# Half-year Report 2018

## UNIPETROL, a.s

## Contents

# Business activities and financial results in the first half of 2018

## Key financial and non-financial data

| in CZK million | 6M 2017 | 6M 2018 |
|---|---|---|
| Revenues | 61,031 | 58,309 |
| Gross profit | 6,664 | 3,712 |
| EBITDA LIFO[1,2] | 10,160 | 3,831 |
| LIFO effect | 134 | (903) |
| EBITDA[1] | 10,026 | 4,734 |
| EBIT LIFO[1,3] | 8,807 | 2,243 |
| EBIT | 8,673 | 3,146 |
| **Downstream segment** | | |
| EBITDA LIFO | 9,514 | 3,048 |
| LIFO effect | 134 | (903) |
| EBITDA | 9,380 | 3,951 |
| EBIT LIFO | 8,358 | 1,704 |
| EBIT | 8,224 | 2,607 |
| **Retail segment** | | |
| EBITDA LIFO | 681 | 771 |
| LIFO effect | - | - |
| EBITDA | 681 | 771 |
| EBIT LIFO | 517 | 573 |
| EBIT | 517 | 573 |
| **Corporate functions** | | |
| EBITDA | (35) | 12 |
| EBIT | (68) | (34) |
| | | |
| Net finance income / (costs) | (734) | 665 |
| Profit before tax | 7,939 | 3,811 |
| Tax expense | (1,540) | (603) |
| Net profit | 6,399 | 3,208 |
| Earnings per share (CZK) | 35.30 | 17.70 |
| Operating cash flow | 8,315 | 2,586 |
| Investing cash flow | (9,637) | (2,581) |
| CAPEX[1] | 3,029 | 3,577 |
| Free cash flow[1] | (1,322) | 5 |
| Net working capital[1] | 6,804 | 12,354 |
| Net debt / (net cash)[1] | (1,412) | (2,236) |
| Financial gearing[1] | (3.0%) | (4.3%) |
| Net debt / EBITDA LIFO[1] | (0.1) | (0.3) |

| kt | 6M 2017 | 6M 2018 |
|---|---|---|
| Refining sales, including retail | 3 374 | 2 869 |
| Petrochemical sales | 956 | 1 042 |

[1] See definitions on the page 9.

[2] EBITDA LIFO = Downstream segment EBITDA LIFO + Retail segment EBITDA LIFO + Corporate functions EBITDA

[3] EBIT LIFO = Downstream segment EBIT LIFO + Retail segment EBIT LIFO + Corporate functions EBIT

## Introduction[1]

According to the published OECD data, GDP of the Czech Republic and the euro area continued to grow by 4.2% in the first quarter of 2018 and 1.3% y/y, respectively. Data for Q2 were not yet available before the release date, but a slight decline in GDP is expected in the second half of 2018. Looking at the downstream macro environment, the crude oil prices (Brent Dated) increased by 48% y/y from 54 USD/bbl in 1H2017 to 74 USD/bbl in 1H2018. In comparison to the same period last year, the model refining margin decreased from 3.9 USD/bbl in 1H2017 to 2.6 USD/bbl in 1H2018. The model combined petrochemical margin decreased from the level of 834 EUR/t in 1H2017 to 691 EUR/t in 1H2018.

Revenues in 1H2018 reached CZK 58.3 billion, so at a slight lower level than in 1H2017 when it reached CZK 61.0 billion, which was mainly due to the planned turnaround at the Kralupy refinery, partially offset by higher crude oil prices.

The operating profit EBITDA LIFO decreased from CZK 10,160 m in 1H2017 to CZK 3,831 m in 1H2018. Simultaneously, EBITDA decreased from CZK 10,026 m to CZK 4,734 m and EBIT decreased from CZK 8,673 m to CZK 3,146 m. Net profit decreased from CZK 6,399 m in 1H2017 to CZK 3,208 m in 1H2018. In 1H2017 financial indicators included insurance claim payments in relation to the steam cracker unit accident in the amount of CZK 2,754 m and also FCC unit at Kralupy refinery accidental claim final settlement in amount of CZK 1,320 m, both amounts recognised in other operating income. 1H2018 financial indicators include the final insurance compensation payment related to the steam cracker unit accident in the amount of CZK 1,585 m, also included in other operating income.

The Group continues with investments into new technologies. The key investment is the completion of the construction of the new polyethylene unit PE3 at Litvínov chemical complex. In the retail segment, Unipetrol continues to focus on strengthening Benzina's position on the Czech market as the leading petrol station network and has increased its market share to 22.2%, as of April 2018.

[1]Sources of macro indicators: HDP – Bloomberg/OECD; Crude oil and refinery products – PLATTS; Petchem – ICIS

## Downstream segment

The model refining margin decreased by 34% y/y from 3.9 USD/bbl in 1H2017 to 2.6 USD/bbl in 1H2018. The main contributing factor of this decrease in refinery margins was the notable decrease in spread of heavy heating oils versus crude oil, weakening by 59% y/y. Other negative factors include the adverse movement of CZK/USD exchange rate. The difference between Brent and Ural crude oil prices, which grew by 6% y/y, had a slightly positive impact on the performance of the refinery segment.

The model combined petrochemical margin decreased by 17%, from 834 EUR/t in 1H2017 to 691 EUR/t in 1H2018. The deterioration occurred mainly on the polyolefin side (-25% y/y) due to lower spreads of polyethylene-ethylene and polypropylene-propylene.

Looking at the operation performance the refining utilisation in 1H2018 decreased mainly due to executed turnaround in Kralupy refinery. The total refinery's maintenance and refurbishment costs exceeded CZK 1 bn. The second event which had effect on the production was the maintenance shutdown of the POX unit at the Litvínov chemical complex, which happened in April 2018. The steam cracker utilisation increased y/y supported by improved operations.

The refining sales volume, including retail, decreased by 13% from 4,003 kt in 1H2017 to CZK 3,482 kt in 1H2018 due to the planned turnaround at the Kralupy refinery.

Petrochemical sales reached 1,042 kt in 1H2018, which is higher by 9% than in 1H2017 when the sales reached 956 kt. This y/y increase in the petrochemical sales volume was driven by higher sales volume of polymers, supported by reliable operation of petrochemical production plants.

Due to the factors described above the downstream segment's operating profitability EBITDA LIFO decreased from CZK 9,514 m in 1H2017 to CZK 3,048 m in 1H2018. The company management has reached an agreement on the final settlement of an insured event related to the steam cracker unit. The company received a confirmation of a final insurance payment of CZK 1.6 bn, which means that the company will have received CZK 12.2 bn in total in connection with the settlement of the insured event on the steam cracker unit, out of which CZK 10.6 bn was recognised in 2016 and 2017 other operating income.

## Retail segment

The retail segment recorded a significant 16% y/y improvement in profitability. The EBITDA LIFO increased from CZK 681 million in 1H2017 to CZK 771 million in 1H2018 due to Benzina's higher fuel as well as non-fuel sales. Increased fuels sales have been achieved thanks to a number of activities in sales, marketing along with improved standards, good dynamics of the Czech economy and the completion of OMV petrol stations takeover. Better performance of the non-fuel segment was boosted by improved offer on refreshments and shop. Benzina's market share grew by approximately 2.9 percentage points y/y, from 19.3% in 1H2017 to 22.2% in 1H2018 (1H2018 figure is based on the latest available official statistical data at the end of April 2018).

In 1H2018, Benzina refurbished 31 of its petrol stations to the new Stop Cafe gastronomic concept. In June 2018 Benzina celebrated its 60th anniversary.

## CAPEX, cash flow and financial gearing

CAPEX reached CZK 3,577 m in 1H2018 compared with CZK 3,029 m in 1H2017. The main part of investments in 1H2018 was carried out by the downstream segment. In particular, the construction of a new polyethylene unit and the construction of a new boiler room for the steam cracker unit continued in the petrochemical sector. In the refinery area, focus was on the planned turnaround at the Kralupy refinery. The key projects in Spolana were the construction of a new energy center and the optimisation of compressed air production. In the retail segment, main part of the CAPEX went into the implementation of the Stop Cafe 2.0 concept.

The operating cash flow decreased from CZK 8,315 m in 1H2017 to CZK 2,586 m in 1H2018. The investing cash flow was CZK (-) 2,581 m in 1H2018 compared to CZK (-) 9,637 m in 1H2017. The free cash flow, defined as the sum of operating and investing cash flow, increased y/y from CZK (-) 1,322 m in 1H2017 to CZK 5 m in 1H2018.

The net debt was at a negative level of CZK (-) 2,236 m as at 30 June 2018 compared to a position in 1H2017 of (-) 1,413 m (negative amount represents a net cash position). Consequently, the financial gearing ratio was also at the negative level of (-) 4.3% as at 30 June 2018, compared to H1 2017 position of (-) 3.0%.

## Expected development of business activities in the second half of 2018

GDP growth in both the Czech Republic and the euro area is expected to maintain solid dynamics during the 2H2018, with a y/y estimated growth of approximately 3.5%. Data from the Czech Statistical Office confirms the growing confidence of consumers and entrepreneurs in the Czech economy in June 2018, when y/y growth of all monitored confidence indicators was observed, which also suggests a slightly optimistic outlook for the second half of 2018.

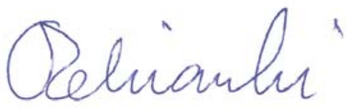
With regard to the Brent crude oil price, it is expected that the price will be at around USD 72/barrel (Bloomberg), but it is important to keep in mind that oil prices also depend on geopolitical risks.

With regard to the capital expenditures in the second half of 2018, petrochemical part of the downstream segment will remain the main area of investments with continuation of the major project – new polyethylene unit (PE3), as key activity. Spolana aims to finalise the granulation of ammonium sulphate project. In the retail segment, Benzina will continue with remodeling of its petrol stations.

The company management will continue to be focused on delivering targets set in Unipetrol Group Strategy and continue with execution of the internal efficiency initiatives (Operational Excellence) across all segments.

## Information about the persons responsible for the Half-year Report 2018

Krzysztof Zdziarski, Chairman of Unipetrol's Board of Directors, and Mirosław Kastelik, Vice-Chairman of Unipetrol's Board of Directors, hereby represent that, to their best knowledge, the Half-year Report and the Consolidated and Separate financial statements as of 30 June 2018 present, in all aspects, a true and fair image of the financial standing, business, and results of the issuer and its consolidated group for the first half of 2018, as well as of the future outlook for the financial standing, business, and results.



Krzysztof Zdziarski
Chairman of the Board of Directors
Date: 19 July 2018

Mirosław Kastelik
Vice-Chairman of the Board of Directors
Date: 19 July 2018

## Explanation on the use of alternative performance measures

<table>
<tr><th>Indicator</th><th>Definition</th><th>Purpose</th><th>Reconciliation</th></tr>
<tr><td>EBITDA</td><td>Operating profit/(loss) + depreciation and amortization</td><td>The indicator shows operating performance of the company. It allows comparing with other companies because it does not depend on the accounting depreciation method, capital structure or tax regime.</td><td>see note 3. Operating segments of the Notes to the Consolidated financial statements</td></tr>
<tr><td>EBITDA LIFO</td><td>Operating profit/(loss) + depreciation and amortization + LIFO effect</td><td>The indicator shows operating performance of the company and additionally it shows the impact of the change in the crude oil price. Using the LIFO methodology for inventory valuation (Last-In-First-Out).</td><td><table><tr><th>in CZK m</th><th>6M17</th><th>6M18</th></tr><tr><td>EBITDA</td><td>10,026</td><td>4,734</td></tr><tr><td>LIFO effect</td><td>134</td><td>(903)</td></tr><tr><td>EBITDA LIFO</td><td>10,160</td><td>3,831</td></tr></table></td></tr>
<tr><td>EBIT</td><td>Operating profit/(loss)</td><td>The indicator shows operating performance of the company without the influence of the company’s capital structure and taxation. It allows monitoring of revenues and expenses on the operational level.</td><td>see note 3. Operating segments of the Notes to the Consolidated financial statements</td></tr>
<tr><td>EBIT LIFO</td><td>Operating profit/(loss) + LIFO effect</td><td>The indicator shows operating performance of the company without the influence of the company’s capital structure and taxation and additionally it shows the impact of the change in the crude oil price. Using the LIFO methodology for inventory valuation (Last-In-First-Out).</td><td><table><tr><th>in CZK m</th><th>6M17</th><th>6M18</th></tr><tr><td>EBIT</td><td>8,673</td><td>3,146</td></tr><tr><td>LIFO effect</td><td>134</td><td>(903)</td></tr><tr><td>EBIT LIFO</td><td>8,807</td><td>2,243</td></tr></table></td></tr>
<tr><td>Free cash flow (FCF)</td><td>Net cash from operating activities + net cash used in investing activities</td><td>The indicator measures the financial performance of the company. It shows what amount of cash is the company able to generate after deducting the capital expenses.</td><td>see Consolidated statement of cash flows</td></tr>
<tr><td>Net working capital</td><td>Inventories + trade and other receivables - trade and other liabilities</td><td>The indicator shows how much operating funds remains available to the company when all its short-term obligations are paid. It allows measuring of short-term financial health of the company.</td><td>see Consolidated statement of financial position</td></tr>
</table>

<table>
<tr><th>Indicator</th><th>Definition</th><th>Purpose</th><th>Reconciliation</th></tr>
<tr><td>Net debt / (net cash)</td><td>Non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents</td><td>The indicator shows the financial debt less cash and cash equivalents. It allows assessing the overall indebtedness of the company, i.e. ability of the company to pay all its debts if they were payable at the same time using only the available cash and cash equivalents.</td><td><table>
<tr><td>in CZK m</td><td>6M17</td><td>6M18</td></tr>
<tr><td>Non-current loans and borrowings</td><td>0</td><td>0</td></tr>
<tr><td>Current loans and borrowings</td><td>0</td><td>16</td></tr>
<tr><td>Cash pool liabilities</td><td>327</td><td>511</td></tr>
<tr><td>Cash and cash equivalents</td><td>1,740</td><td>2,763</td></tr>
<tr><td>Net debt / (net cash)</td><td>(1,413)</td><td>(2,236)</td></tr>
</table></td></tr>
<tr><td>Financial gearing</td><td>Net debt / (total equity – hedging reserve) x 100%</td><td>The indicator shows the financial debt in proportion to the equity less the hedging reserve (the amount of the hedging reserve results from the valuation of derivatives meeting the requirements of cash flow hedge accounting). It allows monitoring the company’s debt level.</td><td><u>Total equity</u><br>see Consolidated statement of financial position<br><br><u>Hedging reserve</u><br>see Consolidated statement of financial position</td></tr>
<tr><td>Net debt / EBITDA LIFO (4-quarters trailing adjusted EBITDA LIFO)</td><td>Net debt / EBITDA LIFO, where the EBITDA LIFO indicator is 4-quarters trailing EBITDA LIFO adjusted for extraordinary (one-off) items, which do not relate to the ordinary economic activity.</td><td>The indicator measures the company’s ability to pay its debt. The indicator shows approximately in how long is the company able to pay back its debt out of its normal source of operating cash flow.</td><td><table>
<tr><td>in CZK m</td><td>6M17</td><td>6M18</td></tr>
<tr><td>EBITDA LIFO<br>(4-quarters trailing)</td><td>17,265</td><td>8,488</td></tr>
<tr><td>impairment allowance of the downstream segment assets reversal</td><td>(1,919)</td><td>-</td></tr>
<tr><td>EBITDA LIFO<br>(4-quarters trailing)</td><td>15,346</td><td>8,488</td></tr>
<tr><td>Net debt</td><td>(1,413)</td><td>(2,236)</td></tr>
<tr><td>Net debt / EBITDA LIFO</td><td>(0.1)</td><td>(0.3)</td></tr>
</table></td></tr>
<tr><td>CAPEX</td><td>Acquisition of property, plant and equipment and intangible assets.</td><td>The indicator shows capital expenditures of the company for the period on the cash flow basis. It allows monitoring of investing activities of the company.</td><td>see note 3. Operating segments of the Notes to the Consolidated financial statements</td></tr>
</table>

# UNIPETROL, a.s.

## CONSOLIDATED INTERIM REPORT

**FOR THE 1ST HALF 2018**

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

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# UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE

2018

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

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

### Consolidated statement of profit or loss and other comprehensive income

| | Note | 6 MONTH PERIOD ENDED 30/06/2018 (unaudited) | 3 MONTH PERIOD ENDED 30/06/2018 (unaudited) | 6 MONTH PERIOD ENDED 30/06/2017 (unaudited) | 3 MONTH PERIOD ENDED 30/06/2017 (unaudited) |
|---|---|---|---|---|---|
| **Statement of profits or loss** | | | | | |
| Revenues | 4.1. | 58 309 | 31 137 | 61 031 | 31 181 |
| Cost of sales | 4.2. | (54 597) | (29 243) | (54 367) | (27 823) |
| **Gross profit on sales** | | **3 712** | **1 894** | **6 664** | **3 358** |
| Distribution expenses | | (1 246) | (506) | (1 375) | (698) |
| Administrative expenses | | (836) | (374) | (776) | (373) |
| Other operating income | 4.5. | 1 750 | 1 652 | 4 225 | 3 095 |
| Other operating expenses | 4.5. | (234) | (107) | (65) | (37) |
| **Profit from operations** | | **3 146** | **2 559** | **8 673** | **5 345** |
| Finance income | 4.6. | 850 | 941 | 186 | 92 |
| Finance costs | 4.6. | (185) | (5) | (920) | (793) |
| **Net finance income/(costs)** | | **665** | **936** | **(734)** | **(701)** |
| **Profit before tax** | | **3 811** | **3 495** | **7 939** | **4 644** |
| Tax expense | 4.7. | (603) | (609) | (1 540) | (1 071) |
| **Net profit** | | **3 208** | **2 886** | **6 399** | **3 573** |
| **Other comprehensive income** | | | | | |
| **items which will be reclassified into profit or loss under certain conditions** | | **(592)** | **(675)** | **934** | **582** |
| *Hedging instruments* | | *(731)* | *(835)* | *1 156* | *721* |
| *Exchange differences on translating foreign operations* | | *-* | *1* | *(2)* | *(2)* |
| *Deferred tax* | | *139* | *159* | *(220)* | *(137)* |
| | | **(592)** | **(675)** | **934** | **582** |
| **Total net comprehensive income** | | **2 616** | **2 211** | **7 333** | **4 155** |
| **Net profit attributable to** | | **3 208** | **2 886** | **6 399** | **3 573** |
| *equity owners of the parent* | | *3 209* | *2 887* | *6 401* | *3 575* |
| *non-controlling interests* | | *(1)* | *(1)* | *(2)* | *(2)* |
| **Total net comprehensive income attributable to** | | **2 616** | **2 211** | **7 333** | **4 155** |
| *equity owners of the parent* | | *2 617* | *2 212* | *7 335* | *4 157* |
| *non-controlling interests* | | *(1)* | *(1)* | *(2)* | *(2)* |
| Net profit and diluted net profit per share attributable to equity owners of the parent (in CZK per share) | | 17.70 | 15.92 | 35.30 | 19.72 |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-20.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

## Consolidated statement of financial position

| | Note | 30/06/2018 (unaudited) | 31/12/2017 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4.8. | 36 580 | 34 583 |
| Investment property | | 448 | 448 |
| Intangible assets | | 1 324 | 1 626 |
| Financial assets available for sale | | 1 | 1 |
| Deferred tax assets | | 48 | 48 |
| Financial derivatives | 4.9. | 107 | 700 |
| Other non-current assets | 4.9. | 111 | 96 |
| | | **38 619** | **37 502** |
| **Current assets** | | | |
| Inventories | | 16 932 | 14 983 |
| Trade and other receivables | | 18 997 | 14 432 |
| Financial derivatives | 4.9. | 430 | 666 |
| Other financial assets | 4.9. | 4 039 | 5 686 |
| Current tax assets | | 132 | 117 |
| Cash and cash equivalents | | 2 763 | 2 459 |
| | | **43 293** | **38 343** |
| **Total assets** | | **81 912** | **75 845** |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | | 18 133 | 18 133 |
| Statutory reserves | | 33 | 33 |
| Hedging reserve | | 238 | 830 |
| Revaluation reserve | | 10 | 10 |
| Exchange differences on translating foreign operations | | 11 | 11 |
| Retained earnings | | 34 054 | 30 856 |
| **Equity attributable to equity owners of the parent** | | **52 479** | **49 873** |
| **Non-controlling interests** | | **(10)** | **(9)** |
| **Total equity** | | **52 469** | **49 864** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Provisions | 4.10. | 814 | 798 |
| Deferred tax liabilities | | 1 408 | 1 383 |
| Other non-current liabilities | 4.9. | 227 | 238 |
| | | **2 449** | **2 419** |
| **Current liabilities** | | | |
| Trade and other liabilities | | 23 575 | 20 733 |
| Loans, borrowings | | 16 | 1 |
| Current tax liabilities | | 1 178 | 1 072 |
| Provisions | 4.10. | 865 | 942 |
| Deferred income | | 386 | 16 |
| Financial derivatives | 4.9. | 251 | 398 |
| Other financial liabilities | 4.9. | 723 | 400 |
| | | **26 994** | **23 562** |
| **Total liabilities** | | **29 443** | **25 981** |
| **Total equity and liabilities** | | **81 912** | **75 845** |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-20.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

## Consolidated statement of changes in equity

| | Equity attributable to equity owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserves | Hedging reserve | Exchange differences on translating foreign operations | Revaluation reserve | Retained earnings | Total | Non-controlling interests | Total equity |
| (unaudited) | | | | | | | | | |
| 01/01/2018 (previously reported) | 18 133 | 33 | 830 | 11 | 10 | 30 856 | 49 873 | (9) | 49 864 |
| Impact of IFRS 9 adoption | - | - | - | - | - | (11) | (11) | - | (11) |
| 01/01/2018 (reclassified data) | 18 133 | 33 | 830 | 11 | 10 | 30 845 | 49 862 | (9) | 49 853 |
| Net profit/(loss) | - | - | - | - | - | 3 209 | 3 209 | (1) | 3 208 |
| Items of other comprehensive income | - | - | (592) | - | - | - | (592) | - | (592) |
| **Total net comprehensive income** | **-** | **-** | **(592)** | **-** | **-** | **3 209** | **2 617** | **(1)** | **2 616** |
| **30/06/2018** | **18 133** | **33** | **238** | **11** | **10** | **34 054** | **52 479** | **(10)** | **52 469** |
| (unaudited) | | | | | | | | | |
| 01/01/2017 | 18 133 | 33 | (263) | 16 | 10 | 23 701 | 41 630 | (9) | 41 621 |
| Net profit/(loss) | - | - | - | - | - | 6 401 | 6 401 | (2) | 6 399 |
| Items of other comprehensive income | - | - | 936 | (2) | - | - | 934 | - | 934 |
| **Total net comprehensive income** | **-** | **-** | **936** | **(2)** | **-** | **6 401** | **7 335** | **(2)** | **7 333** |
| Dividends | - | - | - | - | - | (1 505) | (1 505) | - | (1 505) |
| **30/06/2017** | **18 133** | **33** | **673** | **14** | **10** | **28 597** | **47 460** | **(11)** | **47 449** |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-20.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

## Consolidated statement of cash flows

| | 6 MONTH PERIOD ENDED 30/06/2018 (unaudited) | 3 MONTH PERIOD ENDED 30/06/2018 (unaudited) | 6 MONTH PERIOD ENDED 30/06/2017 (unaudited) | 3 MONTH PERIOD ENDED 30/06/2017 (unaudited) |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Profit before tax** | **3 811** | **3 495** | **7 939** | **4 644** |
| Adjustments for: | | | | |
| Depreciation and amortisation | 1 588 | 809 | 1 353 | 710 |
| Foreign exchange (gain)/loss | (1) | (4) | 20 | 16 |
| Interest and dividends, net | (25) | (16) | (12) | (10) |
| (Profit)/Loss on investing activities | (185) | (300) | 716 | 618 |
| Change in provisions | 736 | 346 | 219 | 108 |
| Change in receivables and liabilities from insurance | (1 585) | (1 585) | (1 696) | (2 962) |
| Other adjustments including change in financial instruments and deferred income | (148) | 123 | (476) | 22 |
| Change in working capital | (1 255) | 531 | 570 | 3 311 |
| *inventories* | *(1 953)* | *(1 700)* | *1 384* | *1 948* |
| *receivables* | *(2 699)* | *(3 275)* | *(268)* | *199* |
| *liabilities* | *3 397* | *5 506* | *(546)* | *1 164* |
| Income tax (paid) | (350) | (173) | (318) | (151) |
| **Net cash from operating activities** | **2 586** | **3 226** | **8 315** | **6 306** |
| **Cash flows from investing activities** | | | | |
| Acquisition of property, plant and equipment and intangible assets | (4 432) | (2 271) | (3 403) | (2 152) |
| Disposal of property, plant and equipment and intangible assets | 5 | 1 | 10 | 9 |
| Settlement of financial derivatives | 93 | 271 | (629) | (516) |
| Proceeds/(outflows) from cash pool assets | 1 723 | (521) | (5 611) | (6 725) |
| Other | 30 | 20 | (4) | (6) |
| **Net cash used in investing activities** | **(2 581)** | **(2 500)** | **(9 637)** | **(9 390)** |
| **Cash flows from financing activities** | | | | |
| Proceedsfrom loans and borrowings | 15 | 15 | - | - |
| Proceedsfrom cash pool liabilities | 288 | 211 | 153 | 38 |
| Interest paid | - | - | (1) | - |
| Dividends paid | (4) | (1) | (3) | (3) |
| Other | (3) | (1) | (3) | - |
| **Net cash from financing activities** | **296** | **224** | **146** | **35** |
| **Net increase/(decrease) in cash and cash equivalents** | **301** | **950** | **(1 176)** | **(3 049)** |
| Effect of exchange rate changes on cash and cash equivalents | 2 | 5 | (17) | (13) |
| Cash and cash equivalents, beginning of the period | 2 459 | 1 807 | 2 933 | 4 802 |
| **Cash and cash equivalents, end of the period** | **2 762** | **2 762** | **1 740** | **1 740** |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 8-20.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

## EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE COMPANY

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

*Identification number of the Company*
616 72 190

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

*Principal activities*
The Company operates as a holding company covering and administering a group of companies (the "Group"). The principal business activities of the Group include oil and petroleum products processing, production of commodity chemicals, polymer materials, mineral lubricants, plastic lubricants, road and insulation bitumen, special refinery and petrochemical products. Furthermore, the Group is engaged in the distribution of fuels and operation of gas stations.

In addition to these principal activities, the Group is engaged in other activities that are necessary to support the principal activities, such as production, distribution and sale of heat and electricity, operation of railway tracks and railway transportation, advisory services relating to research and development, environmental protection, software and hardware advisory services and other services.

*Ownership structure*
The shareholders as at 30 June 2018 are as follows:

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

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

*Consolidated group structure*
The subsidiaries and jointly controlled entities forming the consolidated group of UNIPETROL, a.s., and the parent company's interest in the capital of subsidiaries and jointly controlled entities held either directly by the parent company or indirectly by the consolidated subsidiaries are presented in the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

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

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

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

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

## 1. DESCRIPTION OF THE COMPANY (CONTINUED)

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

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

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

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

## 2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

### 2.1. Statement of compliance and general principles of preparation

The consolidated financial statements of the Company as at and for the period ended 30 June 2018 include the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

These condensed consolidated interim financial statements have been prepared on a going concern basis. As at the date of the statements approval, 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, were prepared on the accrual basis of accounting.

### 2.2. Information concerning the seasonal or cyclical character of the Group’s operations in the period presented

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

## 3. OPERATING SEGMENTS

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

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

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

Allocation of subsidiaries into the operating activities is presented in the consolidated financial statements of the Group as at and for the year ended 31 December 2017. There were no changes in allocation of subsidiaries into the operating segments during the 6 month period ended 30 June 2018.

### Financial results and investment expenditures by operating segments

### For the 6 month period ended 30 June 2018

| | Downstream Segment | Retail Segment | Corporate Functions | Elimination adjustments | Total |
|---|---|---|---|---|---|
| External revenues | 50 876 | 7 363 | 70 | - | 58 309 |
| Inter-segment revenues | 6 063 | 34 | 550 | (6 647) | - |
| Segment revenues | 56 939 | 7 397 | 620 | (6 647) | 58 309 |
| Operating expenses | (55 833) | (6 833) | (660) | 6 647 | (56 679) |
| Other operating income | 1 713 | 22 | 15 | - | 1 750 |
| Other operating expenses | (212) | (13) | (9) | - | (234) |
| **Profit/(Loss) from operations** | **2 607** | **573** | **(34)** | **-** | **3 146** |
| Net finance income | | | | | 665 |
| **Profit before tax** | | | | | **3 811** |
| Tax expense | | | | | (603) |
| **Net profit** | | | | | **3 208** |
| **Depreciation and amortisation** | **(1 344)** | **(198)** | **(46)** | **-** | **(1 588)** |
| **EBITDA*** | **3 951** | **771** | **12** | **-** | **4 734** |
| **CAPEX**** | **2 920** | **555** | **102** | **-** | **3 577** |

### For the 3 month period ended 30 June 2018

| | Downstream Segment | Retail Segment | Corporate Functions | Elimination adjustments | Total |
|---|---|---|---|---|---|
| External revenues | 27 011 | 4 092 | 34 | - | 31 137 |
| Inter-segment revenues | 3 413 | 18 | 278 | (3 709) | - |
| Segment revenues | 30 424 | 4 110 | 312 | (3 709) | 31 137 |
| Operating expenses | (29 682) | (3 814) | (336) | 3 709 | (30 123) |
| Other operating income | 1 629 | 8 | 15 | - | 1 652 |
| Other operating expenses | (99) | (3) | (5) | - | (107) |
| **Profit/(Loss) from operations** | **2 272** | **301** | **(14)** | **-** | **2 559** |
| Net finance income | | | | | 936 |
| **Profit before tax** | | | | | **3 495** |
| Tax expense | | | | | (609) |
| **Net profit** | | | | | **2 886** |
| **Depreciation and amortisation** | **(682)** | **(103)** | **(24)** | **-** | **(809)** |
| **EBITDA*** | **2 954** | **404** | **10** | **-** | **3 368** |
| **CAPEX**** | **1 899** | **316** | **80** | **-** | **2 295** |

### For the 6 month period ended 30 June 2017

| | Downstream Segment | Retail Segment | Corporate Functions | Elimination adjustments | Total |
|---|---|---|---|---|---|
| External revenues | 54 893 | 6 070 | 68 | - | 61 031 |
| Inter-segment revenues | 4 886 | 33 | 448 | (5 367) | - |
| Segment revenues | 59 779 | 6 103 | 516 | (5 367) | 61 031 |
| Operating expenses | (55 725) | (5 593) | (567) | 5 367 | (56 518) |
| Other operating income | 4 213 | 8 | 4 | - | 4 225 |
| Other operating expenses | (43) | (1) | (21) | - | (65) |
| **Profit/(Loss) from operations** | **8 224** | **517** | **(68)** | **-** | **8 673** |
| Net finance costs | | | | | (734) |
| **Profit before tax** | | | | | **7 939** |
| Tax expense | | | | | (1 540) |
| **Net profit** | | | | | **6 399** |
| **Depreciation and amortisation** | **(1 156)** | **(164)** | **(33)** | **-** | **(1 353)** |
| **EBITDA*** | **9 380** | **681** | **(35)** | **-** | **10 026** |
| **CAPEX**** | **2 571** | **360** | **98** | **-** | **3 029** |

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

## 3. OPERATING SEGMENTS (CONTINUED)

### For the 3 month period ended 30 June 2017

| | Downstream Segment | Retail Segment | Corporate Functions | Elimination adjustments | Total |
|---|---|---|---|---|---|
| External revenues | 27 951 | 3 198 | 32 | - | 31 181 |
| Inter-segment revenues | 2 507 | 16 | 236 | (2 759) | - |
| Segment revenues | 30 458 | 3 214 | 268 | (2 759) | 31 181 |
| Operating expenses | (28 473) | (2 886) | (294) | 2 759 | (28 894) |
| Other operating income | 3 088 | 4 | 3 | - | 3 095 |
| Other operating expenses | (20) | (1) | (16) | - | (37) |
| **Profit/(Loss) from operations** | **5 053** | **331** | **(39)** | **-** | **5 345** |
| Net finance costs | | | | | (701) |
| **Profit before tax** | | | | | **4 644** |
| Tax expense | | | | | (1 071) |
| **Net profit** | | | | | **3 573** |
| **Depreciation and amortisation** | **(608)** | **(84)** | **(18)** | **-** | **(710)** |
| **EBITDA*** | **5 661** | **415** | **(21)** | **-** | **6 055** |
| **CAPEX**** | **1 577** | **192** | **33** | **-** | **1 802** |

* Profit/(Loss) from operations + depreciation and amortization.
** Additions to non-current assets (investment expenditures in property, plant and equipment + investment expenditures in intangible assets - investment expenditures in $CO_2$ emission allowances).

### Assets by operating segments

| | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Downstream Segment | 65 793 | 58 788 |
| Retail Segment | 7 447 | 6 924 |
| **Segment assets** | **73 240** | **65 712** |
| Corporate Functions | 8 836 | 10 231 |
| Adjustments | (164) | (98) |
| | **81 912** | **75 845** |

## 4. OTHER NOTES

### 4.1. Revenues

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Revenues from sales of finished goods and services, net | 55 453 | 28 851 | 59 315 | 30 065 |
| Revenues from sales of merchandise and raw materials, net | 2 856 | 2 286 | 1 716 | 1 116 |
| | **58 309** | **31 137** | **61 031** | **31 181** |

### Revenues by assortments

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| **Downstream Segment** | **50 876** | **27 011** | **54 893** | **27 951** |
| Light distillates | 7 925 | 4 290 | 10 613 | 5 445 |
| Medium distillates | 20 866 | 11 807 | 22 524 | 11 173 |
| Heavy fractions | 2 610 | 1 507 | 2 441 | 1 384 |
| Monomers | 2 302 | 935 | 1 873 | 1 177 |
| Polymers | 8 566 | 4 240 | 7 935 | 3 887 |
| Aromas | 2 050 | 982 | 1 525 | 883 |
| Fertilizers | 310 | 142 | 284 | 137 |
| Plastics | 1 302 | 724 | 1 390 | 680 |
| Others | 3 746 | 1 789 | 4 992 | 2 538 |
| Services | 1 199 | 595 | 1 315 | 646 |
| **Retail Segment** | **7 363** | **4 092** | **6 070** | **3 198** |
| Light distillates | 2 352 | 1 345 | 1 942 | 1 069 |
| Medium distillates | 4 640 | 2 537 | 3 855 | 1 976 |
| Others | 13 | 5 | 13 | 5 |
| Services | 358 | 205 | 261 | 149 |
| **Corporate Functions** | **70** | **34** | **68** | **32** |
| | **58 309** | **31 137** | **61 031** | **31 181** |

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

### 4.1. Revenues (continued)

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Czech Republic | 37 422 | 20 500 | 38 935 | 20 356 |
| Germany | 7 752 | 3 786 | 6 506 | 3 345 |
| Poland | 2 858 | 1 608 | 4 910 | 2 246 |
| Slovakia | 3 183 | 1 811 | 3 322 | 1 625 |
| Switzerland | 1 321 | 450 | 1 110 | 582 |
| Hungary | 2 396 | 1 284 | 2 240 | 1 173 |
| Other countries | 3 377 | 1 698 | 4 008 | 1 854 |
| | **58 309** | **31 137** | **61 031** | **31 181** |

No countries, other 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.

During the 6 month period ended 30 June 2018 revenues from contracts with customers amounted to CZK 58 009 million, while other revenues related to rent and lease services amounted to CZK 300 million.

### 4.2. Operating expenses

#### Cost of sales

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Cost of finished goods and services sold | (51 778) | (27 037) | (52 697) | (26 752) |
| Cost of merchandise and raw materials sold | (2 819) | (2 206) | (1 670) | (1 071) |
| | **(54 597)** | **(29 243)** | **(54 367)** | **(27 823)** |

#### Cost by nature

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Materials and energy | (47 455) | (23 682) | (46 862) | (23 318) |
| Cost of merchandise and raw materials sold | (2 819) | (2 206) | (1 670) | (1 071) |
| External services | (2 970) | (1 523) | (2 999) | (1 510) |
| Employee benefits | (2 031) | (987) | (1 672) | (843) |
| Depreciation and amortisation | (1 588) | (809) | (1 353) | (710) |
| Taxes and charges | (511) | (279) | (203) | (95) |
| Other | (639) | (331) | (475) | (244) |
| | **(58 013)** | **(29 820)** | **(55 234)** | **(27 791)** |
| Change in inventories | 1 095 | (415) | (1 349) | (1 140) |
| Cost of products and services for own use | 5 | 5 | - | - |
| **Operating expenses** | **(56 913)** | **(30 230)** | **(56 583)** | **(28 931)** |
| Distribution expenses | 1 246 | 506 | 1 375 | 698 |
| Administrative expenses | 836 | 374 | 776 | 373 |
| Other operating expenses | 234 | 107 | 65 | 37 |
| **Cost of sales** | **(54 597)** | **(29 243)** | **(54 367)** | **(27 823)** |

### 4.3. Impairment allowances of inventories to net realisable value

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Increase | (87) | (5) | (345) | (330) |
| Decrease | 103 | 17 | 380 | 336 |

### 4.4. Impairment allowances of assets

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| **Property, plant and equipment** | | | | |
| Recognition | (33) | (20) | (4) | (2) |
| Reversal | 14 | 6 | 2 | 1 |
| **Receivables** | | | | |
| Recognition | (3) | - | (11) | (1) |
| Reversal | 22 | 9 | 1 | 1 |

Recognitions and reversals of the impairment allowances were recorded in relation to overdue receivables, uncollectable receivables or receivables in court.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

### 4.5. Other operating income and expenses

#### Other operating income

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Penalties and compensations | 1 592 | 1 590 | 4 120 | 3 074 |
| Profit on sale of non-current non-financial assets | 4 | - | 35 | 5 |
| Reversal of provisions | 3 | 3 | 2 | 1 |
| Reversal of receivables impairment allowances | 22 | 9 | 1 | 1 |
| Reversal of impairment allowances of property, plant and equipment and intangible assets | 14 | 6 | 2 | 1 |
| Revaluation of provision to $CO_2$ consumption | - | - | 49 | 2 |
| Settlement and valuation of financial instruments related to operational exposure | 85 | 36 | - | - |
| Other | 30 | 8 | 16 | 11 |
| | **1 750** | **1 652** | **4 225** | **3 095** |

In the 2nd quarter 2018 the Group succeeded to agree with insurers the final settlement amount of the insurance claim relating to the Steam Cracker unit accident, which took place at the Chempark Záluží in Litvínov on 13 August 2015. The total recovery relates to property and mechanical damage as well as the loss of business profits (business interruption) in the amount of USD 515 million. The amount of USD 444 million (CZK 10 648 million) was previously recognized in Other operating income in 2016 and 2017. The remaining amount of CZK 1 585 million (USD 71 million) is currently recognized as Other operating income in the 2nd quarter 2018 and as at 30 June 2018 there are no contingent assets from the insurance claim disclosed by the Group.

During the 6 months and 3 months ended 30 June 2017 the Group recognized compensation from insurances in the amount of CZK 2 754 million in connection with steam cracker unit accident.

During the 6 month period ended 30 June 2017 the Group recognized final compensation from insurances in the amount of CZK 1 320 million in connection with the accident on the Fluid Catalytic Cracking unit.

The Group has early adopted IFRS 9 in relation to hedge accounting. In the financial statements for the 6 month period ended 30 June 2018 the Group presents settlement and valuation of certain transactions with financial derivatives as well as, the ineffective part of the transactions under hedge accounting within other operating income and expenses. In previous periods these transactions were presented in finance income and costs. The result of settlement and valuation of financial instruments in the 6 month period ended 30 June 2017 was insignificant.

#### Other operating expenses

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Penalties, damages and compensations | (3) | (2) | (20) | (16) |
| Loss on sale of non-current non-financial assets | (13) | (4) | (17) | (17) |
| Recognition of provisions | - | - | (5) | - |
| Recognition of receivables impairment allowances | (3) | - | (11) | (1) |
| Recognition of impairment allowances of property, plant and equipment and intangible assets | (33) | (20) | (4) | (2) |
| Revaluation of provision to $CO_2$ consumption | (68) | (9) | (3) | 2 |
| Donations | (4) | (2) | (1) | (1) |
| Settlement and valuation of financial instruments related to operational exposure | (108) | (69) | - | - |
| Other | (2) | (1) | (4) | (2) |
| | **(234)** | **(107)** | **(65)** | **(37)** |

### 4.6. Finance income and finance costs

#### Finance income

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Settlement and valuation of financial instruments | 388 | 313 | 163 | 78 |
| Interest | 36 | 20 | 23 | 14 |
| Net foreign exchange gain | 426 | 608 | - | - |
| | **850** | **941** | **186** | **92** |

#### Finance costs

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Net foreign exchange loss | - | - | (25) | (118) |
| Settlement and valuation of financial instruments | (175) | - | (880) | (669) |
| Other | (10) | (5) | (15) | (6) |
| | **(185)** | **(5)** | **(920)** | **(793)** |

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

### 4.7. Tax expense

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| Current income tax | (438) | (415) | (1 218) | (808) |
| Deferred income tax | (165) | (194) | (322) | (263) |
| | **(603)** | **(609)** | **(1 540)** | **(1 071)** |

### 4.8. Property, plant and equipment

#### Material additions

In the 6 month period ended 30 June 2018, the major additions to non-current assets were: capitalized spendings connected with periodical turnaround in amount of CZK 659 million, partial construction of the new PE3 unit in the amount of CZK 634 million, acquisition and reconstruction of petrol stations in the amount of CZK 312 million, locomotives in the amount of CZK 199 million, spare parts in the amount of CZK 188 million and catalysts in the amount of CZK 135 million. The amounts of other investment projects have not exceeded CZK 100 million.

In 2017 the major additions to non-current assets were: partial construction of the new PE3 unit in the amount of CZK 3 687 million, acquisition of petrol stations and their remodelling in the amount of CZK 428 million, locomotives in the amount of CZK 178 million, investment to granulation technology of ammonium sulphate in the amount of CZK 124 million and revamp of T700 in the amount of CZK 118 million. The amounts of other investment projects have not exceeded CZK 100 million.

### 4.9. Derivatives and other assets and liabilities

#### Derivatives and other assets

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 |
| Cash flow hedging instruments | 107 | 700 | 381 | 660 | 488 | 1 360 |
| *currency forwards* | *107* | *700* | *362* | *599* | *469* | *1 299* |
| *commodity swaps* | - | - | *19* | *61* | *19* | *61* |
| Derivatives not designated as hedge accounting | - | - | 49 | 6 | 49 | 6 |
| *currency forwards* | - | - | *49* | - | *49* | - |
| *commodity swaps* | - | - | - | *6* | - | *6* |
| **Financial derivatives** | **107** | **700** | **430** | **666** | **537** | **1 366** |
| Other financial assets | 20 | 20 | 4 039 | 5 686 | 4 059 | 5 706 |
| *cash pool* | - | - | *3 946* | *5 671* | *3 946* | *5 671* |
| *receivables on settled cash flow hedging instruments* | - | - | *93* | *15* | *93* | *15* |
| *other* | *20* | *20* | - | - | *20* | *20* |
| Other non-financial assets | 91 | 76 | - | - | 91 | 76 |
| *prepayments* | *91* | *76* | - | - | *91* | *76* |
| **Other assets** | **111** | **96** | **4 039** | **5 686** | **4 150** | **5 782** |

#### Derivatives and other liabilities

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 |
| Cash flow hedging instruments | - | - | 251 | 321 | 251 | 321 |
| *currency forwards* | - | - | *100* | - | *100* | - |
| *commodity swaps* | - | - | *151* | *321* | *151* | *321* |
| Derivatives not designated as hedge accounting | - | - | - | 77 | - | 77 |
| *currency forwards* | - | - | - | *66* | - | *66* |
| *commodity swaps* | - | - | - | *11* | - | *11* |
| **Financial derivatives** | **-** | **-** | **251** | **398** | **251** | **398** |
| Other financial liabilities | 225 | 236 | 723 | 400 | 948 | 636 |
| *investment liabilities* | *54* | *64* | - | - | *54* | *64* |
| *cash pool* | - | - | *512* | *225* | *512* | *225* |
| *liabilities on settled cash flow hedging instruments* | - | - | *211* | *175* | *211* | *175* |
| *guarantee payment received* | *169* | *170* | - | - | *169* | *170* |
| *other* | *2* | *2* | - | - | *2* | *2* |
| Other non-financial liabilities | 2 | 2 | - | - | 2 | 2 |
| *other* | *2* | *2* | - | - | *2* | *2* |
| **Other non-financial liabilities** | **227** | **238** | **723** | **400** | **950** | **638** |

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

### 4.10. Provisions

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 |
| Environmental provision | 698 | 695 | 149 | 163 | 847 | 858 |
| Jubilee bonuses and retirement benefits provision | 93 | 94 | 10 | 10 | 103 | 104 |
| Provision for $CO_2$ emission allowances | - | - | 685 | 729 | 685 | 729 |
| Other provision | 23 | 9 | 21 | 40 | 44 | 49 |
| | **814** | **798** | **865** | **942** | **1 679** | **1 740** |

A provision for $CO_2$ allowances was created for estimated $CO_2$ emissions in the periods ended 30 June 2018 and 31 December 2017.

### 4.11. Methods applied in determining fair values (fair value hierarchy)

Methods applied in determining fair value have been described in the consolidated financial statements as at and for the year ended 31 December 2017 in note 26.3. As compared to the previous reporting period, the Group has not changed the valuation methodology concerning derivative instruments and investment property.
Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data, which are directly or indirectly observable (so called Level 2) or unobservable market data (so called Level 3).

| | 30/06/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| | Level 2 | Level 3 | Level 2 | Level 3 |
| Financial assets | | | | |
| Financial derivatives | 537 | - | 1 366 | - |
| Investment property | 116 | 332 | 116 | 332 |
| | **653** | **332** | **1 482** | **332** |
| Financial liabilities | | | | |
| Financial derivatives | 251 | - | 398 | - |
| | **251** | **-** | **398** | **-** |

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

### 4.12. Future commitments resulting from signed investment contracts

As at 30 June 2018 and as at 31 December 2017 the value of future commitments of the Group resulting from signed investment contracts amounted to CZK 5 076 million and CZK 4 497 million, respectively.

### 4.13. Retained earnings and dividends

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

The Annual General Meeting of UNIPETROL, a.s., held on 28 June 2018, resolved to approve to cover the entire non-consolidated loss of the company for 2017 in the amount of CZK 29 million from the company non-consolidated retained earnings of prior years in the same amount.

### 4.14. Guarantees

At the Group’s request, the bank guarantees relating to the security of customs debt, excise tax at customs offices and other purposes were issued. The total amount of guarantees related to excise tax amounted to CZK 2 001 million as at 30 June 2018 (31 December 2017: CZK 1 948 million) and for other purposes amounted to CZK 65 million (31 December 2017: CZK 106 million).

The Group was the beneficiary of guarantees in the amount of CZK 468 million as at 30 June 2018 (31 December 2017: CZK 531 million).

### 4.15. Related party transactions

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

**Transactions with key management personnel**
In the 6 month period ended 30 June 2018 and 2017 the Group companies did not grant to key management personnel and their relatives any advances, borrowings, loans, guarantees and commitments or other agreements obliging them to render services to Group companies and related parties.

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

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

### 4.15. Related party transactions (continued)

**Remuneration of key executive personnel of the Parent Company and Group companies**

| | 6 MONTH PERIOD ENDED 30/06/2018 | 3 MONTH PERIOD ENDED 30/06/2018 | 6 MONTH PERIOD ENDED 30/06/2017 | 3 MONTH PERIOD ENDED 30/06/2017 |
|---|---|---|---|---|
| **Parent Company** | **(35)** | **(17)** | **(37)** | **(18)** |
| Short-term employee benefits | (34) | (16) | (37) | (18) |
| Termination benefits | (1) | (1) | - | - |
| **Subsidiaries** | **(108)** | **(56)** | **(111)** | **(61)** |
| Short-term employee benefits | (107) | (55) | (111) | (61) |
| Termination benefits | (1) | (1) | - | - |
| | **(143)** | **(73)** | **(148)** | **(79)** |

The above table presents remuneration paid and due or potentially due to the key management personnel of the Parent Company and subsidiaries in the reporting period.

**Parent and ultimate controlling party**

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

| | PKN Orlen | | Joint operations | | Entities under control or significant influence of PKN Orlen | |
|---|---|---|---|---|---|---|
| for 6 month period ended | 30/06/2018 | 30/06/2017 | 30/06/2018 | 30/06/2017 | 30/06/2018 | 30/06/2017 |
| Sales | 1 747 | 3 419 | 527 | 465 | 5 470 | 4 356 |
| Purchases | 38 078 | 37 714 | 308 | 338 | 1 805 | 769 |
| Finance income | 27 | - | - | 45 | - | 14 |
| Finance costs | - | - | - | - | - | 2 |

| | PKN Orlen | | Joint operations | | Entities under control or significant influence of PKN Orlen | |
|---|---|---|---|---|---|---|
| for 3 month period ended | 30/06/2018 | 30/06/2017 | 30/06/2018 | 30/06/2017 | 30/06/2018 | 30/06/2017 |
| Sales | 1 022 | 1 490 | 270 | 256 | 3 099 | 2 596 |
| Purchases | 20 269 | 18 298 | 155 | 178 | 1 340 | 498 |
| Finance income | - | - | - | 45 | - | 10 |
| Finance costs | - | - | - | - | - | 1 |

| | PKN Orlen | | Joint operations | | Entities under control or significant influence of PKN Orlen | |
|---|---|---|---|---|---|---|
| | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 | 30/06/2018 | 31/12/2017 |
| Other financial assets | 3 946 | 5 672 | - | - | - | - |
| Trade and other receivables | 560 | 290 | 128 | 127 | 1 152 | 594 |
| Trade and other liabilities | 6 557 | 4 946 | 66 | 49 | 425 | 266 |
| Other financial liabilities | - | - | - | - | 511 | 225 |

### 4.16. Information concerning significant proceedings in front of court or in front of public administration bodies

**Tax proceeding**

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

During the 6 month period ended 30 June 2018 there were no material changes in relation to this issue. The case is now pending with the Appellate Tax Authority.

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

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2017. During the 6 month period ended 30 June 2018 there were no material changes in relation to this issue. The case is pending, currently being reviewed by Ústí nad Labem Regional court.

**Contingent liabilities and commitments related to Squeeze-out of PARAMO, a.s** are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

During the 6 month period ended 30 June 2018 there were no material changes in relation to this issue. The matter is now with Regional Court in Hradec Králové pending a decision by the court.

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

The claims are described in the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

On 9 February 2018, the District Court in Ostrava dismissed the "I.P. - 95, s.r.o." claim in full. On 3 April 2018 "I.P. – 95, s.r.o." filed an appeal against the ruling of the District Court in Ostrava.

### 4.17. Accounting principles

**Applied accounting principles and IFRS amendments**

These interim condensed consolidated financial statements were prepared according to accounting principles described in note 32 in the consolidated financial statements of the Group as at and for the year ended 31 December 2017 except for the adopted new IFRS 9 Financial instruments and IFRS 15 Revenues from Contracts with Customers.

The Group intends to adopt new standards, amendments and interpretations to existing standards that have been published but are not effective as at the date of preparation of these interim condensed consolidated financial statements after their acceptance by the European Commission in accordance with their effective date. The possible impact of new standards, amendments and interpretations on the Group's future consolidated financial statements was described in note 32.1 of the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

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

**Application of IFRS 15**

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

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

*Requirements to identify a contract with a customer*

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

*Identification of performance obligations*

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

While establishing contracts, the Group commits to deliver mainly refining and petrochemical products and merchandise to customers. Within the contracts, the Group acts as a principal, there are no obligations for returns and refunds. The guarantees provided within the contracts assure the customer that the product complies with the established specification and do not involve the performance of a separate service.

Within the Downstream segment, in the sales of refinery and petrochemical products, the moment of performance all obligations within the contract follows the delivery of goods and the moment of revenue recognition from individual performance obligations depends on the applied delivery terms. Within the Downstream segment, there are mainly sales with deferred payment dates.

Within the Retail segment, there are both cash sales and sales with deferred payment dates, performed based on fleet contracts. The moment of satisfaction of the performance obligation is the moment of good release.

*Determination of the transaction price*

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

*Allocating the transaction price to individual performance obligations*

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

*Recognition of revenue when performance obligations are satisfied*

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

### 4.17. Accounting principles (continued)

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

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

In contracts with costumers of the Downstream and Retail segments, payment dates in most cases do not exceed 35 days.

**Application of IFRS 9**

**Measurement of financial assets and liabilities**

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

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

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

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

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

The Group classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.

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

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

The Group as liabilities measured at amortized cost classifies trade liabilities, loans, borrowings and bonds. Liabilities on derivatives not designated for hedge accounting are classified by the Group as measured at fair value through profit or loss.

The Group classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows and fair value.

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

| Financial instruments by class | Classification according to IAS 39 | Classification according to IFRS 9 |
|---|---|---|
| Unquoted shares | Available for sale | Financial assets at fair value through other comprehensive income |
| Loans granted | Loans and receivables | Measured at amortized cost |
| Trade and other receivables | Loans and receivables | Measured at amortized cost |
| Derivatives not designated as hedge accounting | At fair value through profit or loss | At fair value through profit or loss |
| Cash flow hedging instruments | Hedging financial instruments | Hedging financial instruments |
| Cash and cash equivalents | Loans and receivables | Measured at amortized cost |
| Receivables on settled derivatives | Loans and receivables | Measured at amortized cost |

*Measurement of financial assets at amortized cost*

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

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

*Measurement of financial assets at fair value through other comprehensive income*

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

*Measurement of financial assets at fair value through profit or loss*

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

### 4.17. Accounting principles (continued)

*Measurement of hedging financial instruments*

Hedging financial instruments are measured in accordance with the principles of hedge accounting.

*Impairment of financial assets*

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

The Group uses the simplified model for determining impairment allowances of trade receivables. In the model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.
In particular, for the insolvency event, the Group recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.
For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.
The Group includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.
The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

**Hedge accounting**

Derivatives designated as hedging instruments from which it is expected that their fair value or resulting from them cash flows will offset changes in fair value or cash flows of hedged item are recognized in accordance with the principles of fair value hedge accounting or cash flow hedges.
The Group assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, the Group uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.
In the case of cash flow hedge accounting, the Group:
- the part of profits or losses related to the hedging instrument, which constitute an effective hedge due to the hedged risk, is recognized in other comprehensive income,
- in addition (in the case of FX hedging - spot risk element), a change in the fair value due to the forward element (including the cross-currency margin) is recognized within the capital in a separate position (hedging cost),
- the inefficient part of profits or losses related to the hedging instrument is recognized in the statement of profit or loss. In the case of hedging cash flows from operating activities, the ineffective part is recognized in other operating income/expenses, and in the case of hedging cash flows of financing activities in finance income/costs.
- reclassification from capital to the statement of profit or loss is to the line in which the hedged item is presented,
- reclassification from capital is made as an adjustment to the initial value of the hedged item (if the realization of the hedged item results in the recognition of the non-financial asset - for example, an inventory).

In the case of fair value hedge (operating activity), changes in the fair value of the hedging instrument and the hedged item are recognized in the statement of profit or loss in the item other operating income/expenses.

In the area of hedge accounting, the Group applies the requirements of IFRS 9 in the construction of hedging relationships. In particular, it concerns matching of the definitions of commodity risk hedging to the exposure characteristics and applied risk management strategies. The Group aims to limit the underlying risk in hedging relationships (resulting from various commodity indices on the side of the hedging instrument and the hedged item).
The Group applied principles of recognition the hedging cost within FX hedging transactions, where the forward component and the cross-currency margin is recorded in a separate item in other comprehensive income.

As the new hedge accounting requirements align more closely with the Group's risk management policies, with more qualifying hedging instruments and hedged items, an assessment of the Group's hedging relationships indicated that they qualify as continuing hedging relationships under IFRS 9. The transition from IAS 39 to IFRS 9 has been evaluated closely with insignificant effect to the consolidated financial statements as at 30 June 2018.
As at 1 January 2018 the Group calculated the impact of the expected credit loss in accordance with IFRS 9 and recognized the adjustment decreasing Other comprehensive income and Trade receivables of the Group by the amount of CZK 11 million.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in CZK million)

### 4.17. Accounting principles (continued)

**Application of professional judgement and assumption**

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and main uncertainties were the same as those presented in note 33 in the consolidated financial statements as at and for the year ended 31 December 2017.

**Functional and presentation currency**

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

**Methods applied to translation of financial data for consolidation purposes**

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

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

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

| Currency | Average exchange rate for the reporting period 30/06/2018 | 30/06/2017 | Exchange rate as at the end of reporting period 30/06/2018 | 31/12/2017 |
|---|---|---|---|---|
| CZK/EUR | 25.500 | 26.263 | 26.020 | 25.540 |
| CZK/USD | 21.080 | 23.389 | 22.318 | 21.291 |
| CZK/100 HUF | 8.119 | 8.519 | 7.889 | 8.230 |

### 4.18. Subsequent events after the reporting date

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

The Group's management is not aware of any other events that have occurred since the end of the reporting period that would have any material impact on the financial statements as at 30 June 2018.

### 4.19. Approval of the financial statements

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

Signature of statutory representatives

| | |
|---|---|
| Krzysztof Zdziarski | Mirosław Kastelik |
| Chairman of the Board of Directors | Vice-chairman of the Board of Directors |

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Tax Id. Nr.: CZ49620592

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders of UNIPETROL, a.s.

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

Introduction

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

Scope of Review

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

Conclusion

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

In Prague on 19 July 2018

| Audit firm: | Represented by: |
| --- | --- |
| Deloitte Audit s.r.o. | Martin Tesař<br>statutory executive |

# UNIPETROL, a.s.

## SEPARATE HALF-YEAR REPORT

## FOR THE 1ST HALF 2018

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

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# UNAUDITED CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS

FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE

2018

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

## CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

### Separate statement of profit or loss and other comprehensive income

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

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

## Separate statement of financial position

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

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

## Separate statement of changes in equity

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

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

## Separate statement of cash flows

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

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

## EXPLANATORY NOTES TO THE CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE COMPANY

*Establishment of the Company*

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

*Identification number of the Company*

616 72 190

*Registered office of the Company*

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

*Principal activities*

The Company operates as a holding company covering and administering a group of companies (the "Group"). The principal business activities of the Group include oil and petroleum products processing, production of commodity chemicals, polymer materials, mineral lubricants, plastic lubricants, road and insulation bitumen, special refinery and petrochemical products. Furthermore, the Group is engaged in the distribution of fuels and operation of gas stations.

In addition to these principal activities, the Group is engaged in other activities that are necessary to support the principal activities, such as production, distribution and sale of heat and electricity, operation of railway tracks and railway transportation, advisory services relating to research and development, environmental protection, software and hardware advisory services and other services.

*Ownership structure*

The shareholders as at 30 June 2018 were as follows:

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

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

*Consolidated group structure*

The subsidiaries and jointly controlled entities forming the consolidated group of UNIPETROL, a.s., and the parent company's interest in the capital of subsidiaries and jointly controlled entities held either directly by the parent company or indirectly by the consolidated subsidiaries are presented in the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

Paramo Oil s.r.o. liquidation

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

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

*Statutory and supervisory bodies*

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

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

## 1. DESCRIPTION OF THE COMPANY (CONTINUED)

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

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

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

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

## 2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

### 2.1. Statement of compliance and general principles of preparation

These condensed separate interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the separate financial statements of the Company as at and for the year ended 31 December 2017.

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

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

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

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

# 3. OTHER NOTES

## 3.1. Revenues

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

## 3.2. Operating expenses

### Cost of sales

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

### Cost by nature

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

## 3.3. Finance income and finance costs

### Finance income

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

### Finance costs

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

## 3.4. Tax expense

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

## 3.5. Other financial assets

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

### 3.6. Retained earnings and dividends

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

### 3.7. Provisions

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

### 3.8. Other financial liabilities

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

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

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

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

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

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

### 3.10. Guarantees

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

Furthermore UNIPETROL, a.s. issued a guarantee for the company UNIPETROL RPA, s.r.o. in favour of ČEPRO, a.s. to ensure the excise tax in the amount of CZK 150 million and in favour of UNIPETROL RPA, s.r.o. in the amount of CZK 3 000 million.

### 3.11. Related parties' transactions

**Material transactions concluded by the Company with related parties**

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

**Transactions with key management personnel**

In the 6 month period ended 30 June 2018 and 2017 the Company did not grant to key management personnel and their relatives any advances, borrowings, loans, guarantees and commitments or other agreements obliging them to render services to Company and related parties.

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

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

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

### 3.11. Related parties' transactions (continued)

**Parent and ultimate controlling party**

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

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

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

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

### 3.12. Contingent liabilities

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

UNIPETROL, a.s. submitted two independent expert reports to the court – one expert report reviewed conclusions made by the Expert Group s.r.o. report and the other expert report provided valuation of PARAMO, a.s. and comments on methodology applied by Expert Group s.r.o. and reliability of their conclusions. The court expert determined value of PARAMO, a.s. share at CZK 909/share as at 6 January 2009 and CZK 905/share as at 4 March 2009.

The matter is now with Regional Court in Hradec Králové pending a decision by the court.

### 3.13. Accounting principles

**Applied accounting principles and IFRS amendments**

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

The Company intends to adopt new standards, amendments and interpretations to existing standards that have been published but are not effective as at the date of preparation of these interim condensed separate financial statements after their acceptance by the European Commission in accordance with their effective date. The possible impact of new standards, amendments and interpretations on the Company's future separate financial statements was described in note 24.1. of the separate financial statements of the Company as at and for the year ended 31 December 2017.

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

**Application of IFRS 15**

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

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

### 3.13. Accounting principles (continued)

*Requirements to identify a contract with a customer*

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

*Identification of performance obligations*

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

*Determination of the transaction price*

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

*Allocating the transaction price to individual performance obligations*

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

*Recognition of revenue when performance obligations are satisfied*

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

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

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

**Application of IFRS 9**

**Measurement of financial assets and liabilities**

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

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

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

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

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

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

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

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

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

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

*Measurement of financial assets at amortized cost*

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

CONDENSED SEPARATE HALF-YEAR FINANCIAL STATEMENTS (in CZK million)

### 3.13. Accounting principles (continued)

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

*Measurement of financial assets at fair value through other comprehensive income*

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

*Measurement of financial assets at fair value through profit or loss*

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

*Impairment of financial assets*

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

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

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

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

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

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

**Application of professional judgement and assumption**

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

**Functional and presentation currency**

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

### 3.14. Subsequent events after the reporting date

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

The Company's management is not aware of any events that have occurred since the end of the reporting period that would have any material impact on the financial statements as at 30 June 2018.

### 3.15. Approval of the financial statements

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

Signature of statutory representatives

| | |
|---|---|
| Krzysztof Zdziarski | Mirosław Kastelik |
| Chairman of the Board of Directors | Vice-chairman of the Board of Directors |

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# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders of UNIPETROL, a.s.

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

Introduction

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

Scope of Review

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

Conclusion

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

In Prague on 19 July 2018

| Audit firm: | Represented by: |
|---|---|
| Deloitte Audit s.r.o. | Martin Tesař<br>statutory executive |
| Deloitte | M. Tesař |