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 2016

Index

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

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

OTHER EXPLANATORY NOTES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (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	2016	2015
Statement of profit or loss			
Revenues	4.	87 813	108 907
Cost of sales	5.1.	(83 226)	(96 144)
Gross profit on sales		**4 587**	**12 763**
Distribution expenses	5.2.	(2 563)	(2 140)
Administrative expenses	5.2.	(1 468)	(1 302)
Other operating income	6.1.	10 331	616
Other operating expenses	6.2.	(990)	(1 221)
Profit from operations		**9 897**	**8 716**
Finance income	7.1.	685	1 260
Finance costs	7.2.	(554)	(1 307)
Net finance income/(costs)		**131**	**(47)**
Profit before tax		**10 028**	**8 669**
Tax expense	8.	(2 053)	(1 633)
Net profit		**7 975**	**7 036**
Other comprehensive income			
items which will not be reclassified into profit or loss		**(2)**	**7**
Actuarial gains and losses		*(2)*	*9*
Deferred tax		*-*	*(2)*
items which will be reclassified into profit or loss under certain conditions		**(807)**	**4**
Hedging instruments		*(998)*	*9*
Foreign exchange differences on subsidiaries from consolidation		*1*	*(3)*
Deferred tax		*190*	*(2)*
		(809)	**11**
Total net comprehensive income		**7 166**	**7 047**
Net profit attributable to		**7 975**	**7 036**
equity owners of the parent		*7 975*	*7 036*
non-controlling interest		*-*	*-*
Total comprehensive income attributable to		**7 166**	**7 047**
equity owners of the parent		*7 166*	*7 047*
non-controlling interest		*-*	*-*
Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share)		43.98	38.80

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-53.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

Consolidated statement of financial position

	Note	31/12/2016	31/12/2015
ASSETS			
Non-current assets			
Property, plant and equipment	10.	30 080	19 398
Investment property	11.	432	433
Intangible assets	12.	1 492	1 514
Financial assets available for sale	13.	2	1
Deferred tax assets	8.2.	143	1 204
Other non-current assets	14.	121	25
		32 270	**22 575**
Current assets			
Inventories	16.	13 725	10 390
Trade and other receivables	17.	16 175	11 258
Other financial assets	18.	3 416	4 281
Current tax receivables	8.	133	107
Cash and cash equivalents	19.	2 933	5 888
		36 382	**31 924**
Total assets		**68 652**	**54 499**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20.1.	18 133	18 133
Statutory reserves	20.2.	33	34
Hedging reserve	20.3.	(263)	545
Revaluation reserve	20.4.	10	10
Foreign exchange differences on subsidiaries from consolidation	20.5.	16	15
Retained earnings	20.6.	23 701	16 781
Total equity attributable to equity owners of the parent		**41 630**	**35 518**
Non-controlling interest		**(9)**	**(9)**
Total equity		**41 621**	**35 509**
LIABILITIES			
Non-current liabilities			
Provisions	22.	997	678
Deferred tax liabilities	8.2.	859	809
Other non-current liabilities	23.	170	166
		2 026	**1 653**
Current liabilities			
Trade and other liabilities	24.	22 984	15 707
Loans, borrowings	21.	1	-
Current tax liabilities	8.	445	602
Provisions	22.	652	892
Deferred income	25.	8	8
Other financial liabilities	26.	915	128
		25 005	**17 337**
Total liabilities		**27 031**	**18 990**
Total equity and liabilities		**68 652**	**54 499**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-53.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							Non-controlling interest	Total equity
	Share capital	Statutory reserves	Hedging reserve	Revaluation reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total		
Note	20.1.	20.2.	20.3.	20.4.	20.5.	20.6.			
01/01/2016	18 133	34	545	10	15	16 781	35 518	(9)	35 509
Net profit	-	-	-	-	-	7 975	7 975	-	7 975
Items of other comprehensive income	-	-	(808)	-	1	(2)	(809)	-	(809)
Total net comprehensive income	**-**	**-**	**(808)**	**-**	**1**	**7 973**	**7 166**	**-**	**7 166**
Dividends	-	-	-	-	-	(1 001)	(1 001)	-	(1 001)
Equity resulting from acquisition under common control *	-	-	-	-	-	(53)	(53)	-	(53)
Transfer of statutory reserves to retained earnings	-	(1)	-	-	-	1	-	-	-
31/12/2016	**18 133**	**33**	**(263)**	**10**	**16**	**23 701**	**41 630**	**(9)**	**41 621**
01/01/2015	18 133	2 703	538	10	18	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**	**10**	**15**	**16 781**	**35 518**	**(9)**	**35 509**

* Further described in note 36.2

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-53.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

Consolidated statement of cash flows

	Note	2016	2015
Cash flows - operating activities			
Profit before tax		**10 028**	**8 669**
Adjustments for:			
Depreciation and amortisation	5.2.	2 031	1 927
Foreign exchange (gain)/loss		(1)	(7)
Interest and dividends, net		2	31
(Profit)/Loss on investing activities*		(2 294)	523
Change in provisions		457	985
Gain on bargain purchase		-	(429)
Change in receivables and liabilities from insurance		(1 345)	276
Other adjustments including change in financial instruments and deferred income		234	(262)
Change in working capital	20.7.3.	(183)	3 368
inventories		*(2 843)*	*234*
receivables		*(1 755)*	*3 827*
liabilities		*4 415*	*(693)*
Income tax (paid)		(933)	(150)
Net cash from operating activities**		**7 996**	**14 931**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(10 133)	(3 357)
Disposal of property, plant and equipment and intangible assets		97	11
Acquisition of Spolana	36.2.	(28)	-
Cash and cash equivalents acquired in acquisition of Spolana		84	-
Acquisition of share in Česká rafinérská		-	(661)
Cash and cash equivalents acquired in acquisition of share in Česká rafinérská		-	426
Settlement of financial derivatives		436	286
Proceeds/(outflows) from loans granted		(200)	4
Outflows from cash pool assets		(49)	(3 054)
Other		4	5
Net cash used in investing activities		**(9 789)**	**(6 340)**
Cash flows - financing activities			
Proceeds/(outflows) from loans and borrowings		1	(4 329)
Proceeds/(outflows) from cash pool liabilities		(171)	1
Interest paid		(2)	(49)
Dividends paid		(986)	-
Other		(7)	(8)
Net cash used in financing activities		**(1 165)**	**(4 385)**
Net increase/(decrease) in cash and cash equivalents		**(2 958)**	**4 206**
Effect of exchange rate changes		3	-
Cash and cash equivalents, beginning of the year		5 888	1 682
Cash and cash equivalents, end of the year	19.	**2 933**	**5 888**

* (Profit)/Loss on investing activities contain mainly recognition and reversal of impairment allowances of property plant and equipment and intangible assets in amount of CZK (1 928) million in 2016 and CZK 749 million in 2015

** The Group changed the structure of particular positions presentation within the Consolidated statement of cash flows from operating activities in 2015. Further information is included in note 33.3.23.

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-53.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

1. DESCRIPTION OF THE COMPANY

Establishment of the Company

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

Statutory and supervisory bodies

Members of the statutory and supervisory bodies of UNIPETROL, a.s. as at 31 December 2016 were as follows:

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

Changes in the Board of Directors in 2016 were as follows:

Position	Name	Change	Date of change
Member/Vice-chairman	Mirosław Kastelik	Re-elected to the office	6 February 2016 (vice-chairman with the effect as of 1 July 2016)
Member	Andrzej Kozłowski	Re-elected to the office	9 April 2016
Vice-chairman	Piotr Wielowieyski	Recalled from the office	11 May 2016
Member	Robert Dominik Małłek	Elected to the office	11 May 2016
Member/Vice-chairman/Chairman	Andrzej Mikołaj Modrzejewski	Elected to the office	12 May 2016 (vice-chairman with the effect as of 25 May 2016, chairman with the effect as of 2 July 2016)
Chairman	Marek Świtajewski	Recalled from the office	1 July 2016
Member/Vice-chairman	Krzysztof Zdziarski	Elected to the office	2 July 2016
Member	Martin Durčák	Resigned from the office	30 November 2016 with the effect as of 31 December 2016

Changes in the Supervisory Board in 2016 were as follows:

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations approved by the International Accounting Standards Board (IASB) which were adopted by the European Union (EU) and were in force as at 31 December 2016. 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 2016, results of its operations and cash flows for the year ended 31 December 2016.

The consolidated financial statements of the Group for the year ended 31 December 2016 include the Company and its subsidiaries and the Group's interest in jointly controlled entities.

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

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

Applied accounting policies are listed in note 33.3.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

3. OPERATING SEGMENTS

3.1. Financial results and investment expenditures by operating segments

2016	Note	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	4.	78 543	9 105	165	-	87 813
Transactions with other segments		7 392	61	688	(8 141)	-
Total segment revenue		85 935	9 166	853	(8 141)	87 813
Operating expenses		(85 961)	(8 526)	(911)	8 141	(87 257)
Other operating income	6.1.	10 291	23	25	(8)	10 331
Other operating expenses	6.2.	(901)	(24)	(73)	8	(990)
Segment operating profit/(loss)		**9 364**	**639**	**(106)**	**-**	**9 897**
Net finance income	7.					131
Profit before tax						**10 028**
Tax expense	8.					(2 053)
Net profit						**7 975**
Depreciation and amortisation	10.,12.	**(1 662)**	**(318)**	**(51)**	**-**	**(2 031)**
EBITDA*		**11 026**	**957**	**(55)**	**-**	**11 928**
CAPEX**	10.,11,.12.	**10 247**	**472**	**69**	**-**	**10 788**

2015	Note	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
Total external revenues	4.	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	6.1.	582	11	23	-	616
Other operating expenses	6.2.	(1 133)	(22)	(66)	-	(1 221)
Segment operating profit/(loss)		**8 362**	**501**	**(147)**	**-**	**8 716**
Net finance costs	7.					(47)
Loss before tax						**8 669**
Tax expense	8.					(1 633)
Net profit						**7 036**
Depreciation and amortisation	10.,12.	**(1 568)**	**(328)**	**(31)**	**-**	**(1 927)**
EBITDA*		**9 930**	**829**	**(116)**	**-**	**10 643**
CAPEX**	10.,11.,12.	**2 989**	**222**	**133**	**-**	**3 344**

* Operating profit/(loss) + depreciation and amortisation

** Additions to non-current assets (investment expenditures in property, plant and equipment + investment expenditures in internally generated intangible assets + investment expenditures in intangible assets - investment expenditures in CO_2 emission allowances)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

3.2. Other segment data

3.2.1. Assets by operating segments

	31/12/2016	31/12/2015
Downstream Segment	54 841	37 652
Retail Segment	6 043	5 597
Segment assets	**60 884**	**43 249**
Corporate Functions	8 026	12 091
Adjustments	(258)	(841)
	68 652	**54 499**

3.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	2016	2015	2016	2015
Downstream Segment	(668)	(1 541)	2 125	92
Retail Segment	(6)	(19)	5	3
Impairment allowances by segments	**(674)**	**(1 560)**	**2 130**	**95**
Corporate Functions	(1)	-	-	-
Impairment allowances in operating activities	**(675)**	**(1 560)**	**2 130**	**95**
	(675)	**(1 560)**	**2 130**	**95**

The impairment allowances of assets by segment include items recognized in the consolidated statement of profit or loss and other comprehensive income i.e. receivables allowances, inventories allowances, non-current assets impairment allowances.

Impairment allowances of property, plant and equipment and intangible assets

	Recognition		Reversal	
	2016	2015	2016	2015
Downstream Segment	(97)	(732)	1 923	17
Retail Segment	(4)	(17)	5	3
Impairment allowances by segments	**(101)**	**(749)**	**1 928**	**20**
	(101)	**(749)**	**1 928**	**20**

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

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

4. REVENUES

	2016	2015
Sales of finished goods	68 181	98 433
Sales of services	2 686	3 754
Revenues from sales of finished goods and services, net	**70 867**	**102 187**
Sales of merchandise	16 213	6 243
Sales of raw materials	733	477
Revenues from sales of merchandise and raw materials, net	**16 946**	**6 720**
	87 813	**108 907**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

4.1. Revenues by assortments

	2016	2015
Downstream Segment	**78 543**	**99 314**
Light distillates	17 394	20 676
Medium distillates	36 794	40 116
Heavy fractions	2 782	4 587
Monomers	1 195	3 486
Polymers	7 020	15 371
Aromas	568	2 513
Fertilizers	257	-
Plastics	1 314	800
Others	9 110	8 446
Services	2 109	3 319
Retail Segment	**9 105**	**9 491**
Light distillates	2 982	3 089
Medium distillates	5 683	6 045
Others	21	24
Services	419	332
Corporate Functions	**165**	**102**
	87 813	**108 907**

4.2. Revenues by geographical division

	2016	2015
Czech Republic	59 833	69 358
Germany	8 421	14 366
Poland	2 760	1 750
Slovakia	6 526	7 694
Austria	1 786	4 549
Hungary	4 387	5 912
Other countries	4 100	5 278
	87 813	**108 907**

No other country than the Czech Republic and Germany accounted for more than 10% of consolidated revenues. Revenues are based on the country in which the customer is located.

4.3. Information about major customers

Revenues from 1 individual customer in the amount of CZK 10 325 million represented more than 10% of the Group's total revenues of the downstream segment (2015: CZK 11 795 million).

5. OPERATING EXPENSES

5.1. Cost of sales

	2016	2015
Cost of finished goods and services sold	(66 412)	(89 590)
Cost of merchandise and raw materials sold	(16 814)	(6 554)
	(83 226)	**(96 144)**

5.2. Cost by nature

	2016	2015
Materials and energy	(60 257)	(79 958)
Cost of merchandise and raw materials sold	(16 814)	(6 554)
External services	(5 686)	(7 423)
Employee benefits	(3 019)	(2 617)
Depreciation and amortization	(2 031)	(1 927)
Taxes and charges	(344)	(425)
Other	(1 695)	(1 631)
	(89 846)	**(100 535)**
Change in inventories	1 410	(355)
Cost of products and services for own use	189	83
Operating expenses	**(88 247)**	**(100 807)**
Distribution expenses	2 563	2 140
Administrative expenses	1 468	1 302
Other operating expenses	990	1 221
Cost of sales	**(83 226)**	**(96 144)**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

5.3. Employee benefits costs

	2016	2015
Payroll expenses	(2 163)	(1 885)
Future benefits expenses	(14)	(7)
Social security expenses	(707)	(617)
Other employee benefits expenses	(135)	(108)
	(3 019)	**(2 617)**

2016	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Wages and salaries	(1 970)	(141)	(1)	(44)	(7)	(2 163)
Social and health insurance	(663)	(35)	-	(7)	(2)	(707)
Social expense	(113)	(17)	-	(5)	-	(135)
Change of employee benefits provision	(14)	-	-	-	-	(14)
	(2 760)	**(193)**	**(1)**	**(56)**	**(9)**	**(3 019)**
Number of employees average per year*						4 178
Number of employees as at balance sheet day*						4 566

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*						3 827
Number of employees as at balance sheet day*						3 820

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

6. OTHER OPERATING INCOME AND EXPENSES

6.1. Other operating income

	2016	2015
Penalties and compensations earned	7 965	61
Reversal of impairment allowances of property, plant and equipment and intangible assets	1 928	20
Revaluation of provision to CO_2 consumption	207	-
Profit on sale of non-current non-financial assets	91	9
Revaluation of investment properties	48	6
Reversal of provisions	27	13
Reversal of receivables impairment allowances	1	-
Gain on bargain purchase	-	429
Other	64	78
	10 331	**616**

In 2016 the Group recognized compensation from insurance in the amount of CZK 7 922 million (in connection with the Steam cracker accident. Further information regarding the insurance claim and recoveries is presented in note 35.1.

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

The Group reversed part of the provision created in 2015 in respect of CO_2 allowances consumption due to lower price of the CO_2 allowances in 2016. Detailed information is presented in note 12.4.

The line „Gain on bargain purchase" relates to the settlement of ČESKÁ RAFINÉRSKÁ, a.s. shares acquisition in 2015.

6.2. Other operating expenses

	2016	2015
Penalties, damages and compensation	(617)	(156)
Recognition of provisions	(159)	(196)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(101)	(749)
Revaluation of investment properties	(34)	(1)
Loss on sale of non-current non-financial assets	(31)	(27)
Recognition of receivables impairment allowances	(15)	(81)
Donations	(7)	(6)
Other	(26)	(5)
	(990)	**(1 221)**

The other operating expenses included under Penalties, damages and compensation incurred in connection with the accident of the steam cracker unit which took place at the Chempark Záluží in Litvínov on 13 August 2015, amounted to CZK 490 million in 2016 and CZK 156 million in 2015 and in connection with the accident on Fluid Catalytic Cracking unit which occurred on 17 May 2016 at the Kralupy refinery amounted to CZK 121 million.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

6.2. Other operating expenses (continued)

In 2016 in connection with closing of the mercury electrolysis unit in Neratovice and based on new expert calculation of estimated costs of liquidation from December 2016 the Group recognized the provision in the amount of CZK 130 million.

Following the decision of the Czech inspection of environment, the Group recognized in the year 2015 a provision in amount of CZK 160 million in respect of remediation of historical ecological contamination in the Kralupy location.

The information regarding the impairment charge recognized in 2016 is presented in note 15. In 2015 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 year 2015 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.

7. FINANCE INCOME AND COSTS

7.1. Finance income

	2016	2015
Settlement and valuation of financial instruments	667	1 229
Interest	17	30
Other	1	1
	685	**1 260**

7.2. Finance costs

	2016	2015
Net foreign exchange loss	(294)	(273)
Settlement and valuation of financial instruments	(231)	(968)
Interest	(2)	(32)
Other	(27)	(34)
	(554)	**(1 307)**

8. TAX EXPENSE

	2016	2015
Tax expense in the statement of profit or loss		
Current tax	(752)	(709)
Deferred tax	(1 301)	(924)
	(2 053)	**(1 633)**
Deferred tax recognized in other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	190	(2)
Actuarial gains or losses	-	(2)
	190	**(4)**
	(1 863)	**(1 637)**

Domestic tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2016 (2015: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using the tax rate approved for the years 2017 and forward i.e. 19%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2016	2015
Profit for the year	7 975	7 036
Total tax expense	(2 053)	(1 633)
Profit before tax	10 028	8 669
Income tax using domestic income tax rate	(1 905)	(1 647)
Effect of tax rates in foreign jurisdictions	8	9
Non-deductible expenses	(168)	(87)
Tax exempt income	100	15
Changes in estimates related to prior periods	-	(43)
Change in not recognized deferred tax assets	5	134
Under (over) provided in prior periods	(65)	(5)
Gain on bargain purchase	-	82
Other differences	(28)	(91)
Total tax expense	**(2 053)**	**(1 633)**
Effective tax rate	**(20.5%)**	**(18.84%)**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

8.2. Deferred tax

Deferred taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19% in 2016 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:

	31/12/2015	Deferred tax recognized in statement of profit or loss	Deferred tax recognized in other comprehensive income	Transfers	31/12/2016
Deferred tax assets					
Property, plant and equipment	1 126	(737)	-	(92)	297
Provisions	311	(49)	-	(6)	256
Unused tax losses carried forward	60	124	-	(4)	180
Derivative instruments	-	-	62		62
Inventories	-	(73)	-	102	29
Other	93	(49)	-	63	107
	1 590	**(784)**	**62**	**63**	**931**
Deferred tax liabilities					
Property, plant and equipment	(1 066)	(572)	-	-	(1 638)
Inventories	63	-	-	(63)	-
Finance lease	(11)	2	-	2	(7)
Derivative instruments	(126)	-	128	(2)	-
Other	(55)	53	-	-	(2)
	(1 195)	**(517)**	**128**	**(63)**	**(1 647)**
	395	**(1 301)**	**190**	**-**	**(716)**

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 2016 deferred tax assets and liabilities amounted to CZK 143 million (31 December 2015: CZK 1 204 million) and CZK 859 million (31 December 2015: CZK 809 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 2017 - 2021.

In the calculation of deferred tax assets as at 31 December 2016 the Group has not recognized tax losses carried forward in amount of CZK 1 964 million due to the unpredictability of future taxable income (31 December 2015: CZK 1 221 million). These unrecognized tax losses will expire by the end of 2021.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION

	2016	2015
Czech Republic	31 995	21 336
Germany	1	1
Slovakia	8	8
	32 004	**21 345**

Non-current assets by geographical location consist of property, plant and equipment, intangible assets and investment property.
No other country than the Czech Republic accounted for more than 10% of consolidated assets.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

10. PROPERTY, PLANT AND EQUIPMENT

10.1. Changes in property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2016						
Net book value						
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**
increase/(decrease) net						
Investment expenditures	25	573	3 221	396	6 401	**10 616**
Depreciation	-	(478)	(1 205)	(228)	-	**(1 911)**
Change in Group structure*	246	1 190	1 401	5	116	**2 958**
Impairment allowances	(134)	(524)	240	146	(42)	**(314)**
Reclassifications	(2)	82	(35)	-	14	**59**
Sale	-	(16)	(68)	(42)	(5)	**(131)**
Liquidation	-	(3)	(396)	(120)	-	**(519)**
Government grants - received, settled	-	1	13	-	-	**14**
Other increases/(decreases)	-	(9)	(73)	-	(8)	**(90)**
31/12/2016						
Net book value	**956**	**9 609**	**10 255**	**676**	**8 584**	**30 080**
Gross book value	1 442	28 911	50 125	2 907	8 738	**92 123**
Accumulated depreciation and impairment allowances	(486)	(19 057)	(39 632)	(2 230)	(154)	**(61 559)**
Government grants	-	(245)	(238)	(1)	-	**(484)**
	956	**9 609**	**10 255**	**676**	**8 584**	**30 080**
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**

* Further information is presented in note 36.2.

Material additions

In 2016 the major additions to non-current assets were the capitalized repairs of the steam cracker unit following to the accident in 2015 in the amount of CZK 3 164 million, partial construction of the new PE3 unit with a value of CZK 2 863 million and capitalized spendings connected with periodical turnaround in Litvínov premises in amount of CZK 1 250 million.

Borrowing costs

According to IAS 23, the Group capitalizes those borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in the year ended 31 December 2016 amounted to less than CZK 1 million (31 December 2015: less than CZK 1 million).

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2016	351	5 676	7 811	259	121	14 218
Recognition	-	72	21	-	8	101
Reversal	-	(735)	(1 192)	-	(1)	(1 928)
Disposal	-	(19)	(449)	(152)	-	(620)
Reclassifications	-	18	35	1	(58)	(3)
Change in Group structure*	134	1 187	1 345	5	93	2 765
Other decreases	-	-	-	-	(9)	(9)
	485	**6 199**	**7 572**	**113**	**154**	**14 522**
increase/(decrease) net	134	524	(240)	(146)	42	314
01/01/2015	351	5 435	7 177	303	340	13 606
Recognition	-	93	531	46	72	742
Reversal	-	(4)	(15)	-	-	(19)
Disposal	-	(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

* Further information is presented in note 36.2.

Detailed information regarding impairment recognized in 2016 is presented in note 15.

The Group reviews useful lives of property, plant and equipment and introduces adjustments to depreciation charges prospectively according to its accounting policy. Should the depreciation policy from the previous year be applied, the depreciation expense for 2016 would be higher by CZK 81 million.

10.3. Other information on property, plant and equipment

	31/12/2016	31/12/2015
The gross book value of all fully depreciated property, plant and equipment still in use	17 822	12 503

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 assets financed from the grant was CZK 29 million as at 31 December 2016 (31 December 2015: CZK 32 million).

The Group obtained in 2010 a support grant from the European Regional Development Fund (ERDF) and the Czech national budget for the new research and education centre UniCRE construction for CZK 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 assets financed from the grant was CZK 386 million (in 2015: CZK 417 million).

11. INVESTMENT PROPERTY

	2016	2015
At the beginning of the year	433	419
Reclassification to property, plant and equipment	(90)	-
Transfer from property, plant and equipment	4	9
Fair value measurement	14	5
increase	25	5
decrease	(11)	-
Change in Group structure*	71	-
	432	**433**

* Further information is presented in note 36.2.

Rental income amounted to CZK 55 million in 2016 (2015: CZK 48 million). Operating costs related to investment property amounted to CZK 5 million in 2016 (2015: CZK 4 million).

11.1. Fair value of investment property measurement

Investment property as at 31 December 2016 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 8.52% was used for the calculation of the investment property fair value.

			Fair value hierarchy	
	Carrying amount	Fair value	Level 2	Level 3
31/12/2016	432	432	116	316
31/12/2015	433	433	116	317

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

11.2. 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:

	Increase by	Level 3 Total impact	Decrease by	Total impact
Change in discount rate	+1 pp	(17)	-1 pp	17

12. INTANGIBLE ASSETS

As at 31 December 2016 the net book value of internally generated intangible assets amounted to CZK 67 million (31 December 2015: CZK 65 million), which included studies under development in amount of CZK 49 million (31 December 2015: CZK 43 million). In 2016 investment expenditures amounted CZK 14 million (2015: CZK 27 million), amortization CZK 12 million (2015: CZK 12 million).

12.1. Changes in intangible assets

	Software	Licences, patents and trade marks	Goodwill	Assets under development	CO_2 emission allowance	Other intangible assets	Total
01/01/2016							
Net book value							
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**
increase/(decrease) net							
Investment expenditures	35	-	-	98	199	0	**332**
Amortization	(37)	(67)	-	-	-	(4)	**(108)**
Change in Group structure*	18	1	-	1	-	7	**27**
Impairment allowances	(21)	(8)	-	17	6	8	**2**
Reclassifications	21	10	-	(14)	-	(8)	**9**
Liquidation	-	-	-	-	-	(8)	**(8)**
Government grants - received, settled	2	-	-	-	-	-	**2**
Other increases/(decreases)	(2)	-	-	-	(278)	-	**(280)**
31/12/2016							
Net book value	**116**	**585**	**-**	**516**	**198**	**10**	**1 425**
Gross book value	1 263	2 044	51	526	208	383	**4 475**
Accumulated depreciation and impairment allowances	(1 129)	(1 459)	(51)	(10)	(10)	(373)	**(3 032)**
Government grants	(18)	-	-	-	-	-	**(18)**
	116	**585**	**-**	**516**	**198**	**10**	**1 425**
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**

* Further information is presented in note 36.2.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

12.2. Changes in impairment allowances of intangible assets

	Software	Licences, patents and trade marks	Goodwill	Assets under development	CO_2 emission allowance	Other intangible assets	Total
01/01/2016	87	216	51	27	15	43	439
Disposal	-	-	-	-	(6)	(8)	(14)
Reclassifications	3	7	-	(18)	-	(7)	(15)
Change in Group structure*	18	1	-	1	-	7	27
	108	**224**	**51**	**10**	**9**	**35**	**437**
increase/(decrease) net	21	8	-	(17)	(6)	(8)	(2)
01/01/2015	78	212	51	29	21	43	434
Recognition	3	4	-	-	-	-	7
Reversal	-	-	-	(1)	-	-	(1)
Disposal	-	-	-	-	(6)	-	(6)
Reclassifications	6	-	-	(1)	-	-	5
	87	**216**	**51**	**27**	**15**	**43**	**439**
increase/(decrease) net	9	4	-	(2)	(6)	-	5

Further information is presented in note 36.2.

Recognition and reversal of impairment allowances for intangible assets are recognized in other operating activities. Detailed information regarding impairment recognized in 2016 is presented in note 15.

12.3. Other information on intangible assets

	31/12/2016	31/12/2015
The gross book value of all fully depreciated intangible assets still in use	1 416	1 437
The net book value of intangible assets with indefinite useful life	10	10

The increase of assets under development in 2016 includes AspenTech licence of CZK 63 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 2016 would be higher by CZK 6 million.

12.4. CO_2 emission allowances

Based on the Czech National Allocation Scheme for the years 2013-2020 the Group was to obtain CO_2 emission allowances free of charge. During the year ended 31 December 2016 the Group obtained CO_2 emission allowances in the amount of 2 147 937 tons.

	Value	Quantity (in tonnes)
01/01/2016	272	1 363 716
Granted free of charge for 2016	290	2 147 937
Settlement for 2015	(568)	(3 766 667)
Purchase	199	1 503 220
Impairment allowances	6	-
	199	**1 248 206**
Estimated annual consumption 2016	553	3 517 490

As at 31 December 2016 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 6.54 (31 December 2015: EUR 8.22).
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.

13. FINANCIAL ASSETS AVAILABLE FOR SALE

	31/12/2016	31/12/2015
Unquoted shares		
Orlen Holding Malta LTD	1	1
TIU-PLAST a.s.	1	-
	2	**1**

The Group had equity investments of CZK 1.6 million as at 31 December 2016 (31 December 2015: 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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

14. OTHER NON-CURRENT ASSETS

	31/12/2016	31/12/2015
Loans granted	-	1
Other non-current receivables	20	20
Financial assets	**20**	**21**
Prepayments	101	4
Non-financial assets	**101**	**4**
	121	**25**

The non-current prepayments in amount of CZK 70 million as at 31 December 2016 related to the purchase of filling stations.

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

As at 31 December 2016 in accordance with International Accounting Standard 36 "Impairment of assets" the Group has verified the existence of impairment indicators in relation to Cash Generating Units (CGUs) i.e. the smallest identifiable group of assets that generate cash inflows largely independent from other assets. In the Group CGUs are established at the level of operating activities: refining, petrochemical and retail.

As at 31 December 2016 the Group identified the external impairment indicators – change in macro-economic conditions on petrochemical and refinery markets comparing to previously approved mid-term plan. Based on that conditions, the new projections for the years 2017-2021 were prepared and the impairment test was carried out for all CGUs.

During development of assumptions to impairment tests the possibility of estimation of the fair value and value in use of individual assets was considered. Lack of number of market transactions for similar assets to those held by the Group which would allow to reliably estimate their fair value makes this method of valuation not possible to implement.

As a result, it was concluded that the best estimate of the actual values of individual assets of the Group will be its value in use.

The recoverable amounts of CGUs were estimated based on their value in use. The analyses were performed based on available financial projections for the years 2017-2021 adjusted to exclude the impact of capital expenditures enhancing the assets' performance.

The anticipated fixed annual growth rate of cash flows after 2021 year period is assumed at the level of the long term inflation rate for Czech Republic.

For determining the value in use as at given balance sheet date forecasted cash flows are discounted to their present value using the discount rates which reflect the current market value and the specific risks to the valued assets.

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, partially 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.

Impact of the impairment allowances of non-current assets on consolidated statement of profit or loss and other comprehensive income for the year 2016

	Recognition	Reversal	Total
Buildings and constructions	(72)	735	663
Machinery and equipment	(21)	1 192	1 171
Construction in progress	(8)	1	(7)
	(101)	**1 928**	**1 827**

Information about recognitions and reversals of impairment allowances for each category of non-current non-financial assets is presented in notes 10 and 12.

The discount rate is calculated as the weighted average cost of capital. The sources of macroeconomic indicators necessary to determine the discount rate were the publications of prof. Aswath Damodoran (source: http://pages.stern.nyu.edu), the officially listed government bonds and rating of agencies available at 31 December 2016.

The structure of the discount rates applied in the testing for impairment of assets of individual CGUs as at 31 December 2016

	Refining CGU	Petrochemical CGU	Retail CGU
Cost of equity	11.88%	11.21%	14.07%
Cost of debt after tax	1.56%	1.56%	1.56%
Capital structure	62.44%	77.55%	47.10%
Nominal discount rate	**8.00%**	**9.04%**	**7.45%**
Long term inflation rate	1.98%	1.98%	1.98%

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta). Cost of debt includes the average level of credit margins and expected market value of money for Czech Republic. The period of analysis was established on the basis of remaining useful life of the essential assets for the particular CGU.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

Periods of analysis adopted for the analysis of the individual CGUs as at 31 December 2016

	31 /12/2016
Refining CGU	25
Petrochemical CGU	16
Retail CGU	15

Based on the results of the analysis performed as at 31 December 2016 an impairment allowance of CZK 1 919 million was reversed in relation to non-current assets of ČESKÁ RAFINÉRSKÁ, a.s., of the refining CGU. The amount of CZK 1 187 million was allocated to machinery and equipment, and the amount of CZK 732 million was allocated to buildings and constructions and these were recorded in other operating income.

Sensitivity analysis of the value in use as at 31 December 2016

The crucial elements influencing the value in use of assets within individual units responsible for generating cash flows are: operating profit excluding depreciation and amortization (known as EBITDA, as difined in note 3.1.) and the discount rate.

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

		EBITDA		
DISCOUNT RATE	change	-5%	0%	5%
	-0,5 p.p.	decrease of impairment 576	decrease of impairment 3 688	decrease of impairment 5 493
	0,0 p.p.	increase of impairment 1 106	-	decrease of impairment 4 757
	+0,5 p.p.	increase of impairment 2 671	decrease of impairment 226	decrease of impairment 3 122

16. INVENTORIES

	31/12/2016	31/12/2015
Raw materials	6 013	4 567
Work in progress	1 983	1 347
Finished goods	4 152	2 999
Merchandise	315	254
Spare parts	1 262	1 223
Inventories, net	**13 725**	**10 390**
Impairment allowances of inventories to net realizable value	472	864
Inventories, gross	**14 197**	**11 254**

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

	2016	2015
At the beginning of the year	864	957
Recognition	559	730
Usage	(851)	(826)
Reversal	(202)	(75)
Reclassification	11	-
Change in Group structure*	91	78
	472	**864**

* Further information is presented in note 36.2.

Changes in the net realizable value allowances for inventories amount to CZK 357 million and are included in cost of sales (2015: CZK 655 million) presented in note 5.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

17. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
Trade receivables	11 620	9 437
Receivables due to insurance compensations	1 355	10
Other	57	7
Financial assets	**13 032**	**9 454**
Excise tax and fuel charge receivables	111	312
Other taxation, duty, social security receivables	178	19
Advances for construction in progress	2 261	1 033
Prepayments and deferred costs	593	440
Non-financial assets	**3 143**	**1 804**
Receivables, net	**16 175**	**11 258**
Receivables impairment allowance	692	646
Receivables, gross	**16 867**	**11 904**

Trade receivables result primarily from sales of finished goods and sales of merchandise. The management considers that the carrying amount of trade receivables approximates their fair value. The average credit period on sales of goods is 34 days. Trade receivables overdue bear a interest based on terms agreed in the selling contracts.
The Group exposure to credit and currency risk related to trade and other receivables is disclosed in note 27.5.4. and detailed information about receivables from related parties is presented in note 31.1.

18. OTHER FINANCIAL ASSETS

	31/12/2016	31/12/2015
Cash flow hedge instruments	146	700
currency forwards	*2*	*30*
commodity swaps	*144*	*670*
Derivatives not designated as hedge accounting	33	14
currency forwards	*33*	*14*
Cash pool	3 135	3 086
Receivables on settled cash flow hedge instruments	102	481
	3 416	**4 281**

Information regarding cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 27.4.
The Group had assets in the PKN group´s cash pool system in the amount of CZK 3 135 million as at 31 December 2016 (CZK 3 086 million as at 31 December 2015). 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 2016 (31 December 2015: less than CZK 1 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 2016.

19. CASH AND CASH EQUIVALENTS

	31/12/2016	31/12/2015
Cash on hand and in bank	2 933	5 888
	2 933	**5 888**

20. SHAREHOLDERS' EQUITY

20.1. Share capital

The issued capital of the Company as at 31 December 2016 amounted to CZK 18 133 million (31 December 2015: CZK 18 133 million). This represents 181 334 764 (31 December 2015: 181 334 764) bearer ordinary shares, each with a nominal value of CZK 100. All issued shares have been fully paid and bear equal voting rights. The Company's shares are listed on the Prague Stock Exchange.

Shareholders' structure

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

** According to notification received on 21 June 2016.*

20.2. Statutory reserves

The Group established a reserve fund for possible future losses. The balance of the Statutory reserve fund as at 31 December 2016 amounted to CZK 33 million (31 December 2015: CZK 34 million).

20.3. Hedging reserve

The amount of the hedging reserve of CZK (263) million as at 31 December 2016 resulted from the valuation of derivatives meeting the requirements of cash flow hedge accounting (31 December 2015: CZK 545 million).

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

20.4. Revaluation reserve

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

20.5. Foreign exchange differences on subsidiaries from consolidation

The amount of reserve is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into CZK. The balance of this reserve as at 31 December 2016 amounted to CZK 16 million (31 December 2015: CZK 15 million).

20.6. Retained earnings

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

On 21 June 2016 the Annual General Meeting of Unipetrol decided to pay a dividend equal to CZK 5.52 per share to the Company's shareholders.
The decision regarding appropriation of 2016 profit will be made at the annual meeting of shareholders, which will be held in May/June 2017.

20.7. Equity management policy

Equity management is performed on the Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.
The Group monitors the equity debt ratio (net financial leverage). As at 31 December 2016 and as at 31 December 2015 Group´s financial leverage amounted to -6.62% and -16.49%, respectively.

Net financial leverage = net debt/equity (calculated as at the end of the period) x 100%
Net debt =non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents

20.7.1. Net debt

	31/12/2016	31/12/2015
Cash and cash equivalents	**2 933**	**5 888**
Loans and borrowings	**(1)**	**-**
Loans and borrowings current	(1)	-
Cash pool liabilities	**(175)**	**(31)**
	2 757	**5 857**

20.7.2. Changes in net debt

	Note	31/12/2016	31/12/2015
At the beginning of the year		**5 857**	**(2 699)**
Cash changes in net debt			
Cash and cash equivalents	19	(3 043)	3 780
Loans and borrowings	21	(1)	4 350
Cash pool liabilities	26	(144)	-
Non-cash changes in net debt			
Foreign exchange		3	-
Acquisitions	36.2.	84	426
		2 757	**5 857**

20.7.3. Net working capital

	Inventories	Receivables	Trade and other liabilities	Working capital
31/12/2015	10 390	11 258	15 707	5 941
31/12/2016	13 725	16 175	22 984	6 916
Net working capital change in Statement of financial position	**(3 335)**	**(4 917)**	**(7 277)**	**(975)**
Adjustments				
Change in Group structure*	492	589	739	342
Movements in prepayments for construction in progress	-	1 228	-	1 228
Receivables from insurance	-	1 345	-	1 345
Movements in investing liabilities	-	-	2 107	(2 107)
Movements in dividends liabilities	-	-	15	(15)
Foreign exchange	-	-	1	(1)
Change in working capital in Cash flow statement	**(2 843)**	**(1 755)**	**(4 415)**	**(183)**

* Further information is presented in note 36.2.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

21. LOANS AND BORROWINGS

	Non-current		Current		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Bank loans	-	-	1	-	1	-
	-	**-**	**1**	**-**	**1**	**-**

21.1. Bank loans

by currency (translated into CZK)/by interest rate

	31/12/2016	31/12/2015
CZK/PRIBOR	1	-
	1	**-**

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 27 and are presented together with other financial instruments.

22. PROVISIONS

	Non-current		Current		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Environmental provision	877	571	4	3	881	574
Jubilee bonuses and retirement benefits provision	97	76	7	7	104	83
Provision for CO_2 emission allowances	-	-	553	772	553	772
Other provision	23	31	88	110	111	141
	997	**678**	**652**	**892**	**1 649**	**1 570**

Change in provisions in 2016

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provision for CO_2 emission allowances	Other provision	Total
01/01/2016	574	83	772	141	1 570
Recognition	146	27	538	18	729
Reclassification	-	(2)	-	-	(2)
Discounting	5	-	-	-	5
Usage	(1)	(7)	(568)	(21)	(597)
Reversal	-	(4)	(207)*	(27)	(238)
Change in Group structure**	157	7	18	-	182
	881	**104**	**553**	**111**	**1 649**

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

** Further information is presented in note 36.2.

Change in provisions in 2015

	Environmental provision	Jubilee bonuses and retirement benefits 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**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

22.1. Environmental provision

As at 31 December 2016 the Group had under environmental provisions:

- provision for land restoration created as a result of the legal obligation to restore the fly-ash dump in Litvínov after it is discontinued, which is expected after 2043. The provision amounted to CZK 343 million (31 December 2015: CZK 339 million),
- provision in the amount of CZK 214 million in respect of remediation of historical ecological contamination in the Kralupy location recognized following the decision of the Czech inspection of environment (31 December 2015: CZK 214 million),
- provision for liquidation and restoration of an electrolysis facility which is expected to occur after the termination of the operation of the current amalgam electrolysis facility in 2017 in the amount of CZK 163 million,
- provision for land restoration created as a result of the legal obligation to restore the fly-ash deposits and toxic waste dump in Neratovice after it is discontinued, which is expected in 2019 in case of fly-ash deposits and in 2024 in case of toxic waste dump. The provision amounted to CZK 128 million,
- provision for the compensation of damages to Lesy České republiky, s.p. in the amount of CZK 24 million (31 December 2015: CZK 18 million).

The environmental provisions increased by CZK 307 million in 2016 mainly due to following facts:

- acquisition of SPOLANA a.s. with an impact of CZK 157 million,
- recognition of additional provision for liquidation and restoration of an electrolysis facility which is expected to occur after the termination of the operation of the current amalgam electrolysis facility in 2017 in the amount of CZK 130 million.

22.2. Provision for jubilee bonuses and retirement benefits

The companies of the Group realize the program of paying out retirement benefits and jubilee bonuses in line with remuneration policies in force. The jubilee bonuses are paid to employees after the elapse of a defined number of years in service. Retirement benefits are paid as a one-time payment at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service. The base for the calculation of the provision for an employee is the expected benefit which the Group is obliged to pay in accordance with internal regulations.
The present value of these obligations is estimated at the end of each reporting year and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation.
Employment benefit provisions for retirement and anniversary benefits received by employees were created using discount rates in the range 0.56% p.a. in 2016 (2015: 0.54% - 2.3%), 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 higher by CZK 1 million.

22.2.1. Change in employee benefits obligations

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
At the beginning of the year	8	3	75	73	83	76
Current service costs	1	1	3	3	4	4
Interest expenses	-	-	-	1	-	1
Actuarial gains and losses arising from changes	(1)	5	2	(9)	1	(4)
demographic assumptions	*-*	*-*	*(1)*	*-*	*(1)*	*-*
financial assumptions	*-*	*-*	*-*	*1*	*-*	*1*
other	*(1)*	*5*	*3*	*(10)*	*2*	*(5)*
Past employment costs	20	-	(2)	-	18	-
Change in Group structure*	7	-	-	9	7	9
Payments under program	(4)	(1)	(3)	(2)	(7)	(3)
Other	(2)	-	-	-	(2)	-
	29	**8**	**75**	**75**	**104**	**83**

* Further information is presented in note 36.2.

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2016 and as at 31 December 2015.

22.2.2. Division of employee benefits liabilities by employees

	Active employees		Pensioners		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Czech Republic	104	83	-	-	104	83
					104	**83**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

22.2.3. Geographical division of employee benefits liabilities

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Czech Republic	29	8	75	75	104	83
					104	**83**

22.2.4. Sensitivity analysis to changes in actuarial assumptions

Actuarial assumptions	Assumed variations as at 31/12/2016	Czech Republic: Influence on provision for jubilee bonuses 2016	Czech Republic: Influence on retirement benefits 2016
Demographic assumptions (+)	+0.5pp	(1)	(3)
staff turnover rates, disability and early retirement	*+0.5pp*	*(1)*	*(3)*
Financial assumptions (+)	+0.5pp	(1)	(4)
discount rate	*+0.5pp*	*(1)*	*(4)*
		(2)	**(7)**
Demographic assumptions (-)	-0.5pp	1	3
staff turnover rates, disability and early retirement	*-0.5pp*	*1*	*3*
Financial assumptions (-)	-0.5pp	1	4
discount rate	*-0.5pp*	*1*	*4*
		2	**7**

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**

22.2.5. Employee benefits maturity and payments of liabilities analysis

22.2.5.1. Maturity of employee benefits analysis

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Less than 1 year	3	1	5	6	8	7
Between 1 and 3 years	5	1	8	6	13	7
Between 3 and 5 years	4	1	7	8	11	9
Later than 5 years	17	5	55	55	72	60
	29	**8**	**75**	**75**	**104**	**83**
Weighted average duration of liability (years)			13	13	13	13

22.2.5.2. Ageing of employee benefits payments analysis

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Less than 1 year	3	1	5	6	8	7
Between 1 and 3 years	6	2	9	7	15	9
Between 3 and 5 years	6	2	9	10	15	12
Later than 5 years	75	23	224	219	299	242
	90	**28**	**247**	**242**	**337**	**270**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

	31/12/2016	31/12/2015
In profit and loss		
Current service costs	(4)	(4)
Interest expenses	-	(1)
Actuarial gains and losses arising from changes	1	(5)
other	*1*	*(5)*
Past employment costs	(18)	-
Payments under program	7	3
	(14)	**(7)**
In components of other comprehensive income		
Gains and losses arising from changes	(2)	9
demographic assumptions	*1*	-
financial assumptions	-	*(1)*
other	*(3)*	*10*
	(2)	**9**
	(16)	**2**

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

	31/12/2016	31/12/2015
Cost of sales	(13)	(5)
Distribution expenses	(2)	-
Administrative expenses	1	(2)
	(14)	**(7)**

Based on current legislation, the Group is obliged to pay contributions to the national pension insurance. These costs are recognized as expenses for social security and health insurance. The Group does not have any other commitments in this respect. Additional information about the retirement benefits is in note 33.3.21.2.

22.3. Provision for CO_2 emission allowances

The provision for CO_2 emission allowances is created for estimated CO_2 emission allowances consumption in the reporting period. Further information regarding CO_2 emission allowances is presented in note 12.4.

22.4. Other provision

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

23. OTHER NON-CURRENT LIABILITIES

	31/12/2016	31/12/2015
Investment liabilities	-	1
Other	3	-
Financial liabilities	**3**	**1**
Guarantee payment received	167	165
Non-financial liabilities	**167**	**165**
	170	**166**

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

24. TRADE AND OTHER LIABILITIES

	31/12/2016	31/12/2015
Trade liabilities	10 444	7 574
Investment liabilities	3 590	1 482
Dividends	50	35
Other	31	325
Financial liabilities	**14 115**	**9 416**
Prepayments for deliveries	70	102
Prepayments for fixed assets	-	8
Payroll liabilities	305	280
Excise tax and fuel charge	6 502	4 786
Value added tax	1 728	918
Other taxation, duties, social security and other benefits	112	99
Accruals	152	98
holiday pay accrual	28	17
wages accrual	117	80
other	7	1
Non-financial liabilities	**8 869**	**6 291**
	22 984	**15 707**

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

25. DEFERRED INCOME

	31/12/2016	31/12/2015
Grants received	2	4
Other	6	4
	8	**8**

26. OTHER FINANCIAL LIABILITIES

	31/12/2016	31/12/2015
Cash flow hedge instruments	470	27
commodity swaps	*470*	*27*
Derivatives not designated as hedge accounting	24	5
currency forwards	*24*	*5*
Cash pool	175	31
Liabilities on settled cash flow hedge instruments	246	65
	915	**128**

Information about cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 27.4.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

27. FINANCIAL INSTRUMENTS

27.1. Financial instruments by category and class

Financial assets

31/12/2016

Financial instruments by class	Note	Financial instruments by category				
		Financial assets at fair value through profit of loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Unquoted shares	13.	-	-	1	-	1
Trade receivables	17.	-	11 620	-	-	11 620
Cash pool	18.	-	3 135	-	-	3 135
Financial derivatives	18.	33	-	-	146	179
Cash and cash equivalents	19.	-	2 933	-	-	2 933
Receivables on settled cash flow hedge instruments	18.	-	102	-	-	102
Receivables due to insurance compensations	17.	-	1 355	-	-	1 355
Other	14.,17.	-	77	-	-	77
		33	**19 222**	**1**	**146**	**19 402**

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	17.	-	9 437	-	9 437
Loans granted	14.,18.	-	1	-	1
Cash pool	18.	-	3 086	-	3 086
Financial derivatives	18.	14	-	700	714
Cash and cash equivalents	19.	-	5 888	-	5 888
Receivables on settled cash flow hedge instruments	18.	-	481	-	481
Receivables due to insurance compensations	17.	-	10	-	10
Other	14.,17.	-	27	-	27
		14	**18 930**	**700**	**19 644**

Financial liabilities

31/12/2016

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	Total
Loans	21.	-	1	-	1
Trade liabilities	24.	-	10 444	-	10 444
Investment liabilities	24.	-	3 590	-	3 590
Cash pool	26.	-	175	-	175
Financial derivatives	26.	24	-	470	494
Liabilities on settled cash flow hedge instruments	26.	-	246	-	246
Other	23.,24.	-	84	-	84
		24	**14 540**	**470**	**15 034**

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	Total
Trade liabilities	24.	-	7 574	-	7 574
Investment liabilities	23.,24.	-	1 483	-	1 483
Cash pool	26.	-	31	-	31
Financial derivatives	26.	5	-	27	32
Liabilities on settled cash flow hedge instruments	26.	-	65	-	65
Other	23.,24.	-	360	-	360
		5	**9 513**	**27**	**9 545**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

2016

	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	-	17	-	17
Interest costs	-	-	(2)	(2)
Foreign exchange gain/(loss)	-	42	(336)	(294)
(Recognition)/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	-	(14)	-	(14)
Settlement and valuation of financial instruments	436	-	-	436
Other	-	-	(20)	(20)
	436	**45**	**(358)**	**123**
other, excluded from the scope of IFRS 7				
Provisions discounting				(6)
				(6)

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)

27.3. Fair value measurement

31/12/2016

	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2
Financial assets					
Financial derivatives	*18.*	179	179	-	179
		179	**179**	**-**	**179**
Financial liabilities					
Loans	*21.*	1	1		1
Financial derivatives	*26.*	494	494	-	494
		495	**495**	**-**	**495**

31/12/2015

	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2
Financial assets					
Loans granted	*15.*	1	1	-	1
Financial derivatives	*18.*	714	714	-	714
		715	**715**	**-**	**715**
Financial liabilities					
Financial derivatives	*26.*	32	32	-	32
		32	**32**	**-**	**32**

For other classes (except for unquoted shares) of financial assets and liabilities presented in note 27.1. fair value approximates their carrying amount.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

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

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

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

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

In the year ended 31 December 2016 and the comparative period there were no transfers between Levels 1, 2 and 3 in the Group.

As at 31 December 2016 the Group held unquoted shares in entities amounting to CZK 1.6 million (31 December 2015: 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 2016 there are no binding decisions relating to the means and dates of disposal of those assets.

27.4. 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:

Cash flows hedge instruments	31/12/2016	31/12/2015	Hedging strategies
currency forwards	2	30	operating and investing activity; sales of products and purchase of crude oil
commodity swaps	(326)	643	operational inventories, refining margin, time mismatch occurring on purchases of crude oil by sea
	(324)	**673**	

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

Planned realization date of hedged cash flows	31/12/2016	31/12/2015
Currency operating exposure		
2016	-	30
2017	2	-
Commodity risk exposure		
2016	-	643
2017	(326)	-
	(324)	**673**

27.5. Financial risks management

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

27.5.1. Commodity risks

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

- risk of changes in refining and petrochemical margins on the sale of products and Ural/Brent differential fluctuations-hedges on an irregular basis as a part of hedging strategies;
- risk of changes in crude oil and products prices related to the time mismatch between the date of the crude oil and/or products, as well as future sales transactions-identified and hedged in a systematic and regular manner;
- risk of changes in CO_2 emission 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 2016 and in 2015, the Group concluded forward and spot transactions for purchase of rights which in the future will be amortized as a settlement of CO_2 emissions. 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:

31/12/2016

	Influence on hedging reserve			
	Increase of price by	Influence	Decrease of price by	Influence
Crude oil USD/BBL	5 USD/BBL	(274)	5 USD/BBL	274

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

27.5.2. Currency risk

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

Currency structure of financial instruments denominated in main foreign currencies as at 31 December 2016

Financial instruments by class	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	155	34	5 057
Cash pool	115	1	3 135
Financial derivatives	-	7	179
Receivables on settled cash flow hedge instruments	-	4	102
Cash and cash equivalents	6	2	213
Receivables due to insurance compensation	-	53	1 355
	276	**101**	**10 041**
Financial liabilities			
Trade liabilities	57	243	7 767
Investment liabilities	109	3	3 007
Financial derivatives	-	19	494
Liabilities on settled cash flow hedge instruments	-	10	246
Other	-	-	1
	166	**275**	**11 515**

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 cash flow hedge instruments	-	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 cash flow hedge instruments	-	3	65
	83	**122**	**5 236**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

27.5.2. Currency risk (continued)

Sensitivity analysis for currency changes risk
The influence of potential changes in carrying amounts of financial instruments as at 31 December 2016 and as at 31 December 2015 arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency on profit before tax and hedging reserve:

	EUR/CZK		USD/CZK		Total	
	2016	2015	2016	2015	2016	2015
	variation of exchange rates +15%					
Influence on profit before tax	446	542	157	315	603	857
Influence on hedging reserve	(264)	(132)	15	122	(249)	(10)
Total influence	**182**	**410**	**172**	**437**	**354**	**847**

In case of decrease of currency rates by 15%, sensitivity analysis assumes the same value as in the table above only with the opposite sign.
Variations of currency rates described above were calculated based on the historical volatility of particular currency rates and analysts' forecasts.
Sensitivity of financial instruments for currency risk was calculated as the difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/(decreases) in currency rates. In the case of derivative instruments, the influence of currency rate variations on fair value was examined at a constant level of interest rates. The fair value of foreign currency forward contracts is determined based on the discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction price.

27.5.3. Interest rate risk

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

Interest rate structure of financial instruments:

	PRIBOR		EURIBOR		LIBOR		Total	
Financial instruments by class	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Financial assets								
Loans granted	-	1	-	-	-	-	-	1
Cash pool	-	-	3 112	2 571	23	515	3 135	3 086
	-	**1**	**3 112**	**2 571**	**23**	**515**	**3 135**	**3 087**
Financial liabilities								
Loans	1	-	-	-	-	-	1	-
Cash pool	175	1	-	30	-	-	175	31
	176	**1**	**-**	**30**	**-**	**-**	**176**	**31**

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	31/12/2016	31/12/2015	2016	2015
PRIBOR	+0.5 pp	+0.5 pp	(1)	-
EURIBOR	+0.5 pp	+0.5 pp	16	13
LIBOR	+0.5 pp	+0.5 pp	-	3
			15	**16**
PRIBOR	-0.5 pp	-0.5 pp	1	-
EURIBOR	-0.5 pp	-0.5 pp	(16)	(13)
LIBOR	-0.5 pp	-0.5 pp	-	(3)
			(15)	**(16)**

The above interest rate variations were calculated based on observations of interest rate fluctuations in the current and prior year as well as on the basis of available forecasts.
The sensitivity analysis was performed on the basis of instruments held as at 31 December 2016 and as at 31 December 2015. The influence of interest rate changes was presented on annual basis.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

27.5.4. Liquidity and credit risk

Liquidity risk

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

Maturity analysis of financial liabilities

	Note	Up to 1 year	31/12/2016 From 1 to 3 years	Total	Carrying amount
Loans - undiscounted value	21.	1	-	1	1
Cash pool - undiscounted value	26.	175	-	175	175
Trade liabilities	24.	10 444	-	10 444	10 444
Investment liabilities	24.	3 590	-	3 590	3 590
Financial derivatives	26.	494	-	494	494
Liabilities on settled cash flow hedge instruments	26.	246	-	246	246
Other	23.,24.	81	3	84	84
		15 031	**3**	**15 034**	**15 034**

	Note	Up to 1 year	31/12/2015 From 1 to 3 years	Total	Carrying amount
Cash pool - undiscounted value	26.	31	-	31	31
Trade liabilities	24.	7 574	-	7 574	7 574
Investment liabilities	24.	1 482	1	1 483	1 483
Financial derivatives	26.	32	-	32	32
Liabilities on settled cash flow hedge instruments	26.	65	-	65	65
Other	24.	360	-	360	360
		9 544	**1**	**9 545**	**9 545**

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 2016 and as at 31 December 2015 the maximum available credit facilities amounted to CZK 10 123 million and CZK 11 631 million respectively. Unused part of the credit facilities for bank loans or guarantees amounted to CZK 8 467 million as at 31 December 2016 and CZK 8 620 million as at 31 December 2015 respectively. The description of the loans and guarantees drawn from credit facilities is presented in notes 21 and 30.

Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of impairment losses, estimated by the Group's management based on prior experience and their assessment of the credit status of its customers.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management. Before accepting any new customer, the Group uses its own or an external credit scoring system to assess a potential customer's credit quality and defines credit limits by customer. As at 31 December 2016, the Group had 1 customer with balance of the trade receivables that represented more than 10% of the total balance of the consolidated trade receivables.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and, where appropriate, credit guarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

27.5.4. Liquidity and credit risk (continued)

The division of not past due receivables

	31/12/2016	31/12/2015
Group I	12 762	8 492
Group II	-	767
	12 762	**9 259**

The ageing analysis of receivables past due, but not impaired

	31/12/2016	31/12/2015
Up to 1 month	265	157
From 1 to 3 months	6	5
From 3 to 6 months	3	16
From 6 to 12 months	6	3
Above 1 year	10	34
	290	**215**

Change in impairment allowances of trade and other receivables

	31/12/2016	31/12/2015
At the beginning of the year	646	623
Recognition	15	81
Change in Group structure	58	18
Reversal	(1)	-
Usage	(28)	(74)
Foreign exchange differences	2	(2)
	692	**646**

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 15 and 17.
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.

27.5.5. Emission allowances risk

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

OTHER EXPLANATORY NOTES

28. LEASE

28.1. 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:

	31/12/2016	31/12/2015
Less than 1 year	57	53
Between 1 and 5 years	137	133
Later than 5 years	281	215
	475	**401**

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

	2016	2015
Non-cancellable operating lease	59	57

Finance lease

As at 31 December 2016 the Group did not possess any active finance lease agreements as a lessee (31 December 2015: less than CZK 1 million).

28.2. The Group as a lessor

As at 31 December 2016 and as at 31 December 2015 the Group did not possess any financial or operating lease agreements as a lessor.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

The total value of investment expenditures including borrowing costs amounted to CZK 10 788 million as at 31 December 2016 and CZK 3 344 million as at 31 December 2015, including environmental expenditures in the amount of CZK 123 million and CZK 305 million, respectively.

As at 31 December 2016 the value of future commitments resulting from contracts signed to this date amounted to CZK 5 833 million (31 December 2015: CZK 11 121 million). As at 31 December 2016 the major item related to the new polyethylene unit (PE3) at the Litvínov plant in the amount of CZK 4 721 million (31 December 2015: CZK 6 646 million).

30. 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 2 988 million as at 31 December 2016 (31 December 2015: CZK 2 415 million) and to other purposes amounted to CZK 105 million (31 December 2015: CZK 37 million).

The Group is the beneficiary of guarantees amounted CZK 770 million as at 31 December 2016 (31 December 2015: CZK 621 million).

Past environmental liabilities

The Group is the recipient of funds provided by the National Property Fund of the Czech Republic for settling environmental liabilities relating to historic environmental damage. Funds up to CZK 22 912 million are provided to cover cost actually incurred in relation to settlement of historic environmental damage.

An overview of funds provided by the National Property Fund (currently administered by the Ministry of Finance) for the environmental contracts is provided below:

2016	Total amount of funds to be provided	Used funds as at 31/12/2016	Unused funds as at 31/12/2016
UNIPETROL, a.s. / premises in Litvínov	6 012	4 186	1 826
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	4 244	52	4 192
UNIPETROL RPA, s.r.o. - BENZINA odštěpný závod	1 349	481*	868
PARAMO, a.s. / premises in Pardubice	1 241	524	717
PARAMO, a.s. / premises in Kolín	1 907	1 860	47
SPOLANA a.s.	8 159	5 595	2 564
	22 912	**12 698**	**10 214**

2015	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 in Litvínov	6 012	4 014	1 998
UNIPETROL, a.s. / premises in Kralupy nad Vltavou	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**

* 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.

31. RELATED PARTY TRANSACTIONS

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

In 2016 and in 2015 there were no transactions concluded by the Group with related parties on other than arm's length terms.

31.2. Transactions with key management personnel

In 2016 and in 2015 the Group companies did not grant to key management personnel and their relatives any advances, borrowings, loans, guarantees and commitments or other agreements obliging them to render services to Group companies and related parties. As at 31 December 2016 and as at 31 December 2015 there were no significant transactions concluded with members of the Board of Directors, the Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

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

As at 31 December 2016 and as at 31 December 2015 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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

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

Parent and ultimate controlling party

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

2016	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Sales	1 650	179	4 731
Purchases	45 743	147	1 618
Finance income	-	13	3
Finance costs	-	-	11

31/12/2016	PKN Orlen	Joint operations	Entities under control or significant influence of PKN Orlen
Other financial assets	-	-	3 135
Trade and other receivables	439	94	519
Trade and other liabilities	6 086	77	57

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
Other financial assets	-	-	3 086
Trade and other receivables	190	1	541
Trade and other liabilities	2 580	4	95

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

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

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

	2016		2015	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current year (costs)	254	5	212	1
Paid for previous year	56	-	42	2
Potentially due to be paid in the following year	59	1	42	1

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

32.2. Bonus system for key executive personnel of the Group

In 2016 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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

33. ACCOUNTING PRINCIPLES

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

33.1.1. Binding amendments to IFRSs and interpretations

The amendments to the standards and IFRS interpretations, in force from 1 January 2016 until the date of publication of these consolidated financial statements had no impact on the foregoing consolidated financial statements.

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

Standards and Interpretations adopted by the EU	Possible impact on financial statements
New standard IFRS 9 Financial Instruments	impact*
New standard IFRS 15 Revenue from Contracts with Customers	impact**

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

Standards and Interpretations waiting for approval of the EU	Possible impact on financial statements
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	no impact expected
IFRS 16 Leases	impact***
Amendments 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
Amendments to IFRS 15 Revenue from Contracts with Customers	impact**
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	no impact expected
Amendments to IFRS 4 Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	no impact expected
Improvements to IFRS (2014-2016)	no impact expected
IFRIC 22 Foreign Currency Transactions and Advance Consideration	no impact expected
Amendments to IAS 40 Transfers of Investment Property	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.

** The Group has started to analyse how the key concepts of IFRS 15 would affect the sales revenues recognized in 2016. The sales revenues were split into particular main revenue streams (refinery, petrochemical and retail) for which typical contractual relationships are analysed from the point of view of existing performance obligations, allocation of the transaction price between the identified performance obligations and moment of revenue recognition. The Group expects to have the result of the analysis available in the first half of 2017.
At the time of the new standard implementation, i.e. on 1 January 2018, 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.

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

These consolidated financial statements are presented in Czech crowns (CZK), which is the Group's presentation and Company's functional currency. All financial information presented in CZK has been rounded to the nearest million.
Financial statements of foreign entities, for consolidation purposes, are translated into CZK using the following methods:

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

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

Currency	Average exchange rate for the reporting period 2016	2015	Exchange rate as at the end of reporting period 2016	2015
CZK/EUR	27.030	27.283	27.020	27.025
CZK/USD	25.641	24.600	25.639	24.824
CZK/100 HUF	8.682	8.807	8.721	8.630

33.3. Applied accounting policies

33.3.1. Transactions in foreign currency

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition as finance income or expense in the period in which they arise, except for monetary items which hedge the currency risk, are accounted for in accordance with cash flow hedge accounting principles.
Additional information is presented in note 33.2.

33.3.2. Principles of consolidation

The consolidated financial statements of the Group include financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent company and its subsidiaries and joint arrangements (jointly controlled entities) are presented as those of a single economic entity and are prepared as at the same reporting period as separate financial statements of the parent and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.
The subsidiaries are consolidated using the full consolidation method and joint operations by recognition of respective share in assets, liabilities, revenues and cost. The joint ventures as well as investments in associates are accounted for under the equity method.
In preparing consolidated financial statements using the full consolidation method, the Group combines the assets, liabilities, revenue and cost of the parent company and its subsidiaries line by line and then performs adequate consolidation procedures, in particular:
- the carrying amount at the day of acquisition of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated;
- non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;
- non-controlling interests in the net assets of consolidated subsidiaries are identified and presented separately from the parent's ownership interests in them;
- intra group balances are eliminated;
- unrealized profits or losses from intra group transactions are eliminated;
- intra group revenues and expenses are eliminated;
- intra group cash flow are eliminated.

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

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

33.3.2.1. Investments in subsidiaries

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

33.3.2.2. Investments in joint arrangements (jointly controlled entities)

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

33.3.2.3. Investments in associates

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

33.3.3. Business combinations

Business combinations under common control, including the acquisition of an organized part of the enterprise is settled by adding together, the particular items of assets and liabilities, revenues and costs of the combined companies, as at the date of the merger or acquisition.
Other business combinations are accounted for by applying the acquisition method. Applying the acquisition method requires:
- identifying the acquirer,
- determining the acquisition date,
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire, and
- recognising and measuring goodwill or a gain from a bargain purchase.

Assets, liabilities and contingent liabilities for the purpose of allocating the acquisition cost are determined at the fair value at the acquisition date with the following exceptions:
- deferred assets and liabilities arising from the assets acquired and liabilities assumed in a business combination are recognized according to general principles of deferred tax,
- assets and liabilities related to the acquiree’s employee benefit arrangements are recognized according to general principles of IAS 19 Employee benefits,

non-current assets (or disposal group) that are classified as held for sale at the acquisition date are recognized according to the general principles for non-current assets held for sale.

33.3.4. Operating segments

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

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

and Corporate Functions, which are reconciling items and include activities related to management, administration and other support functions as well as remaining activities not allocated to separate operating segments.
Segment revenues are revenues from sales to external customers and revenues from transactions with other operating segments, which are directly attributable to the segment.
Segment expenses are expenses relating to sales to external customers and expenses relating to transactions with other operating segments, which result from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Group’s expenses that can be allocated on a reasonable basis to a segment.
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.

33.3.5. Revenues

Revenues from sales (from operating activity) include revenues that relate to core activities, i.e. activities for which the Group was founded, these revenues being recurring and not of incidental character.
Revenues from sales are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the 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.

33.3.6. Costs

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

33.3.7. Other operating income and expenses

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

33.3.8. Finance income and costs

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

33.3.9. Tax expense

Income tax expenses include current tax and deferred tax.
Current tax expense is determined in accordance with the relevant tax law based on taxable profit for a given period and is recognized as a liability, in the amount which has not been paid or receivable, if the amount of the current and prior periods income tax paid exceeds the amount due.
Deferred tax assets and liabilities are accounted for as non-current, are not discounted and are offset in the statement of financial position, if there is a legally enforceable right to offset the recognized amounts.
The transactions settled directly in equity are recognized in equity.

33.3.10. Profit/(loss) per share

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

33.3.11. Property, plan and equipment

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

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

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.

33.3.12. Investment property

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

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

33.3.13. Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance. An asset is identifiable if it is either separable, i.e. is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Group intends to do so, or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.
Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Group and the cost of the asset can be measured reliably.
An intangible asset arising from development (or from development phase of an internal project) shall be recognized if, and only if, the Group can demonstrate all of the following: the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it, its ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, among other things, the Group can demonstrate the existence of a market for the output of the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, its ability to measure reliably the expenditure attributable to the intangible asset during its development.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

33. 3.13 Intangible assets (continued)

If the definition criteria of an intangible asset are not met, the cost incurred to acquire or self develop an asset are recognized in profit or loss when incurred. An intangible asset that is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.
An intangible asset shall be measured initially at cost, including grants related to assets (IAS20). An intangible asset that is acquired in a business combination, is recognized initially at fair value.
After initial recognition, an intangible asset shall be presented in the financial statements at its net carrying amount, including grants related to assets.
Intangible assets are measured at acquisition or at construction cost less amortization and impairment allowances. Intangible assets with a finite useful life are amortized when they become available for use that is when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management over their estimated
useful life. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life shall be assumed to be zero.
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.
The following standard useful lives are used for intangible assets:

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

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.

33.3.13.1. 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 recognize 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 recognize 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 recognized 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 recognized for goodwill shall not be reversed in a subsequent period.

33.3.13.2. 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 recognized as intangible assets, which are not amortized (assuming the high residual value), but tested for impairment.
Granted emission allowances should be presented separately as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.
For the estimated CO_2 emission during the reporting period, a provision should be created (taxes and charges).
Grants should be recognized on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate.
Consumption of allowances is recognized using FIFO method (First In, First Out) within the individual types of rights (EUA - European Union Allowances, ERU – Emission Reductions Units, CER – Certified Emission Reduction).

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

At the end of the reporting period the Group assesses whether there are any indicators that an asset or cash generating unit (CGU) may be impaired. If any such indicator exists, the entity shall estimate the recoverable amount of the asset (CGU).
The recoverable amount of other assets is the higher of the fair value less costs to sell and value in use.
Fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs to sell.
Value in use is the present value of the future cash flows expected to be derived from an asset or CGU.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
Assets that do not generate independent cash flows are grouped at the lowest level at which cash flows, independent from cash flows from other assets, are generated (cash generating units).
To the cash generating unit the following assets are allocated:

- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated with a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

If there are external or internal indicators that the carrying amount of an asset as at the end of the reporting period may not be recoverable, impairment tests are carried out. The tests are also carried out annually for intangible assets with an indefinite useful life and for goodwill.
When the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount is the higher of its fair value less costs to sell and its value in use.
The impairment loss shall be allocated to the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

At the end of each reporting period an assessment shall be made whether an impairment loss recognized in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.
A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard.

33.3.15. Inventories

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

33.3.16. Trade and other receivables

Trade and other receivables are recognized initially at fair value increased by transaction costs and subsequently at amortized cost using the effective interest method less impairment allowances.
Impairment allowances of receivables are 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.

33.3.17. Cash and cash equivalents

Cash comprises cash on hand and in bank accounts. Cash equivalents are short-term, highly liquid investments (of original maturity up to three months) that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

33.3.18. Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale.
Non-current assets are classified as held for sale when the following criteria are simultaneously met:
- the sales were declared by the appropriate level of management;
- the assets are available for an immediate sale in their present condition;
- an active program to locate a buyer has been initiated;
- the sale transaction is highly probable and can be settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

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

The Group shall re-present the disclosures presented with reference to the discontinued operation for prior periods presented in the consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.
If the Group ceases to classify discontinued operations, the results of operations previously presented in discontinued operations shall be reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

33.3.19. Equity

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

33.3.19.1. Share capital

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

33.3.19.2. Hedging reserve

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

33.3.19.3. Revaluation reserve

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

33.3.19.4. Foreign exchange differences on subsidiaries from consolidation

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

33.3.19.5. Retained earnings

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

33.3.20. Trade and other liabilities

Liabilities, including trade liabilities, are initially stated at fair value, increased by, in the case of financial liability not qualified as those measured at fair value through profit or loss, transaction cost and subsequently, at amortized cost using the effective interest rate method.
Accruals are liabilities due for goods received or services provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.
Although it is sometimes necessary to estimate the amount or timing of accruals, the related uncertainty is generally much lower than it is for provisions.

33.3.21. Provisions

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

33.3.21.1. Environmental provision

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

33.3.21.2. Jubilee bonuses and retirement benefits

Under the Group’s remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. Jubilee bonuses are paid to employees after the elapsing of a defined number of years in service. Retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee’s average remuneration.
The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as retirement defined benefit plans.
The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.
The present value of those liabilities is estimated at the end of each reporting period by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering the demographic and financial assumptions including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year. Actuarial gains and losses from:
- post employment benefits are recognized in components of other comprehensive income,
- other employment benefits, including jubilee bonuses, are recognized in the statement of profit and loss.

33.3.21.3. Shield programs

Shield programs provision (restructuring provision) is created when the Group initiates a restructuring plan or announces the main features of a restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will be carried out. A restructuring provision shall include only the direct expenditures arising from the restructuring, i.e. connected with the termination of employment (paid leave payments and compensations), termination of lease contracts, dismantling of assets.

33.3.21.4. CO_2 emissions costs

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

33.3.21.5. Other provisions

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

33.3.22. Government grant

Government grants are transfers of resources to the Group by the government, government agencies and similar bodies whether local, national or international, in return for past or future compliance with certain conditions relating to the activities of the entity.
Government grants are recognized in the statement of financial position as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it.
Grants related to costs are presented as compensation to the given cost in the period they are incurred. Surplus of the received grant over the value of the given cost is presented as other operating income.
If the government grant relates to assets, it is presented net with the related asset and is recognized in the statement of profit or loss on a systematic basis over the useful life of the related asset through decreased depreciation charges. The treatment regarding CO_2 emission allowances granted is described in note 33.3.13.2.

33.3.23. Consolidated statement of cash flows

The consolidated statement of cash flows is prepared using the indirect method.
Cash and cash equivalents presented in the consolidated statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Group's cash management.
Dividends received are presented in cash flows from investing activities.
Dividends paid are presented in cash flows from financing activities.
Interest received from finance leases, loans granted, short-term securities and the cash pooling system are presented in cash flows from investing activities. Other interests received are presented in cash flows from operating activities.
Interest paid and provisions on bank loans and borrowings received, cash pool facility, debt securities issued and finance leases are presented in cash flows from financing activities. Other interests paid are presented in cash flows from operating activities.
The Group changed the structure of particular positions presentation within the Consolidated statements of cash flows from operating activities in 2015 as follows:

	Note	Previously reported	Changes	Changed presentation
Cash flows - operating activities				
Net profit		**7 036**	**(7 036)**	**-**
Profit before tax		**-**	**8 669**	**8 669**
Adjustments for:				
Depreciation and amortisation	5.2.	1 927	-	1 927
Foreign exchange (gain)/loss		(7)	-	(7)
Interest and dividends, net		31	-	31
(Profit)/Loss on investing activities		523	-	523
Change in provisions		985	-	985
Income tax		1 633	(1 633)	-
Gain on bargain purchase		(429)	-	(429)
Change in receivables and liabilities from insurance		-	276	276
Other adjustments including change in financial instruments and deferred income		(262)	-	(262)
Change in working capital	20.7.3.	3 644	-	3 368
inventories		*234*	-	*234*
receivables		*3 827*	-	*3 827*
liabilities		*(417)*	*(276)*	*(693)*
Income tax (paid)		(150)	-	(150)
Net cash from operating activities		**14 931**	**-**	**14 931**

33.3.24. Financial instruments

33.3.24.1. Measurement of financial assets and liabilities

At initial recognition, the Group measures financial assets and liabilities at their fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
At the end of the reporting period the Group measures loans and receivables including trade receivables at amortized cost using the effective interest rate method. 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.

33.3.24.2. Transfers

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

33.3.24.3. Hedge accounting

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

The Group does not apply hedge accounting in the case when an embedded derivative instrument is separated from the host contract.

The Group assesses effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Group assesses a hedge as effective, for external reporting purposes only if the actual results of the hedge are within a range of 80% - 125%. The Group uses statistical methods, in particular regression analysis, to assess the effectiveness of the hedge. The Group uses simplified analytical methods, when a hedged item and a hedging instrument are of the same nature i.e. maturity dates, amounts, changes affecting fair value risk or cash flow changes.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could impact profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

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

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

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

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

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

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

33.3.25. Fair value measurement

The Group maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs to meet the objective of fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.
The 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 modelled as a separate risk factor, but they are calculated as a result of a spot rate and a forward interest rate for foreign currency in relation to CZK.
Derivative instruments are presented as assets when their valuation is positive and as liabilities when their valuation is negative.
Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in the current year profit or loss.
As compared to the previous reporting period, the Group has not changed valuation methods concerning derivative instruments.

33.3.26. Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
Assets used under the operating lease, that is under the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognized as assets of the lessor. Determining whether the transfer or risks and rewards exist depends on the assessment of the essence of the economic substance of the transaction.

33.3.27. Contingent assets and liabilities

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.
Contingent assets are not recognized in the statement of financial position as it may lead to recognition of income, which will never be realized; however, the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable the Group discloses respective information on the contingent asset in the additional information to financial statements and if practicable, estimates the influence on financial results, according to the accounting principles for valuation of provisions.
Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it becomes virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

Contingent liabilities are defined as possible obligations that arise from past events and which are dependent on the occurrence or non-occurrence of some uncertain future events not wholly within the control of the Group or present obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the statement of financial position. However, the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote. Contingent liabilities acquired as the result of a business combination are recognized as provisions in the statement of financial position.

33.3.28. 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).

34. APPLICATION OF PROFESSIONAL JUDGEMENT AND ASSUMPTION

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

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

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

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 8. Tax expense, 10. Property, plant and equipment, 11. Investment property, 12. Intangible assets, 15. Impairment of property, plant and equipment and intangible assets, 16.1. Changes in impairment allowances of inventories to net realizable value, 27. 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.

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 impairment charge of CZK 597 million in relation to damaged assets. During the 4th quarter 2016 the unit was restored to normal modes of operation.

The Group is insured against property and mechanical damage as well as loss of business profits (business interruption) and is in the process of seeking recourse from the insurer. The Group expects that, based on the insurance policies and the internal estimates made it should be in a position to recover repair costs estimated at approximately CZK 3.9 billion, as well as recoverable lost business profits estimated at CZK 10.1 billion.

Out of these amounts in the period ended 31 December 2016, the Group has already recognized CZK 7.9 billion in Other operating income.

The Group estimates the value of the contingent asset from an insurance claim in the amount of CZK 6.1 billion as at 31 December 2016. The final amount of compensation will depend on the final agreement with insurers.

The Group has received CZK 6.6 billion, CZK 1.3 billion is presented in Trade and other receivables in the Consolidated statement of financial position and in position of Change in receivables and liabilities from insurance of the Consolidated statement of cash flows.

Fluid Catalytic Cracking unit accident

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

The Group is insured against property and mechanical damage as well as loss of business profits (business interruption) and is in the process of seeking recourse from the insurer. The Group expects that, based on the insurance policies and the internal estimates made at the end of December 2016, it should be in a position to recover repair costs estimated at approximately CZK 0.3 billion, as well as recoverable lost business profits estimated at CZK 0.9 billion. The Group estimates the value of the contingent asset from the insurance claim in the amount of CZK 1.2 billion as at 31 December 2016. In February 2017 the Group signed with the insurer and reinsures the Payment on Account Agreement related to the claim of Fluid Catalytic Cracking unit accident from 17 May 2016 in the amount of USD 40 million which will be recognized in the financial statements in the first quarter of the year 2017. The final amount of compensation will depend on the final agreement with insurers.

Tax proceeding

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

On 14 October 2015, the Czech Supreme Administrative Court annulled the Regional Court in Ústí nad Labem judgment and decided to return the case back to the Regional Court in Ústí nad Labem for re-examination. The Supreme Administrative Court commented that the Regional Court did not correctly deal with the legitimate expectations objection raised by UNIPETROL RPA, s.r.o. On 30 November 2016 the Regional Court in Usti nad Labem resolved to annul the Appellate Tax Authority decision dated 27 October 2010. The case is now pending with the Appellate Tax Authority.

35.1. Contingent assets (continued)

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

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

On 25 November 2016 UNIPETROL RPA, s.r.o. filed action, same as the one filed against ČEZ Distribuce, a.s., against OTE, a.s. (Czech operator of energy market responsible for, among others collecting (POZE) fees from energy distributors including ČEZ Distribuce, a.s.) The action was filed as a precaution.

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.

The Expert Group s.r.o. valuation report regarding of PARAMO, a.s. shares received by UNIPETROL, a.s. on 1 December 2016 provides for PARAMO, a.s. share value as at:

a) 6 January 2009 – CZK 1 853/share;
b) 4 March 2009 – CZK 1 691.53/share.

UNIPETROL, a.s. is currently preparing a filing to comment on the recently submitted expert opinion.

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 related 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 the basis of applicable jurisprudence – claiming of a 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.

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 an award of approximately CZK 1.8 million. UNIPETROL RPA, s.r.o. as a defendant did not agree and offered the award amounting to approximately 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 approximately CZK 82 million. The first court 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. Both employees were paid their share of the award confirmed by the expert in the expert valuation ordered by the court, however the former employees have not withdrawn their claim.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

36. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

36.1. Organisation of the 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 2016).

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				
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
Nadace Unipetrol Záluží 1, 436 01 Litvínov, Czech Republic	--	100.00%	Corporate Functions	
PARAMO, a.s. Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	100.00%	--	Downstream	www.paramo.cz
Paramo Oil s.r.o. (dormant entity) Přerovská 560, Svítkov, 530 06 Pardubice, Czech Republic	--	100.00%	Downstream	
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Downstream	www.petrotrans.cz
SPOLANA a.s. ul. Práce 657, 277 11 Neratovice, Czech Republic	--	100.00%	Downstream	www.spolana.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B, 63225 Langen/Hessen, Germany	0.10%	99.90%	Downstream	www.unipetrol.de
UNIPETROL DOPRAVA s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12%	99.88%	Downstream	www.unipetroldoprava.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Downstream Corporate Functions Retail	www.unipetrolrpa.cz
UNIPETROL RPA Hungary Kft. 2040 Budaörs, Puskás Tivadar utca 12, Hungary	--	100.00%	Downstream	
UNIPETROL SLOVENSKO s.r.o. Jašíkova 2, Ružinov, 821 03 Bratislava, Slovak Republic	13.04%	86.96%	Downstream	www.unipetrol.sk
Unipetrol výzkumně vzdělávací centrum, a.s. Revoluční 84/č.p. 1521,Ústí nad Labem, Czech Republic	100.00%	--	Corporate functions	www.vuanch.cz
Joint operations consolidated based on shares in assets and liabilities				
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic	51.00%	--	Downstream	www.butadien.cz

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

36.2. Subsidiaries

Changes in structure of the Group

Acquisition of SPOLANA a.s.

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

The Group accounted for this transaction as an acquisition under common control and presented assets of SPOLANA a.s. at gross book values based on historical values of the previous owner in respective positions of the note 10 Property, plant and equipment and note 12 Intangible assets.

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

	Book value as at the acquisition day
ASSETS	
Non-current assets	
Property, plant and equipment	185
Investment property	70
Financial assets available for sale	1
	256
Current assets	
Inventories	493
Trade and other receivables	438
Cash and cash equivalents	84
	1 015
Total assets	**1 271**
LIABILITIES	
Non-current liabilities	
Provisions	164
	164
Current liabilities	
Trade and other liabilities	588
Loans, borrowings	200
Provisions	18
Deferred income	11
Other financial liabilities	316
	1 133
Total liabilities	**1 297**
Net assets	**(26)**
Share acquired	100%
Share on net assets	**(26)**
Cash paid/outflows on acquisition of shares	**27**
Equity resulting from acquisition under common control	**(53)**

Equity resulting from acquisition under common control is presented in the consolidated statement of changes in equity as at 31 December 2016.

Liquidation of UNIPETROL AUSTRIA HmbH

The liquidation of UNIPETROL AUSTRIA HmbH has been completed and the company was deleted from Commercial register on 9 September 2016.

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 RPA, s.r.o. and UNIPETROL SERVICES, s.r.o.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and UNIPETROL SERVICES, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

Merger between UNIPETROL RPA, s.r.o. and CHEMOPETROL, a.s.

The merger by amalgamation of UNIPETROL RPA, s.r.o. and CHEMOPETROL, a.s. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 2016.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2016 (in CZK million)

36.2. Subsidiaries (continued)

Merger between UNIPETROL RPA, s.r.o. and UNIPETROL RAFINÉRIE, s.r.o.
The merger by amalgamation of UNIPETROL RPA, s.r.o. and UNIPETROL REFINÉRIE, s.r.o. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 18 April 2016. The legal effects of the merger came into force as at 2 August 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.

Merger between UNIPETROL RPA, s.r.o. and ČESKÁ RAFINÉRSKÁ, a.s..
The merger by amalgamation of UNIPETROL RPA, s.r.o. and ČESKÁ RAFINÉRSKÁ,a s. was approved by the companies' General Meetings with legal succession of UNIPETROL RPA, s.r.o. on 26 September 2016. The legal effects of the merger came into force as at 1 January 2017.

Foundation Unipetrol
Foundation Unipetrol was registered in the Register of Foundation on 27 December 2016. Start of the foundation activities is planned in 2017. It is planned that the foundation will focus mainly on promotion of education, supporting young people and their educational development and popularization of science and technology.

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.

36.3. Joint operations

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

The Group in accordance with IFRS 11 classified Butadien Kralupy a.s. in as joint operations. Detailed information is described in note 33.3.2.2.

37. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

The Supervisory Board of UNIPETROL, a.s. at its meeting held on 18 January 2017 approved the resignation of Mr. Bogdan Dzudzewicz from the position of the Member of the Supervisory Board of UNIPETROL, a.s. with the effect from 18 January 2017.

The Group's management is not aware of any events that have occurred since the end of the reporting period that would have any material impact on or would be required to be included in the financial statements as at 31 December 2016.

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

The Board of Directors of UNIPETROL, a.s. hereby declares that to the best of its knowledge the consolidated financial statements and comparative data were prepared in compliance with the applicable accounting principles adopted by in the Group (disclosed in note 33.3.) and that they reflect true and fair view on the financial position and financial result of the Group, including basic risks and exposures.

The consolidated financial statements were authorized by the Board of Directors meeting held on 13 March 2017.

Signature of statutory representatives

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