30**	**33**	**-**	**-**	**31**	**4 383**

Sensitivity analysis for interest rate risk

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

	Assumed variation		Influence on profit before tax	
Interest rate	31/12/2015	31/12/2014	2015	2014
PRIBOR	+0.5 pp	+0.5 pp	-	(22)
EURIBOR	+0.5 pp	+0.5 pp	13	-
LIBOR	+0.5 pp	+0.5 pp	3	-
			16	**(22)**

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 2015 and as at 31 December 2014. The influence of interest rates changes was presented on annual basis.

31.4.2. Credit and liquidity risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of impairment losses, estimated by the Group's management based on prior experience and their assessment of the credit status of its customers.
The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.
The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management. Before accepting any new customer, the Group uses its own or an external credit scoring system to assess a potential customer's credit quality and defines credit limits by customer. As at 31 December 2015, none of the customers represented more than 10% of the total balance of the consolidated trade receivables.
Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and, where appropriate, credit guarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.
The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.
Based on the analysis of receivables the counterparties were divided into two groups:

- Group I – counterparties with a good or very good history of cooperation in the current year,
- Group II – other counterparties.

The division of not past due receivables

	31/12/2015	31/12/2014
Group I	8 492	11 143
Group II	767	442
	9 259	**11 585**

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31.4.2. Credit and liquidity risk (continued)

The ageing analysis of receivables past due, but not impaired

	31/12/2015	31/12/2014
Up to 1 month	157	346
From 1 to 3 months	5	14
From 3 to 6 months	16	7
From 6 to 12 months	3	2
Above 1 year	34	41
	215	**410**

Group management believes that the risk of impaired financial assets is reflected by recognition of an impairment. Information about impairment allowances of particular classes of assets is disclosed in notes 19 and 21.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate liquid funds, borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group concluded agreements with banks, based on which may draw loans and bank guarantees. As at 31 December 2015 and as at 31 December 2014 the maximum available credit facilities amounted to CZK 11 631 million and CZK 15 219 million respectively. Unsued part of the credit facilities for bank loans amounted to CZK 8 620 million as at 31 December 2015 and CZK 13 104 million as at 31 December 2014 respectively. The description of the loans and guarantees drawn from credit facilities is presented in notes 25 and 36.

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Maturity analysis of financial liabilities

		31/12/2015			
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	*30.*	31	-	31	31
Trade liabilities	*28.*	7 574	-	7 574	7 574
Investment liabilities	*27.,28.*	1 482	1	1 483	1 483
Financial derivatives	*30.*	32	-	32	32
Liabilities on settled cash flow hedge instrument	*30.*	65	-	65	65
Other	*27.,28.*	360	-	360	360
		9 544	**1**	**9 545**	**9 545**

		31/12/2014			
	Note	Up to 1 year	From 1 to 3 years	Total	Carrying amount
Loans - undiscounted value	*25.*	327	-	327	327
Borrowings - undiscounted value	*25.*	89	4 087	4 176	4 023
Cash pool - undiscounted value	*30.*	33	-	33	33
Finance lease	*27.,28.*	1	-	1	1
Trade liabilities	*28.*	7 404	-	7 404	7 404
Investment liabilities	*27.,28.*	580	1	581	581
Financial derivatives	*30.*	379	-	379	379
Other	*27.,28.*	84	20	104	104
		8 897	**4 108**	**13 005**	**12 852**

31.4.3. Emission allowances risk

The Group monitors the emission allowances granted to the Group under the National Allocation Plan and CO_2 emissions planned. The Group might enter into transactions on the emission allowances market in order to cover shortages or utilize any excess of emission allowances over the required amount.

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OTHER EXPLANATORY NOTES

32. FAIR VALUE MEASUREMENT

31/12/2015

	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Borrowings granted	*18.*	1	1	-	1
Financial derivatives	*22.*	714	714	-	714
		715	**715**	**-**	**715**
Financial liabilities					
Financial derivatives	*30.*	32	32	-	32
		32	**32**	**-**	**32**

31/12/2014

	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Borrowings granted	*18.*	6	6	-	6
Financial derivatives	*22.*	1 075	1 075	-	1 075
		1 081	**1 081**	**-**	**1 081**
Financial liabilities					
Loans	*25.*	327	327	-	327
Borrowings	*25.*	4 023	4 176	-	4 176
Finance lease	*27.,28.*	1	1	-	1
Financial derivatives	*30.*	379	379	-	379
		4 730	**4 883**	**-**	**4 883**

For other classes of financial assets and liabilities presented in note 31.1. fair value represents their carrying amount.

32.1. Methods applied in determining fair values of financial instruments (fair value hierarchy)

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2) and data to valuation, which are not based on observable market data (Level 3).

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves for currencies and commodities quoted on active markets. As compared to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

The fair value of derivative instruments is based on discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction. Forward exchange rate is not modelled as a separate risk factor, but is derived from the relevant spot rate and forward interest rate for foreign currencies in relation to CZK.

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in the fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in the current year statement of profit or loss.

In the year ended 31 December 2015 and the comparative period there were no transfers between Levels 1, 2 and 3 in the Group.

As at 31 December 2015 and as at 31 December 2014, the Group held unquoted shares in entities amounting to CZK 0.5 million, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities nor comparable transactions of the same type of instruments. The above mentioned shares were recognized as financial assets available for sale and measured at acquisition cost less impairment allowances. As at 31 December 2015 there are no binding decisions relating to the means and dates of disposal of those assets.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2015 (in CZK million)

33. LEASE

33.1. The Group as a lessee

Operating lease

At the balance sheet date, the Group is a lessee under non-cancellable operating lease arrangements.
Future minimum lease payments under non-cancellable operating lease arrangements were as follows:

	31/12/2015	31/12/2014
Less than one year	53	56
Between one and five years	133	178
Later than five years	215	236
	401	**470**

The Group leases land, vehicles and offices under operating leases. The vehicle leases typically run for a two year period. Lease payments are adjusted annually to reflect market conditions. None of the leases includes contingent rentals.
Payments recognized as an expense were as follows:

	2015	2014
Non-cancellable operating lease	57	51

Finance lease

At the balance sheet date, the Group is a party to finance lease arrangements as a lessee.
Future minimum lease payments under finance lease arrangements were as follows:

	31/12/2015	31/12/2014
Less than one year	-	1
Between one and five years	-	-
	-	**1**

Present value of minimum lease payments under finance lease arrangements was as follows:

	31/12/2015	31/12/2014
Less than one year	-	1
Between one and five years	-	-
	-	**1**

The difference between the total value of future minimum lease payments and their present value results from discounting of lease payments by the interest rate implicit in the agreement.
All leases are on a fixed repayment basis and no arrangements for contingent rental payments exist. The fair value of the Group's lease obligations approximates their carrying amount. All lease obligations are denominated in CZK.
The carrying amount of leased assets was as follows:

	31/12/2015	31/12/2014
Machinery and equipment	181	208
Vehicles and other	50	68
	231	**276**

33.2. The Group as a lessor

As at 31 December 2015 and as at 31 December 2014 the Group did not possess any financial or operating lease agreements as a lessor.

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

The total value of investment expenditures including borrowing costs amounted to CZK 3 344 million as at 31 December 2015 and CZK 2 007 million as at 31 December 2014, including environmental expenditures in amount of CZK 305 million and CZK 175 million, respectively.
As at 31 December 2015 the value of future commitments resulting from contracts signed to this date amounted to CZK 11 121 million (31 December 2014: CZK 459 million).

35. CONTINGENT ASSETS AND LIABILITIES

35.1. Contingent assets

Steam cracker unit accident

As a consequence of the steam cracker unit accident which took place at the Chempark Záluží in Litvínov on 13 August 2015, the Group recognized in the 3rd quarter 2015 an estimated impairment charge in the amount of CZK 597 million in relation to damaged assets. The amount of the impairment charge may be changed up to the completion of technical works on the site.

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 estimates made at the end of 2015, it should be in a position to recover repair costs estimated at approximately CZK 4.1 billion, as well as recoverable lost business profits estimated at CZK 2.4 billion and other operating costs incurred in connection with the fire amounting to approximately CZK156 million.

During 2015 the Group has received advance payments for insurance compensation in the amount of CZK 276 million. Advance payments are presented in the Statement of financial position under Trade and other liabilities.

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 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 325 000 thousand.

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 Ústi 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 Ústi 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 303 469 thousand with 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 the 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.

35.2. Contingent liabilities

Purchase of shares of PARAMO, a.s.

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

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

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

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

Claims regarding award for employees' intellectual work

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

An experts´ valuation ordered by the court confirmed the amount of the reward payable to the employees in the amount of CZK 1.6 million. One of the employees accepted payment of his share in the award confirmed by the expert in the expert valuation ordered by the court. The Company paid the award to the second employee based on the expert opinion in January 2016.

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35.2. Contingent liabilities (continued)

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

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

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

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

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

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 31 December 2015, 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 on storage and transportation of crude oil via the IKL and Družba pipelines came into force as of 1 January 2016. ČESKÁ RAFINÉRSKÁ, a.s, and MERO ČR, a.s. further extended the deadline for their negotiations regarding a new transportation tariff for supplies through the Družba and IKL pipelines until 31 March 2016.

The Group management does not expect any impact on the business activities caused by lack of agreement over the new transportation tariff for supplies through the Družba and IKL pipelines with MERO ČR, a.s. The effect on the financial statements is currently not measurable.

36. GUARANTEES AND SECURITIES

Guarantees

Based on the Group's request the bank guarantees relating to the security of customs debt, excise tax at customs offices and other purposes were issued. The total balance of guarantees related to excise tax amounted to CZK 2 415 million as at 31 December 2015 (31 December 2014: CZK 1 521 million) and to other purposes amounted to CZK 37 million (31 December 2014: CZK 31 million).

The Group is the beneficiary of guarantees amounted CZK 621 million as at 31 December 2015 (31 December 2014: CZK 1 464 million).

Past environmental liabilities

The Group is the recipient of funds provided by the National Property Fund of the Czech Republic for settling environmental liabilities relating to historic environmental damage. Funds up to CZK 14 753 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 31/12/2015	Unused funds as at 31/12/2015
UNIPETROL, a.s. / premises of UNIPETROL RPA, s.r.o.	6 012	4 014	1 998
UNIPETROL, a.s. / premises of SYNTHOS Kralupy a.s.	4 244	51	4 193
BENZINA s.r.o.	1 349	476*	873
PARAMO, a.s. / premises in Pardubice	1 241	512	729
PARAMO, a.s. / premises in Kolín	1 907	1 762	145
	14 753	**6 815**	**7 938**

	Total amount of funds to be provided	Used funds as at 31/12/2014	Unused funds as at 31/12/2014
UNIPETROL, a.s. / premises of UNIPETROL RPA, s.r.o.	6 012	3 868	2 144
UNIPETROL, a.s. / premises of SYNTHOS Kralupy a.s.	4 244	51	4 193
BENZINA s.r.o.	1 349	471*	878
PARAMO, a.s. / premises in Pardubice	1 241	500	741
PARAMO, a.s. / premises in Kolín	1 907	1 728	179
	14 753	**6 618**	**8 135**

* Without the costs of the already completed rehabilitation of the petrol stations network of the former K-Petrol 1995-1999 of CZK 40 million and clean-up costs spent before 1997 in amount of approximately of CZK 500 million.

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37. RELATED PARTY TRANSACTIONS

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

In 2015 and in 2014 there were no transactions concluded by the Group with related parties on other than arm's length terms.

37.2. Transactions with key management personnel

In 2015 and in 2014 the Group companies did not grant to key management personnel and their relatives any advances, borrowings, loans, guarantees and commitments or other agreements obliging them to render services to Group companies and related parties. As at 31 December 2015 and as at 31 December 2014 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.

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

As at 31 December 2015 and as at 31 December 2014 members of the key management personnel of the parent company and the Group companies submitted statements that they have not concluded any transaction with related parties.

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

Parent and ultimate controlling party
During 2015 and 2014 a majority (62.99%) of the Company's shares were hold by POLSKI KONCERN NAFTOWY ORLEN S.A.

2015	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Sales	532	882	7 641
Purchases	63 072	1 159	1 629
Finance income, including	-	150	-
dividends	-	150	-
Finance costs	30	-	11

31/12/2015	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Current financial assets	-	-	3 086
Trade and other receivables	190	1	541
Trade and other liabilities, including loans	2 580	4	95

2014	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Sales	1 158	2 265	7 958
Purchases	77 075	3 070	2 839
Finance income, including	-	110	-
dividends	-	110	-
Finance costs	86	-	30

31/12/2014	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Non-current receivables	-	6	-
Other current financial assets	-	-	36
Trade and other receivables	112	292	570
Trade and other liabilities, including loans	6 272	358	211

38. REMUNERATION PAID AND DUE OR POTENTIALLY DUE TO THE BOARD OF DIRECTORS, THE SUPERVISORY BOARD AND OTHER MEMBERS OF KEY EXECUTIVE PERSONNEL OF THE PARENT COMPANY AND THE GROUP COMPANIES

The Board of Direcors's, the Supervisory Board's and other key executive personnel's remuneration includes short-term employee benefits, retirement benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

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

	2015		2014	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current year	212	1	213	7
Paid for previous year	42	2	46	2
Potentially due to be paid in the following year	42	1	43	2

Further detailed information regarding remuneration of key management personnel is included in note 9.3.

38.2. Bonus system for key executive personnel of the Group

In 2015 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The regulations applicable to the Management Board (members of Board of Directors and Executives), directors directly reporting to the Management Boards of entities and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Group. The goals so-said are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to the achieved results generated by the Group.

39. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

On 30 December 2015 BENZINA, s.r.o. concluded an agreement with OMV to acquire 68 of its filling stations in the Czech Republic. Completion of the transaction is subject to the fulfilment of certain pre-conditions, among others, obtaining the necessary approval from the antitrust authorities.

The Chairman of Supervisory Board of UNIPETROL, a.s., Mr. Dariusz Jacek Krawiec submitted a letter of resignation from his office of member of the Supervisory Board of UNIPETROL, a.s., on 21 December 2015 with the effect on 21 January 2016.

The Supervisory Board of UNIPETROL, a.s. on the meeting held on 13 January 2016 re-elected Mr. Mirosław Kastelik to office of Member of the Board of Directors of Unipetrol with the effect on 6 February 2016.

Mr. Rafał Sekuła resigned from his office of a member of the Supervisory Board of UNIPETROL, a.s. on 11 February 2016 with the effect on 11 March 2016.

The Group's management is not aware of any other events that have occurred since the end of the reporting period that would have any material impact on the financial statements as at 31 December 2015.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were authorized by the Board of Directors meeting held on 15 March 2016.

Signature of statutory representatives

Marek Świtajewski

Marek Świtajewski — Chairman of the Board of Directors

Mirosław Kastelik — Member of the Board of Directors