Management report of UNIPETROL, a.s. for 2016

Management report

Introduction

The general macroeconomic situation was overall supportive in 2016. The GDP in the Czech Republic as well as in the Eurozone grew but at a moderate pace compared with 2015. Looking at the downstream macro environment, the trend of high levels, especially of petrochemical margins, continued. The refining margins decreased when compared to the previous year but still remained at solid levels. This supportive environment was mainly due to a further drop in crude oil prices with the average price of Brent crude oil at the level of 44 USD/bbl in 2016, which is lower by 16% compared with 2015. Unipetrol's average model refining margin decreased to 3.1 USD/bbl in 2016 from 5.2 USD/bbl in 2015. The model combined petrochemical margins reached record high levels again, with an average of 842 EUR/t. A decrease of the margins was observed in the last quarter of 2016 stemming from the OPEC's deal on crude oil production cuts, which drove the crude oil price over 50 USD/bbl. The Brent-Ural differential, at an average level of 2.5 USD/bbl, was also higher in comparison with the 2015 levels.

From the production point of view, there were three events which considerably influenced the utilization of production units. The first one was the ongoing shutdown of the steam cracker unit at the Litvínov plant due to the reconstruction after the accident at the unit from August 2015. As a result the polymer units were operated only to limited extent, with the PE2 unit shutdown completely for the period. The second event was an extraordinary event at the fluid catalytic cracking (FCC) unit at the Kralupy refinery which required a shutdown of the whole refinery and therefore suspension of the crude oil processing in Kralupy nad Vltavou. Both units were restarted in October 2016, reaching the standard level of utilization. Last but not least, there was a scheduled complete turnaround of the Litvínov chemical complex executed successfully in March and April. All of the above mentioned events contributed to a substantially lower refining capacity utilization at the level of 62%.

From the financial perspective, Unipetrol Group achieved revenues of CZK 88 bn in 2016, which is lower by 19% compared with 2015, due to lower crude oil prices as well as much lower sales volumes of petrochemical products as a consequence of the non-operating steam cracker till October 2016. On the other hand, sales volumes of refining products increased in 2016 due to the sale of the products under normal circumstances processed at the steam cracker unit as well as the increase in the trading activities of fuels, which replaced the sale of the actual production during the period of the Kralupy refinery shutdown.

Although the operating profit increased to CZK 12 bn based on EBITDA LIFO in 2016, breaking the record high result of 2015 by almost CZK 1.2 bn, several important extraordinary factors influenced it. The main contributor to the result was the income in the amount of CZK 7.9 bn coming from insurers for the property damage and business interruption due to the steam cracker accident and consequent shutdown. The other one-off contributor was the reversal of impairment allowance of downstream segment assets worth CZK 1.9 bn based on the results of analysis performed at the end of 2016. The remaining CZK 2.2 bn resulted from standard operations with another increase in positive results of the retail segment.

Looking at each segment separately, the downstream segment results with EBITDA LIFO at the level of CZK 11 bn were mainly driven by the payments from insurers and reversal of impairment allowance of assets. Although the downstream segment macro environment was very positive with record high petrochemical margins, given the situation at production facilities the company was able to utilize these positive conditions only to limited extent.

The retail segment recorded great results and overall it achieved an operating profit close to CZK 1 bn based on EBITDA LIFO. The higher sales of fuels at filling stations, including the increased share of the premium fuels with higher added value, combined with the decrease in the prices of all types of the fuels sold, business strategy, marketing support and operating cost savings with the improved competitiveness of the market environment, expansion of the Stop Cafe concept and favorable macroeconomic factors positively influencing the demand for both gasoline and diesel were the main factors behind the very good financial results.

The net profit reached CZK 8 bn in 2016, which means another improvement from the previous year, however, bearing in mind the extraordinary items. Looking at the cash flow, the operating cash flow decreased to the level of CZK 8 bn, which was caused by the limited production and sales, and the free cash flow was negative at the level of CZK 1.8 bn due to the intensive capital expenditures caused by the steam cracker and FCC unit reconstruction and construction of the new polyethylene unit PE3 in the Litvínov production plant. Total CAPEX reached the level of CZK 10.8 bn, out of which the amount of CZK 10.2 bn was allocated to the downstream segment, CZK 0.5 bn to the retail segment, and the remaining part was dedicated to the corporate functions segment. At the same time Unipetrol Group kept its financial gearing ratio at the negative level of (-) 6.6%, corresponding to the net cash position at the level of CZK 2.8 bn at the end of 2016. The stable financial situation allowed the company after the several years to declare a dividend to its shareholders in the amount of CZK 1 bn, which was approved at the General Meeting in June.

The Group experienced a very challenging year, in which it coped with the major unplanned shutdowns and successfully resumed their operations in October. In March and April the turnaround of the whole chemical complex in Litvínov was executed with more than 70 investment projects implemented during the turnaround period. The construction of the new polyethylene unit (PE3) started in June with the expected launch of production in the second half of 2018. Also in June,

Unipetrol Group acquired Spolana from Anwil Group. Spolana is a chemical company located in the Czech Republic whose main business is manufacturing and sale of chemical products such as PVC, caprolactam, fertilizers, inorganic compounds and other chemicals. The takeover of Spolana allows the Group to be more flexible and resilient in terms of production optimization, production and sales of ethylene, and it also allows a better coordination and integration of the value chain.

Among other achievements, a new contract with MERO ČR was signed, securing the crude oil transportation to the Czech Republic and new long-term contracts for REBCO crude oil deliveries were concluded between Unipetrol RPA and PKN ORLEN, ensuring stable crude oil supplies for the upcoming years. Benzina continued taking over the filling stations which were acquired based on the agreement signed with OMV. By the end of the year, 20 filling stations were already included in the Benzina network with continuation of the project in 2017.

Unipetrol Group completed the major consolidation of its structure which started already in 2015. By the beginning of 2017 companies Polymer Institute Brno (PIB), Benzina, Unipetrol Services, Unipetrol Rafinérie, Chemopetrol and Česká rafinérská had been merged with Unipetrol RPA, creating the integrated operational core of Unipetrol Group. The consolidated structure helps to simplify administrative procedures and to streamline intrernal processes while increasing competitiveness and operational excellence of the whole Unipetrol Group.

Key financial and non-financial data

Key financial data

in CZK million	2015	2016
Revenues	108,907	87,813
Gross profit	12,763	4,587
EBITDA LIFO[1,2]	10,879	12,037
EBITDA[1]	10,643	11,928
EBIT LIFO[1,3]	8,952	10,006
EBIT[1]	8,716	9,897
Downstream segment		
EBITDA LIFO	10,166	11,135
EBITDA	9,930	11,026
EBIT LIFO	8,598	9,473
EBIT	8,362	9,364
Retail segment		
EBITDA LIFO	829	957
EBITDA	829	957
EBIT LIFO	501	639
EBIT	501	639
Corporate functions		
EBITDA	(116)	(55)
EBIT	(147)	(106)
Net finance income / costs	(47)	131
Profit/loss before tax	8,669	10,028
Tax expense	(1,633)	(2,053)
Net profit	7,036	7,975
Earnings per share (CZK)	38.80	43.98
Operating cash flow	14,931	7,996
Free cash flow[1]	8,591	(1,793)
CAPEX[1]	3,344	10,788
Net working capital[1]	5,941	6,916
Net debt / net cash[1]	(5,857)	(2,757)
Net debt / (equity – hedging reserve)[1]	(16.7%)	(6.6%)
Net debt / EBITDA[1]	(0.5)	(0.3)

[1] See definitions on the page 31-32.

[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

External environment

	2015	2016
Brent crude price, USD/bbl	53	44
Brent-Ural differential, USD/bbl	1.8	2.5
Unipetrol model refining margin, USD/bbl[1]	5.2	3.1
Unipetrol model petrochemical olefin margin, EUR/t[2]	351	338
Unipetrol model petrochemical polyolefin margin, EUR/t[3]	464	505
Unipetrol model combined petrochemical margin, EUR/t[4]	816	842

[1] Unipetrol model refining margin = revenues from products sold (96% Products = Gasoline 17%, Naphtha 20%, JET 2%, Diesel 40%, Sulfur Fuel Oils 9%, LPG 3%, Other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations.

[2] Unipetrol model petrochemical olefin margin = revenues from products sold (100% Products = 40% Ethylene + 20% Propylene + 20% Benzene + 20% Naphtha) minus costs (100% Naphtha); products prices according to quotations.

[3] Unipetrol model petrochemical polyolefin margin = revenues from products sold (100% Products = 60% HDPE + 40% Polypropylene) minus costs (100% input = 60% Ethylene + 40% Propylene); products prices according to quotations.

[4] Unipetrol model combined petrochemical margin = Unipetrol model petrochemical olefin margin + Unipetrol model petrochemical polyolefin margin

Key operating data (in thousand tons)

	2015	2016
Crude oil throughput	6,495	5,422
Refining utilization ratio[1]	84%	62%
Refining segment sales volumes, including retail segment (Benzina network)	5,800	6,280
Petrochemical segment sales volumes	1,445	1,069

[1] Conversion capacity of Unipetrol's refineries = Conversion capacity till 1Q2015 was 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y). In 2Q2015 conversion capacity increased to 7.8 mt/y driven by operation of Eni's 32.445% stake in Česká rafinérská from May. From 3Q2015 conversion capacity is 100% of Česká rafinérská, i.e. 8.7 mt/y (Česká rafinérská – Kralupy 3.206 mt/y, Česká rafinérská – Litvínov 5.492 mt/y).

Downstream segment

Financial result of the downstream segment

in CZK million	2015	2016
EBITDA LIFO	10,166	11,135
EBITDA	9,930	11,026
EBIT LIFO	8,598	9,473
EBIT	8,362	9,364

Key highlights of 2016

- New contract signed with MERO ČR securing the transportation of crude oil to the Czech Republic
- Commencement of construction of a new polyethylene unit (PE3) in Litvínov
- New contracts signed for REBCO crude oil deliveries ensuring the stable crude oil supplies for the upcoming years
- Acquisition of 100% share capital of Spolana securing stable offtake of ethylene
- Extraordinary event at FCC unit at Kralupy refinery in May halted the crude oil processing in the refinery till October
- Resuming of the steam cracker unit and Kralupy refinery operations in October
- Paramo nominated to the program Business Super-brands 2017 by Czech Superbrands organization

External environment

Refining business

External environment of the refining business

	2015	2016
Brent crude price, USD/bbl	53	44
Brent-Ural differential, USD/bbl	1.8	2.5
Unipetrol model refining margin, USD/bbl[1]	5.2	3.1

[1] Unipetrol model refining margin = revenues from products sold (96% Products = Gasoline 17%, Naphtha 20%, JET 2%, Diesel 40%, Sulfur Fuel Oils 9%, LPG 3%, Other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations.

Crude oil, gasoline and diesel prices

The year 2016 was a year with the lowest level of crude oil price with the average price level of Brent crude at 44 USD per barrel, which was the cheapest since 2004. At the same time, the crude oil price was very volatile; it was traded within a range from 26 USD per barrel to 55 USD per barrel. The slowing Chinese economy, warm winter between years 2015 and 2016, and ongoing high oil drilling activity were the key reasons which pushed the oil prices down. Low levels of crude oil prices particularly in the first half of the first quarter led the main producers (Russia, OPEC – especially Saudi Arabia, Venezuela) to the intention of crude oil production cuts, which was the beginning of the recovery and turn in crude oil prices. Good macroeconomic data from the US, fires in Canada, and limited production in Nigeria due to terrorism affected the Brent crude oil price return to the levels of 40 – 50 USD per barrel. The reaching of an agreement between OPEC members on crude oil production cuts at the end of November and subsequent accession of Russia was the key force which raised the crude price over 55 USD per barrel at the end of 2016.

Gasoline was traded at relatively lower levels compared with the previous years. The annual average crack spread (i.e. the price quotation difference between gasoline and Brent crude oil) reached the level of 136 USD per ton, the lowest level in the last six years. The seasonal evolution of the gasoline crack spread was highly atypical – it was relatively weak during the main driving season, but on the other hand it was relatively strong from the end of the third quarter till the end of the year.

Diesel was traded at very low levels in 2016 due to the warm winter between years 2015 and 2016, and a significantly lower demand for middle distillates and surplus of crude oil and crude oil distillates on the global markets. The annual average crack spread (i.e. the price quotation difference between diesel and Brent crude oil) reached the level of 66 USD per ton, which is the lowest level since 2004. The growth of crack spread levels to the reasonable levels began only in the fourth quarter of the year and was driven by the upcoming winter. The fuel price levels, especially the middle distillates, were also affected by the increasing imports to Europe, where export refineries primarily in the Middle East diverted part of their exports from Asia into Europe due to the lower demand growth in Asia and high utilization of local refining capacities.

Refining margins

The refining margins significantly decreased in 2016 compared with 2015 as a result of worldwide high refining capacity utilization, which exceeded the growing demand. The utilization of the European refineries decreased compared with 2015 because of higher imports; however, it was still significantly higher compared with 2014. The European refineries benefited mainly from the growth of gasoline consumption in the US. Although the year 2016 was a relatively good year, the structural weakness of the European refining sector persists.

Unipetrol's model refining margin reached the average level of 3.1 USD per barrel in 2016, which represents a decrease by 2.1 USD per barrel compared with 2015 from the level of 5.2 USD per barrel. The average price differential between Brent crude oil and Russian Ural crude oil, the Brent-Ural differential, was equal to 2.5 USD per barrel.

Petrochemical business

External environment of the petrochemical business

	2015	2016
Unipetrol model petrochemical olefin margin, EUR/t[1]	351	338
Unipetrol model petrochemical polyolefin margin, EUR/t[2]	464	505
Unipetrol model combined petrochemical margin, EUR/t[3]	816	842

[1] Unipetrol model petrochemical olefin margin = revenues from products sold (100% Products = 40% Ethylene + 20% Propylene + 20% Benzene + 20% Naphtha) minus costs (100% Naphtha); products prices according to quotations.

[2] Unipetrol model petrochemical polyolefin margin = revenues from products sold (100% Products = 60% HDPE + 40% Polypropylene) minus costs (100% input = 60% Ethylene + 40% Propylene); products prices according to quotations.

[3] Unipetrol model combined petrochemical margin = Unipetrol model petrochemical olefin margin + Unipetrol model petrochemical polyolefin margin.

Olefins and chemicals

In 2016 the trend of low feedstock prices and of high petrochemical margins continued. The crude oil market started in the same position in which it finished the previous year – a high level of reserves and a large excess of supply. The excess increased after the sanctions against Iran were lifted by the US, the EU and the UN, which lead to additional millions of barrels of crude oil on the market. Moreover, the 40-year ban on crude oil export from the US was lifted, which played a role as well. It allowed the US oil companies to find new markets. OPEC's position was also a key factor for the market – the organization refused to limit oil production until nearly the end of the year and thus contributed in a significant way to ensuring that the level of oil production was higher in comparison with the previous year. The average prices of crude oil and virgin naphtha were at the lowest level in the last twelve years. This situation allowed the operators of petrochemical units to continue production with very high margins, which was not affected even by a year-on-year decrease in the prices of most petrochemical products. The low prices of virgin naphtha caused a decrease in the difference between the level of ethylene production costs and ethylene derivatives in Europe and the US, which helped to increase the competitiveness of European markets on the global market. European producers were also supported by the strengthening of the dollar in relation to the euro. The petrochemical margins decreased at the end of the year because of the rise in the crude oil prices caused by OPEC's decision in November to decrease crude oil production. The agreement among the OPEC members on the decrease in production by 1.2 million barrels daily was followed by an agreement of 11 countries outside OPEC, which decreased the daily production by 558,000 barrels of crude oil. After these steps, the price of Brent crude oil was above the level of USD 50 per barrel at the end of 2016.

The monomer prices kept decreasing, which had started in the middle of 2015. Considering the different situations on the ethylene and propylene markets, the spread between both monomers kept increasing, and in the middle of the year it reached the level of EUR 280 per ton. The ethylene market was balanced for the most part of the year, whereas the propylene market had to deal with an excess of supply. The reason behind the difference was a different level of demand from non-polymer sectors; the level of demand from polymer producers was very good in both cases. From the second quarter, the situation started to improve on the polypropylene market as well. The derivatives producers benefited from the low propylene prices in Europe and from the weak euro in relation to the dollar, and they managed to increase their competitiveness on the export markets. Planned as well as unplanned shutdowns of steam cracker units and refineries, which lowered the availability of polypropylene on the market, also played a role. The ethylene and propylene markets were also influenced by a strike in France, which was related to a complete shutdown of or a significant reduction in production in several petrochemical and refinery units. Propylene became scarce on the European market. Some of the European players tried to deal with the situation through imports, but they had only a marginal impact on the situation on the market. At that time, propylene was sold on the spot market for prices exceeding the valid contract value. Unplanned shutdowns in related sectors changed the nature of the market in the last quarter, an excess of supply was evident on the market. Some players try to deal with the situation by exporting the excess products, mostly to Asia. The low prices of feedstock enabled the operators of steam cracker units to produce with very high margins in the course of the year, and this was not changed by a drop in prices of most main coproducts of the steam cracker.

The European benzene market was relatively stable in the course of the year. The high price volatility from the previous years disappeared. The difference between the highest and lowest spot prices reached in the course of the year was also relatively small. From the global perspective, the European prices were the highest for the most part of the first half of the year, and at the same time, a limited demand and rise in feedstock stopped the prices on the markets in the US from increasing. The result was a significant rise in imports to Europe in the first half of 2016. Since May the prices went down slightly because of a lower demand from related sectors. The following transition to cracking of lighter feedstock and the renewed operation of several shutdown derivative units supported the market, and the prices slightly increased. However, the most significant change in the market conditions occurred at the end of the year. The first impulse came from Asia, where a substantial increase in spot prices occurred because of an excess demand from China and higher prices of crude oil. This resulted in exports from Europe and the US to Asia, and led to an increase in European spot prices as well.

The ammonia prices continued in the significant fall from the fourth quarter of 2015 to the first two months of 2016. The fall was caused by weak demand from the US and a large excess in supply on the global market. The continuous decrease was finally stopped by a shutdown of some production units. The demand increased and the market was further supported by planned and unplanned shutdowns in Indonesia and the Persian Gulf. The insufficient volume of transport capacity was also talked about. The overall activity on the market continued to be very low and resulted in a slight rise in prices. However, the rise was only temporary, and from the end of May the prices started to decrease again. The market had to deal with new capacities in the US, Russia and Saudi Arabia. Moreover, some fertilizer producers stopped producing nitrogen fertilizers because of the low prices and instead they increased the sales of ammonia. The demand form the US was also weak. Neither unplanned shutdowns of some units, nor a significant reduction of natural gas supply in Trinidad stopped another decrease in prices. The prices in Yuzhny reached a level at which the production was no longer profitable. Many important producers reduced or completely shut down their productions capacities in an effort to resume the increase in prices. These efforts were finally successful in the second half of November. In comparison to yearly average, they were at the lowest level since 2004.

Unipetrol's model olefin margin reached 338 EUR per ton in 2016, which represents a decrease less than 4% y/y compared with 2015, when the margin reached 351 EUR per ton.

Polyolefins

In 2015 the polyolefin market was more favorable for the sellers, but in 2016 the situation changed significantly to the benefit of the buyers. The processors were in a more comfortable position, and the availability of PE (polyethylene) and PP (polypropylene) on the market was much wider in comparison with the previous year. This change was brought about by several reasons. Much more products were imported to and much fewer were exported from Europe in comparison with 2015. There were also much fewer unplanned shutdowns, and so the processors as well as the traders had much larger reserves. The demand from related sectors was also lower. Despite the mentioned factors, the margins were higher than the previous year for the integrated olefin producers.

The European prices of HDPE (high-density polyethylene) were the highest in comparison with the rest of the world and managed to attract a large volume of imports to Europe. Products from Iran started to appear on the market after the sanctions were lifted. A low demand caused a drop in prices, which was much bigger than the drop in the ethylene contract price. Apart from the larger volume of imports, the change in behavior of most processors also had an influence. They kept much larger reserves because of the situation in 2015. A rise in demand and a smaller volume of imports from Asia, where the prices rose, supported the European market and resulted in an increase in prices, although, only temporary. The processors started to use the products in their reserves, because they were confident that they would be able to replenish them easily at low prices. The HDPE prices went down despite the rise in the ethylene contract prices, and the spread between HDPE and ethylene decreased. The falling European prices and the strengthening market in Asia diverted some imports from Europe to territories with higher added value. The demand improved, the processors,

who in the previous months had used cheaper imports, started to buy the European products once again. However, this had no great impact on the prices, which remained relatively stable until the end of the year.

The PP prices decreased at the beginning of the year. Whereas the decrease in the contract prices was the same as the decrease in the propylene prices, the drop was almost double in spot prices. The main cause was cheap imports. Later, the market stabilized and prices started to rise. The decreasing difference between European and Asian prices diverted the products of the Middle East to Asia. The demand decreased, the buyers declined to accept the increase in prices. As with PE, the processors started to use the products which they kept in their reserves. For the remaining part of the year, the PP prices changed in the same way as did the propylene contract prices. Globally, the European PP prices were among the lowest, and therefore the imports from the Middle East were still directed to Asia rather than to the European market.

Unipetrol's model polyolefin margin reached 505 EUR per ton in 2016, which represents an almost 9% increase compared with 2015, when the model margin reached 464 EUR per ton. Unipetrol's model combined petrochemical margin (olefins plus polyolefins) in 2016 outperformed the very high value of 2015 and reached the level of 842 EUR per ton, representing a 3% increase y/y.

Crude oil purchases

In 2016, regarding the crude oil supplies, Unipetrol continued in its strategic cooperation with its majority owner, PKN ORLEN on the basis of which the crude oil was being transported via the Druzhba and TAL-IKL pipelines under the long-term contracts from 2006.

In the course of 2016 the supplies of Russian Export Blend Crude Oil (REBCO) via the Druzhba pipeline were stable and without any outages. With effect from 1 July 2016 the third amendment to the agreement on crude oil deliveries via the Druzhba pipeline was signed with PKN ORLEN on the basis of which the crude oil deliveries from Rosneft were extended until 30 June 2019. At the same time, with effect from 1 July 2016 a new contract was signed with PKN ORLEN according to which the deliveries from the resources of the company Tatneft's were commenced. This agreement was amended in December so that the maximum volumes were increased and the effect was extended till 31 December 2019.

Regarding the low-sulfur crude oil supplies via TAL and IKL pipelines, Azeri Light crude oil from Azerbaijan remained the main source and a key feedstock for processing in the Kralupy refinery. Azeri Light crude oil was blended in the optimal ratio with CPC Blend crude oil from Kazakhstan. Where appropriate, the CPC Blend was also supplied to the Litvínov refinery for blending with REBCO crude oil in order to achieve better yields of lighter products and to improve refinery margins.

As part of diversification and crude oil portfolio optimization for processing in Litvínov refinery, Unipetrol RPA performed a test of processing the Arab Light crude oil from Saudi Arabian national oil company Saudi Aramco. The crude oil was supplied based on the long-term agreement between PKN ORLEN and Saudi Aramco and processed during August and December.

Pipeline and railway supplies of crude oil from various Moravian deposits to the Kralupy refinery continued in 2016 on the basis of long-term business relations. These comprise approximately 2.1% of the total amount of crude oil purchased by Unipetrol.

On 22 November 2016, representatives of UNIPETROL RPA, s.r.o., and Croatian company Jadranski Naftovod signed a framework agreement on crude oil transportation via the Adria pipeline. This could in the future become an alternative transportation route to the current Druzhba and IKL pipelines.

Crude oil purchases in 2016 (in thousand tons)

REBCO-Druzhba	3,410	61.5%
Seaborne low-sulphur crude oil supplies for the Kralupy and Litvínov refineries	2,020	36.4%
Moravian crude oil	117	2.1%
Total	**5,547**	**100.00%**

Production

Crude oil throughput and refining utilization ratio

	2015	2016
Crude oil throughput (in thousand tons)	6,495	5,422
Refining utilization ratio[1]	84%	62%

[1] Conversion capacity of Unipetrol's refineries = Conversion capacity till 1Q2015 was 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y). In 2Q2015 conversion capacity increased to 7.8 mt/y driven by operation of Eni's 32.445% stake in Česká rafinérská from May. From 3Q2015 conversion capacity is 100% of Česká rafinérská, i.e. 8.7 mt/y (Česká rafinérská – Kralupy 3.206 mt/y, Česká rafinérská – Litvínov 5.492 mt/y).

In 2016 approximately 5.4 million tons of crude oil were processed in the production units of Česká rafinérská, a subsidiary of Unipetrol, which is a 16.5% decrease in comparison with 2015.

The operation of the refineries in 2016 was considerably influenced by an accident at the steam cracker unit in August 2015. The operation of the steam cracker unit was suspended during its reconstruction, causing low offtake of petrochemical feedstock, which impacted on the utilization of the capacity of both refineries. A further decrease in the crude oil processing was caused by a serious malfunction in the FCC unit in the Kralupy refinery in May 2016. The refineries were fully functional again in the last two months of 2016, after both the Kralupy refinery and the reconstructed stream cracker unit in Litvínov had been put into operation again.

Despite the absence of supplies for petrochemical business, which is a significant outlet for a part of the refinery production, the Litvínov refinery was successfully kept in operation until the restart of the stream cracker unit in the autumn of 2016. After the shutdown of the Kralupy refinery caused by the accident on the FCC unit, the Kralupy refinery was used as a logistics and dispensing terminal for refinery products.

A planned large turnaround in the Litvínov refinery took place in March 2016 and lasted approximately one month. The restart of the Litvínov refinery after the turnaround took more time because of a fire at the vacuum distillation unit which occurred during the completion of the turnaround works. At the end of August 2016, a planned replacement of the catalytic converter was carried out in one of the gas hydrogenation units. A planned replacement of the catalytic converter in the gas hydrogenation unit and the regeneration of the catalytic reforming unit (CCR) in Kralupy were both carried out before the refinery was put back into operation in September 2016. In November/December 2016, a planned turnaround of the visbreaking unit in Litvínov was carried out because of regular cleaning.

In 2016 an operational test of vegetable oil hydrogenation was conducted in one of the hydrocracking chambers in order to confirm the capability for the production of second-generation biofuels.

In 2016 the Paramo subsidiary further developed production of lubricant oils and bitumen. Production of base oils and lubricant oils is based at the plant in Kolín. Production of lubricants is based on hydrogenates from Unipetrol RPA that are further processed and blended into the final production of the motor oils of all performance categories, gear oils, hydraulic and other industrial oils. Production of process oils for the rubber industry and production of special industry oils and liquids as well as production of bitumen and bitumen products is located at the plant in Pardubice. Paramo produces a wide range of industrial bitumen products intended predominantly for construction purposes and special hard road bitumen products. Paramo was also providing storage and dispatch services for diesel and gasoline, for Unipetrol RPA and Administration of State Material Reserves – Czech Republic (ASMR).

Spolana is the only producer of polyvinylchloride and caprolactam in the Czech Republic. The company operates two production units – production unit PVC and production unit Caprolactam. The main products of the PVC unit are polyvinylchloride and sodium hydroxide. The Caprolactam unit produces caprolactam, ammonium sulfate and sulfuric acid. Production of PVC and sodium hydroxide in 2016 was strongly influenced by the lack of ethylene resulting from the accident at the steam cracker unit in Litvínov in August 2015. Due to the market situation and difficult transportation, replacement of ethylene deliveries was performed only to a limited extent. From October 2016 supplies of ethylene from Litvínov were restored and the following production of PVC and sodium hydroxide was restored in full.

Market position and sales

Refining business

Market development

Based on the latest available data the Czech fuel market consumption was growing in two main product categories: gasoline and diesel. However the company observed a much higher pace of consumption for diesel than gasoline, which reflects the general EU tendency.

Market position

Despite the parallel limited throughput of capacities in Litvínov and Kralupy refineries the company struggled to maintain the former market share. Therefore the company performed enhanced trading activities and replaced own produced fuels with imported ones, mainly from the other companies from ORLEN Group. Thanks to the above mentioned cooperation, the company maintained its market position intact and at the same time it managed the proper fuel supply for the Czech market.

Sales volumes of refining products, including retail segment (Benzina network of filling stations)

thousand tons	2015	2016
Total refining sales volumes, including retail segment	**5,800**	**6,280**
Diesel, including retail segment	3,093	3,494
Gasoline, including retail segment	1,483	1,476
JET	179	121
LPG	195	196
Fuel oils	200	133
Naphtha	92	220
Bitumen	354	329
Lubricants	35	33
Rest of refining products	169	278

Motor fuels sales

Domestic and export sale of fuels was affected due to the limited production of the refineries, therefore any business development was suspended until the production restoration and supply stabilization in the fourth quarter of 2016. Despite the production limits the company successfully launched business activities via its Hungarian entity established in 2015. Further business development is planned for 2017 based on the revised wholesale strategy.

Other refining product sales

Other refinery product sales were performed according to the modified production mode of the refineries during the period of repair of production units which significantly changed the offered portfolio of products. Total sales volumes of other refinery products increased compared to 2015 also due to the sale of petrochemical feedstock which given to the circumstances company was not able to process at the steam cracker unit.

Paramo market position and sales

Paramo is the market leader in oils and bitumen products sales in the Czech Republic with market share exceeding 35%. More than 60% of Paramo's production is exported, mainly base and process oils.

Paramo produces a wide range of oils for the automotive business and for special industrial application expanding own production with the new most modern generation of oil based on the result of in-house research employing the best laboratories and experts.

Paramo maintained deliveries of the process oils to the Continental Group which extended cooperation for the year 2017 and with other rubber industry companies. The cooperation continued with additives producers and also new foreign customers for sale of wide range of the base oils group I, II and III.

Finished oils and greases were exported to 26 countries. The main export market is Slovakia where Paramo was represented by Unipetrol Slovakia. Paramo developed a strong position in Germany, Hungary and states of the former Yugoslavia. Paramo also managed to develop and increase sales to the Eastern European markets.

Petrochemical business

The overall sales of petrochemical products were significantly influenced by the continuing shutdown of the steam cracker unit due to the accident at the facility from mid-August 2015. As a result the polymer units were operated only to limited extent with PE2 unit shutdown completely for the period. The full production of the steam cracker and polymer units was resumed in October. Total sales volumes reached the level of 1,069 kt, which is lower by 26% compared to the year 2015.

Sales volumes of petrochemical products

Thousand tons	2015	2016
Total petrochemical sales volumes	**1,445**	**1,069**
Ethylene	107	45
Benzene	145	36
Propylene	36	6
Ammonia	230	188
C4 fraction	51	16
Butadiene	49	44
Polyethylene	255	104
Polypropylene	227	141
Rest of petrochemical products	345	489

Olefins and chemicals

The sale of steam cracker unit products and ammonia is the core business line of Business Units Monomers and Chemicals. The most important products of the steam cracker unit include ethylene, propylene, C4 fractions and benzene. Sales of the products were significantly influenced by the steam cracker shutdown which followed after the extraordinary event of August 2015. The subsequently issued notice of force majeure which covered the supply of all steam cracker unit products remained in force till November 2016. This situation essentially meant the complete discontinuation of selling the steam cracker products until the fourth quarter of 2016. Restored supplies were almost exclusively directed to the traditional long-term strategic customers, or they were further processed in production units of Unipetrol RPA.

The ammonia production was not affected by the extraordinary event; sales were at similar level as in previous years. The territorial division of sales did not change either thanks to existence of a long-term contract concluded with the largest domestic fertilizer manufacturer. As in previous years, the vast majority of the ammonia produced by Unipetrol RPA ended up on the domestic market.

Sales of high conductive carbon black Chezacarb AC remain of in the forefront of company's interest as well. Chezacarb AC is used primarily to modify electromagnetic proprieties, electrical and thermal conductivity of plastics, coating materials and rubber, for pigmentation of paints and varnishes and for coloring of plastics and rubbers. They also find their use in the environmental area as sorbents. When compared with the previous years, the volume of sold carbon black rose even over the threshold of 2,000 tons. This was due to the good level of demand, especially in Asia. Besides the stable markets in China and Korea, there was an increase especially in sales to Japan. More carbon black also went to US markets.

Polyolefins

Unipetrol RPA is the exclusive producer of polyolefins in the Czech Republic and a major supplier for the markets in Central and Western Europe. The company's production capacity for polyolefins accounts for 4% of the European market. The production capacity for high-density polyethylene (HDPE) accounts for a 5% share and the production capacity for polypropylene (PP) accounts for a 3% share of Europe's total production capacity.

Traditionally, Unipetrol is a prominent player on the Czech polyolefin market. Thirty percent of its production of high-density polyethylene (HDPE) is supplied to the Czech market. Since the production of this type of polyethylene significantly exceeds the domestic demand, the remaining production is exported. Similarly, the export share of polypropylene accounts for 50% of the total polypropylene production.

The Czech Republic and Western Europe are the key polyolefin markets for Unipetrol. The D-A-CH region is the key European market. In this region Unipetrol relies on the services of its subsidiary Unipetrol Deutschland. Last year Unipetrol's share on the polyolefin market was influenced by the steam cracker accident in mid-August 2015. The accident had a significant impact on the HDPE and PP production and also on the product portfolio until mid-2016. The limited availability of ethylene and propylene caused a shutdown of one of the company's polyethylene units (PE2) and lead to a limited production portfolio of polypropylene. This was the reason why the types of polyethylene used for the production of injection molding grades, and block and random polypropylene copolymers were not available. Because of these limitations, the company lost a part of its market share in the Czech Republic as well as, partially, its shares on other European markets.

Throughout the year the general situation on the European market was still favorable for the European producers although the petrochemical margins were gradually declining; nevertheless, they still remained at high levels. From the demand side, a healthy economic situation in Europe across most of the segments created a robust demand.

From the European market situation perspective, the year 2016 was generally much better in respect of the production units availability. The supply side was much more stable compared with the extreme year 2015. The balance on the European market was also sustained by increased imports.

Total polyolefins sales in 2016 were negatively impacted by the steam cracker unit reconstruction, which continued till August 2016. With the gradual launch of steam cracker unit operation from October, the operation of the polypropylene unit and both polyethylene units was restored as well. As a result the sales volumes in the first 10 months were on significantly lower levels due to the limited availability of the feedstock (HDPE on the level of 30% and PP on the level of 50% compared to the standard years with regular operation). During November and December, the production reached the standard level and sales volumes gradually increased accordingly. Total sales volumes in 2016 reached the level of 245 kt (104 kt of HDPE and 141 kt of PP).

Spolana market position and sales

Polyvinylchloride (trademark Neralit) is produced and sold in four modifications and used for products from plasticized and unplasticized plastic mixtures. Final products are used in many applications such as packaging, building industry, production of customer goods, etc. Sales of PVC were affected by the above mentioned lack of ethylene, in consequence of which the company was able to meet the demand only in part. The return to the market after restoration of ethylene supplies is slowed down by the seasonal effect when demand from building industry goes down at the beginning of winter.

Sodium hydroxide is produced as a by-product together with Polyvinylchloride, thus the sales were affected by a lack of ethylene as well. In order to cover the needs of main customers, Spolana imported a certain amount of sodium hydroxide. Sodium hydroxide is used in a wide range of manufacturing processes, e.g. in paper and cellulose production, artificial fibers production and the food industry. Due to the significance of transportation costs the product is sold only in the Czech Republic and in the neighboring countries.

Caprolactam is the basic raw material for Polyamide 6 (PA6) which finds use in textile fiber manufacturing and in the plastics industry. The caprolactam market in 2015 was affected by declining demand in China, which also influenced the market in Europe. During 2016 the market situation stabilized gradually thanks to increased demand from Asia, which also positively affected the European market. For 2017 gradual growth is also expected.

Ammonium sulfate (trademark Spolsan) is industrial fertilizer which is produced as by-product together with caprolactam and is used as a stand-alone fertilizer or in fertilizer mixtures. Sale of ammonium sulfate is seasonal, but from long-term point of view is relatively stable. Sold volumes in 2016 were determined by the drop in the fertilizers market in Europe, especially in first half of the year.

Expected development in 2017

Refining business

The prevailing excess of crude oil supply over demand and recovering shale oil drilling in the US will keep the crude oil prices at relatively low levels in 2017. The crude oil price should not rise significantly above the current level of around 55 USD per barrel. The balance between supply and demand for crude oil should be reached in the last quarter of 2017 according to estimates, and 2018 should be the first year with a slightly deficit balance. However, the globally high level of inventories of crude oil and crude oil distillates should mitigate the space for crude oil prices growth in 2018 too. The relatively low price level of crude oil together with an increase in consumption will keep supporting refining margins in the year 2017.

Unipetrol Group will focus on improving efficiency and operational excellence across all segments of the business. The main goal, which applies to the whole Group is to secure long-term growth beneficiary for all stakeholders. The Group will also be investing further in synergies between refining and petrochemical businesses, which will continue to be the key competitive advantage of Unipetrol Group.

The strategy for the future development of Paramo will be still based on the following pillars - lubricant oils production and sales supported by strong marketing activities, bitumen and bitumen products production and sales, continuous energy efficiency and production performance enhancement, and further product development. Paramo will gain a competitive edge through the offer of services supplementing sold products - blending for third parties, fuel terminal operation, change and filtration services tied with sales of oils to the final industrial customers and fluid management.

Petrochemical business

Olefins and chemicals

Similarly as in the previous years, the price levels of crude oil and virgin naphtha will be key for further development. It is generally expected that the price of Brent oil should not go below USD 50 per barrel, but at the same time it is not expected to go above 60 USD per barrel in 2017. More intensive crude oil production is expected in the countries outside OPEC. It should be obvious mainly in the US, where higher oil prices will result in more investments into oil production from shale reserves. The lower prices led to significant cuts in investments in this type of production, and it will be necessary to invest again in order to secure a long-term stability of this sector. The level of demand will also be influenced by the continuous effort on the part of the Chinese to replace the production based on coal with the production based on the cheap crude oil which they import mainly from Africa and the Middle East. The relatively low prices of feedstock should help to preserve the competitiveness of some European derivatives on the export markets. The petrochemical margins should remain relatively high thanks to the expected rise of most petrochemical products, but they should not reach the levels they had in 2015 and 2016.

At the beginning of the year, the European ethylene units should be fully utilized and their operators will be getting ready for a series of planned shutdowns, which should start in March. The level of demand should be rather good, which should not be affected by speculative purchases of monomers taking place in the course of the fourth quarter of 2016. From the price perspective the European market, at the beginning, should remain unattractive for exports, which should be directed to Asia, especially to China. The lower availability of ethylene and the expected increase in feedstock prices should support the prices at least in the first half of 2017. The second half of the year will be probably influenced by the availability of ethylene from new units which should be launched in the US. The cracking of lighter feedstock in some European units should also make ethylene more available. The European propylene market should be relatively stable in the course of 2017, with a possible excess in demand. The opposite situation should arise in the US and Asia, where an excess in demand is expected because of the launch of new units. Deliveries from these territories could help to balance the deficit market in Europe in the future.

The expected rise in prices in the US and Asia, together with the tense European market, will also result in a price increase in Europe. The increase should be more significant than the increase in feedstock prices and it should influence negatively the production in related sectors, which probably will not be able to transfer the increase in benzene prices to the prices of derivatives. The high benzene prices will not be sustainable for a long time and they are expected to decrease significantly at the beginning of the second quarter at the latest. The following price development should not be very volatile. In general, the situation on the European market will mainly depend on the ability to absorb imports. Considering that most demands of European processors should be satisfied through long-term contracts and a portion through import contracts negotiated in advance, a lower level of activity on the spot market is expected. In addition, products from new units in India and in the Middle East could be directed to Europe. That could improve the availability of benzene on the European market, which often had to deal with a lack of this product in the past.

The increase in ammonia prices, which was caused by a significant reduction of production capacities of the key players at the end of 2016, should continue in 2017 as well. The level of demand should be higher, and the 2016 situation should not happen again. The prices should slowly return the level of previous years. The market will have to deal with an increase in new capacities, which should be higher than the expected increase in demand. The anticipated decrease in the Chinese ammonia capacities will not provide enough support. The fertilizer market should be in a better condition, apart from an improved political and economic situation in some developing countries, better weather is also expected.

Polyolefins

From the perspective of polyolefin producers, the first half of 2017 should be stable. The planned shutdowns of production units should keep the PE and PP markets in a relative balance and stop a decrease in prices. The lowest level of European prices and the weak euro in relation to the dollar should make the European market less attractive for exporters, which will try to get the products to the territories with higher prices. A key factor for the PE market will be an increase in production capacities in the US and China in the course of 2017. Capacities will be increased significantly also in the Middle East and India. Since only a slight increase in demand is expected, an excess in supply on the HDPE market is also expected. That will lead to lower utilization of production units and pressure on a decrease in prices. The main problem could be an excess of products in the US, which will have to be exported. The most important market for the US products should remain Asia, especially China, but the situation will be impacted by the potential introduction of tariffs as a reaction to the US measures for trading with China. A larger amount of the PE from the US would then be directed to Europe and other parts of Asia. The PP market should be in a similar position. Even though the European polypropylene market could experience some tension, globally, there will be an excess of supply, but definitely to a smaller degree than on the PE market. Therefore the processors should not find themselves in the same situation as in 2015, when they had to decide whether to buy products at any price or whether to shut down the production because of a shortage of product supply.

Spolana

The strategy of the future development of Spolana will be based on the continuation of the production of current product lines with a gradual modernization and adjustments due to regulatory requirements. Restoration of full production and sales of polyvinylchloride will take place. Construction of a new production line allowing launch of new product SPOLSAN G at the end of 2017 will be completed. The shutdown of chlorine production using mercury electrolysis is planned for the year 2017 as required by regulation. Continuation of polyvinylchloride production from EDC semi-product is planned to replace the current setup. Further analyses of other potential options will be continued during the year 2017. Preparation for the construction of a new power generation center has started at the begining of 2017. The company also plans a continuation of cooperation with neighbouring municipalities to build flood protection barriers. Approach to the non-used assets will be further analysed. Action within the area of employement stabilization and hiring are being undertaken. Programs for induction, training fostering knowledge-sharing and promoting best practices shall be strengthened. Spolana will also continue integration with the rest of the Unipetrol Group after being acquired in 2016.

Retail segment

Financial result of the retail segment

CZK million	2015	2016
EBITDA LIFO	829	957
EBITDA	829	957
EBIT LIFO	501	639
EBIT	501	639

Note: Financial results of the retail segment include UNIPETROL RPA, s.r.o. – BENZINA, registered branch (filling stations network) and PETROTRANS, s.r.o. (road transporter of fuels).

Key highlights of 2016

- By the end of the year a total of 20 filling stations taken from OMV
- Five completely new BENZINA filling stations opened
- Implementation of the new coffee concept throughout the entire Benzina network and installation of new coffee machines at more than 200 filling stations
- VERVA fuel offer was expanded at 30 filling stations; CNG product introduced at 11 stations in cooperation with our partners
- Benzina YouTube channel reached more than 6.5 million views
- Significant increase of Benzina brands in terms of awareness and satisfaction
- Introduction of a new prepaid discount card Tank Card EASY

External environment

Fuel consumption in the Czech Republic in the entire year 2016 was influenced by macroeconomic and technical factors. Among the macroeconomic factors were the growth of GDP, low unemployment rate, and in this context the increased performance of many sectors with intensive use of diesel, and the willingness of households to spend more manifested itself in a higher demand for gasoline. The technical factors include car fleet conversion from gasoline to diesel engines with lower fuel consumption and also the fact that the new cars have lower gasoline consumption.

Tax evasions and related negative impacts on the state budget, corporate economics and the competitive environment were dealt with and decreased significantly by adopting a series of appropriate measures leading to improved conditions on the Czech market. The measures were enforced through new legislation and operated effectively throughout 2016. Thus the positive legislative changes and other control systems significantly improved the competitive environment of the fuel sales business.

In 2016, there was a reduced interest in alternative liquid fuels with a high amount of bio-component (E 85, B 30, B 100) due to reduction of their tax advantage.

A sharp increase was also recorded in the case of the gas alternative CNG. In addition to the increased number of cars, the number of filling stations offering CNG increased as well. This type of alternative is supported in terms of taxes.

The above-listed factors were crucial for the development of demand for fuels on the domestic market in 2016, which when compared to 2015 was characterized by a 2% increase in gasoline consumption and by a 5% increase in diesel consumption. So far higher increases in consumption of fossil fuels determine all other alternatives that are subject to tax concessions.

As of 31 December 2016, there was a total of 6,992 filling stations in the Czech Republic, of which 2,428 non-public, 658 with limited access and 3,906 public filling stations.

Market position and sales

Market position

Unipetrol RPA, s.r.o. - BENZINA, registered branch, operated the largest network of filling stations in the Czech Republic in 2016. As of 31 December 2016, the network comprised of 363 filling stations with a wide range of fuels with additives; a selected segment of the filling stations offers a range of VERVA premium fuels and a wide collection of other goods, refreshments and services. The network was renovated and upgraded mainly between the years 2006 and 2010 and is currently profiled into three segments: the premium, represented on the domestic market by BENZINA Plus filling stations, the standard brand portfolio of BENZINA filling stations and the self-service filling station segment under the brand name Expres 24.

Compared to 2015, Benzina's market share in 2016 increased from 16% to 17.6% (company's estimates based on the data from the Czech Statistical Office as of October 2016).

Fuel sales

Benzina's key business is the sale of fuels and other goods and services at filling stations. The sales structure confirmed the long-term trend of a higher proportion of diesel fuel, which continued in 2016.

Structure of fuel sales at filling stations (%)

	2015	2016
Gasoline	35	36
Diesel	65	64

Compared to 2015, the sales of diesel in the Benzina network recorded a growth of 14.1% in 2016. The range of diesel fuels contributing to the growth included both the standard TOP Q diesel (+12.8%) as well as the premium VERVA diesel (+27.5%).

Compared to 2015, the total sales of the range of gasoline fuels recorded a growth of 14.5% in 2016. The main contributor remained Natural 95, which accounted for 92% of total composition of the gasoline sold and showed a year-on-year increase of 12%. The sales of the high-octane VERVA 100 gasoline increased on a year-on-year basis by 54%. Since its introduction in 2006, its share of the gasoline sold had grown and in 2016 achieved 7.7% of the total gasoline sales.

As part of nationwide monitoring of the quality of the fuel sold at public filling stations carried out by the Czech Trade Inspection Authority and publication of the results by the CTIA, there was only one slight discrepancy in the case of diesel out of the whole Benzina network of filling stations. All the checked premium fuels were found to be compliant. Within the internal program "Seal of Quality", an independent accredited laboratory checked 1,821 samples from the Benzina network and 99.5% were free of defects.

The higher sales of fuel at filling stations in 2016, including the increased share of the premium fuels with higher added value combined with the decrease in the prices of all types of the fuels sold, business strategy, marketing support and operating cost savings have all contributed to very good financial results of the retail segment. A positive impact on the results was also supported by the improved competitiveness of the market environment and favorable macroeconomic factors positively influencing the demand for both gasoline and diesel. The highly competitive environment in the retail market was in 2016 again attributable to a large number of filling stations in the Czech Republic.

Non-fuel sales

Total revenues from sales within the non-fuel segment increased notably by 13.5% in 2016 compared to 2015 results. Higher dynamics were recorded within the sub-segment of gastronomy, whose revenue grew by 28.2%. This positive development was mainly due to the introduction of the Stop Cafe fast food concept, where customers can enjoy quality coffee, hot dogs, fresh sandwiches and hot meals.

Expected development in 2017

In the current economic conditions of the Eurozone and economic reforms in the Czech Republic, in particular the adoption of measures promoting growth by the Czech government, the further growth of the Czech economy can be expected with a positive impact on growth in demand for fuels on the domestic market, mainly through increased performance of sectors with intensive diesel consumption. The tax-advantageous CNG will further strengthen its stabile position on the market. The new tax legislation applicable to highly concentrated biofuels will significantly reduce the demand for it, which will now shift to standard fossil fuels. In the strongly competitive market environment of the filling stations the pressure exerted on fuel profit margins will also persist this year.

An approval of new stricter legislation is expected in the form of an amendment to the Act on Fuels and Filling Stations, for fair and controlled business in the area of filling stations and fuel sales, including the harmonization of European legislation in the infrastructure of alternative fuels, which in the years to come will bring greater restrictions on unfair practices in the sector. Categories of filling stations which do not meet legislative requirements should be gradually squeezed out of the market in favor of serious market players. The gasoline and diesel assortment available in 2017 will depend on the conditions defined by the environmental legislation determining the level of binding obligations for reducing CO_2 emissions of fossil fuels in terms of the bio-component content with lower emission footprint in years 2017-2020. In addition, it can be expected that there will be further expansion of the range of fossil fuels with additives, alternatives such as CNG or fast charging points at filling stations for charging electric cars. The remaining market space will be filled by low-cost, self-service filling stations.

Benzina's priorities within the framework of the adopted Strategy 2013-2017 remain an increase in the market share in fuel sales, an increase in average throughput per filling station as well as an increase in sales of the nonfuel segment, including the extension and harmonization of refreshment offerings. Benzina will also seek to further strengthen customer confidence.

According to market development, the state of fleet modernization and new technologies of fuel combustion in cars, Benzina filling stations will continue to improve the range of fuel assortment, premium fuels, CNG and environmentally friendly operating fluid Ad Blue.

Investments

Investments in the downstream segment in 2016 were influenced by the extraordinary event that occurred in August 2015 at the steam cracker unit and related investments into the reconstruction of the unit and into the construction of the new furnaces of the steam cracker. Another extraordinary event occurred in May 2016 at the FCC unit in Kralupy refinery which also took a substantial part of investments. The biggest investment project implemented in 2016 was construction of the new polyethylene unit PE3, which had already begun in 2015, but in 2016 the construction works started on the unit itself. In 2016 the scheduled turnaround of all production units in Chempark Záluží was implemented.

Other investments were mainly focused on maintaining the operational reliability, safety, meeting regulatory requirements in the area of environment and enhancing of operational efficiency, especially energy efficiency. Other important investment projects focused on renovation of the T700 power station, environmental protection, and meeting the new regulatory requirements in the tax area. The project of increasing of capacity of the polypropylene unit was completed in 2016.

In the retail segment the majority of investments were related to the acquisition and rebranding of filling stations, which the Group acquired from OMV. Construction of the new filling stations was completed in Osice and in Opava and a new unmanned filling station was opened in Poděbrady. In the course of 2016, the retail segment also invested in the expansion of the Stop Cafe refreshment concept, and new coffee machines were purchased.

Investments in the corporate functions segment were directed mainly into the projects of the subsidiary Unipetrol Centre for Research and Education and into the IT projects. The main investments of the subsidiary Unipetrol Research and Education Centre were intended for the completion of UniCRE (Unipetrol Centre for Research and Education) and for the purchase of equipment within the grant program NSU (National Sustainability Program). The main goal is to intensify and streamline research and development in the area of industrial chemistry and environmental technologies.

Unipetrol Group CAPEX overview according to the investment category and business part for the year 2016 and plan for the year 2017 (CZK million)

Investment category/ Business part		Downstream	Retail	Corporate functions	Total
2016	Development	6,875	382	24	7,281
	Maintenance/refurbishment	3,179	83	42	3,304
	Environment	175	3	0	178
	Safety	18	4	3	25
	Total	**10,247**	**472**	**69**	**10,788**
2017	Development	4,940	568	178	5,686
	Maintenance/refurbishment	2,562	108	96	2,766
	Environment	336	2	0	338
	Safety	469	2	40	511
	Total	**8,307**	**680**	**314**	**9,301**

Research and development

Research and development of Unipetrol focuses on three basic areas - plastics, petrochemistry, and refinery. In 2016, research and development in the area of plastics was carried out by the Polymer Institute Brno (PIB) registered branch, while the petrochemistry and refinery research areas were covered by Unipetrol Centre for Research and Education, a.s. (UniCRE). Aside from the aforementioned institutions, Unipetrol also closely cooperated with universities, especially the University of Chemistry and Technology, Prague (UCT Prague) and the Czech Technical University in Prague (CTU). The results of research and development are applied within technical support for production, the preparation of individual strategies, or directly in order to introduce new products into the production portfolio.

The Research Institute for Inorganic Chemistry was renamed to Unipetrol Centre for Research and Education (UniCRE) as of 1 January 2016.

In 2016, UniCRE implemented the NSP (National Sustainability Program) and CATPRO (Large Infrastructures) programs.

It followed up on or extended its collaboration with academic institutions and universities, both in the Czech Republic and abroad. It made a significant contribution in the area of education in collaboration with the University Center UCT Prague - Unipetrol in Litvínov – providing facilities for 11 students within the “Auxiliary Scientific Staff” program, and preparing new topics for Bachelor and Master Theses. It worked with high school students and provided laboratory exercises for students of the University Center.

UniCRE submitted applications for projects within the following programs: TRIO, Operational Program Enterprises and Innovations for Competitiveness, Operational Program for Research, Development and Education, Horizon 2020 and the Coal and Steel development fund.

Within its activities, it supported RDI (Research, Development and Innovation) in cooperation with the government, the Ministry of Trade and Industry, the Ministry of Education, Youth and Sports, and the Ústí Region (Strategy for RDI restructuring and measures).

So UniCRE is viewed as one of the leaders in the area of applied chemistry research in the Czech Republic.

Refining business

Research and development in the area of refinery technology and products followed two primary areas – the production of motor fuels and the processing of residual fractions.

Legislative pressure on reducing greenhouse gas emissions and increasing the share of renewable resources leads to the necessity of researching and developing of applications of various types of renewable energy sources, and this also applies in the area of refinery technology. In 2016, an operational test for the hydrogenation processing of plant oil was successfully prepared and carried out with the research, technological and analytical support of UniCRE. The surveying of potentially usable renewable energy sources also continued; the goal here is to implement new energy sources in the production of motor fuels. Development and testing in the area of desulfurization of fuel components, their blending and additivation also formed an integral part of this area.

The conversion of residual fractions is an important economic aspect of every refinery, and so emphasis was placed on its further improvement with a goal of increasing the production of light products. Projects also targeted the production of road asphalt, the basic material used for road construction. Possible ways of increasing the durability of asphalt binders were investigated along with possible improvements of other properties of asphalt using modern rheological and analytical methods. The expected reduction of sulfur contents in heating oils will limit their further applications and bring further pressure on alternative applications of residual fractions, and so options for potentially reducing their production or improving their quality were researched.

In the area of projects with public support, a project continued in cooperation with CTU Prague whose primary goal is the recycling of waste material from the reconstruction of roads. Methods were discovered which will allow the use of such material in the construction of the road network.

In addition to this, UniCRE specialists and experts in the area of refinery production took part in the teaching program of UCT Prague, both during laboratory work and by supervising Bachelor and Master theses.

Olefins and chemicals

Long-term plans in the area of petrochemistry are to improve the quality of the product portfolio and improve production efficiency.

In 2016, possible options were investigated for utilizing light hydrocarbons originating from pyrolysis and their applications in the production of foaming agents. In the same period, possible ways were also investigated for utilizing the remaining unsaturated C5 hydrocarbons using hydrogenation procedures.

Furthermore, possibilities for the production of pure hydrocarbons from naphthalene concentrates were analyzed.

Research projects also targeted theoretical problems in pyrolysis and sought other possible ways of utilizing its secondary products; utilization of renewable energy sources in petrochemistry; searching for more efficient management and improving the economy of petrochemical production using modern, instrument-based analytical methods.

Projects covered within UniCRE institutional financing focused on the area of selective dehydrogenation of butane and butene to 1,3-butadien and on the area of using liquid products from the pyrolysis of waste tires. The results of these constitute the base documents for the preparation of research projects.

Work was also carried out on the implementation of development projects focusing on economic and environmental applications of used converters, and a nontrivial amount of work was also carried out in the area of energy savings.

Polyolefins

In the area of polyolefins, Unipetrol continues to refine its production processes and products. In 2016, research carried out by the Polymer Institute Brno (PIB) registered branch focused on securing high-quality propylene for the production of polypropylene, on optimizing of production, and on implementing new catalytic systems meeting the requirements of REACH.

Research in the field of polyethylene focused on two specific areas - preparation of laboratory testing equipment (polymeration lines) for the new INEOS slurry technology, currently under construction in the Záluží facility; and selection of suitable catalytic systems for PE2 and PE3 units in order to prepare documentation for the innovation of the polymer types currently produced at the PE2 unit. Other areas of research included the start of work on developing selected types of matrices, currently produced at the PE1 unit, whose equivalents are not included in the INEOS license. Due to the requirements of customers for continued production of these materials even after the termination of production at the PE1 unit, a significant amount of attention is focused on this line of research and development.

The preparation for new production technologies also includes the necessity to develop new testing methods, since the characteristics of bimodal types of polymers significantly differ from standard unimodal polymers.

Documents were prepared for the restoration of certificates for piping materials for the region of Scandinavia, and documents supplied by the PE research group from PIB were used to prepare a matrix which successfully passed testing in Sweden and thus regained certification for this type of products in the given region.

In the area of matrix additivation, a test sample for operation tests was prepared based on a recipe which is currently in development – the application of this recipe to production would lead to significant cost savings.

Research in the area of polypropylene production in 2016 targeted especially non-phthalate catalysts adhering to REACH which also allow increased production of polypropylene. During the long-term shutdown of the steam cracker unit in Litvínov and the FCC plant in Kralupy, propylene analyses from external sources were carried out, and suitable recommendations for processing it were made in order to make polypropylene. Technical documentation was prepared for a new cleaning unit for propylene from external sources. New methods for preparing copolymers of polypropylene with better properties and the innovation of current types of polymers with a goal of reducing operating costs were investigated.

Research also focused on the area of additive recipes for polymer products and research in the area of additivation/stabilization of produced polymer materials.

Research projects also targeted the area of polypropylene and polyethylene production. Pursued projects were related to production support, where the polypropylene and polyethylene technology department of PIB worked with the polyolefin production team of Unipetrol RPA in order to improve the production process and remove technological bottlenecks.

Aside from research activities, PIB also provided Unipetrol RPA with specialized technical service via its customer support.

A joint project carried out in 2016 focused on the possibility of using highly conductive Chezacarb soot as a filling agent for polymer materials manufactured at Unipetrol RPA. Furthermore, research carried out at PIB targeted the optimization of stabilization recipes for composite containing Chezacarb eliminating the effects of soot contaminated with transition metals and for Chezacarb composites with engineering plastics. Moreover, development of the Chezacarb/PP material with reduced flammability continued throughout the year for applications to pass the UL-94 flammability tests, and in this

respect the multiphase compounds with lower contents of Chezacarb soot which maintained electrical conductivity of the system were also investigated (the results were presented at a conference organized by AMI).

As part of sales support for Chezacarb and the research into new materials with Chezacarb, recipes of conductive or antistatic compounds and master batches based on specific customer needs were developed. Two of these were then transferred to the production of composites in cooperation with an external compound manufacturer (external compounding company IQAP).

Chezacarb

Last year, technical support for the application of conductive Chezacarb soot in plastics was carried out, and existing as well as new potential applications of Chezacarb in polyolefin materials produced by Unipetrol RPA and in engineering plastics were investigated.

Work was carried out in the area of utilizing Chezacarb soot in conductive paint materials. Samples of these materials were prepared and procedures were developed for the production of such paint materials.

Employees

Unipetrol Group considers human resources to be one of the key driving forces of every company. It strives to create a pleasant working environment for its employees, so that they could deliver the best results and therefore support the positive development of the whole Group.

Unipetrol Group was one of the biggest companies in the region with its 4,566 employees in 2016.

One of the main tasks in 2016 was the merger of companies and related transfers of employees under Section 338 of the Labor Code. The aim of the mergers was to simplify the organizational structure and to streamline the management of the company. As of January 2016, some of the employees of UNIPETROL, a.s. and a first portion of the employees of the service organization UNIPETROL SERVICES, s.r.o. were transferred to UNIPETROL RPA, s.r.o. New registered branches were created which became part of UNIPETROL RPA, s.r.o.: UNIPETROL RPA, s.r.o. – POLYMER INSTITUTE BRNO, registered branch, and UNIPETROL RPA, s.r.o. – BENZINA, registered branch. In March 2016 a portion of the employees of ČESKÁ RAFINÉRSKÁ, a.s. was transferred to UNIPETROL RPA, s.r.o., and in August the transfer of the second portion of the employees of UNIPETROL SERVICES, s.r.o also to UNIPETROL RPA, s.r.o. was completed. Another portion of the employees of ČESKÁ RAFINÉRSKÁ, a.s. was transferred simultaneously.

Total number of employees of Unipetrol Group (persons) as of 31 December 2016

Company	2016
Butadien Kralupy a.s. (51%)[1]	10
ČESKÁ RAFINÉRSKÁ, a.s.	519
PARAMO, a.s.	440
PETROTRANS, s.r.o.	128
UNIPETROL, a.s.	10
UNIPETROL DEUTSCHLAND GmbH	16
UNIPETROL DOPRAVA, s.r.o.	409
UNIPETROL RPA, s.r.o.	2,188
UNIPETROL SLOVENSKO s.r.o.	25
Unipetrol výzkumně vzdělávací centrum, a.s.	119
UNIPETROL RPA Hungary Kft.	9
SPOLANA a.s.	682
HC VERVA Litvínov, a.s.	11
TOTAL	**4,566**

[1] Number of employees in Butadien Kralupy a.s. (100%) was 19.5.

Education of employees

Education of Unipetrol Group's employees in 2016 was influenced mainly by the ongoing generational change. Unipetrol RPA's primary focus was on the process of succession and individual development of current employees related to that. The education of employees in 2016 focused on the training and development of employees in the "Operator in training" and "Graduate" programs.

Like every year the company organized for its employees corporate trainings. The employees received mandatory trainings, professional or vocational seminars, and foreign language courses. Some employees also attended trainings financed by European funds.

Workforce structure

The workforce structure in 2016 corresponds to the character of the whole Group. The most frequent level of education is of the secondary level, which is common in a production company. Higher education is quite frequent as well. It is mostly favored within the managerial and leadership positions. As one of the biggest employers, Unipetrol Group offers attractive work conditions which create loyalty towards the company among employees.

Employment structure of Unipetrol Group as of 31 December 2016

Employment structure by education	
Primary	5%
Vocational	29%
Secondary	**45%**
Higher	21%
Employment structure by gender	
Men	**74%**
Women	26%
Employment structure by length of employment	
< 5	**33%**
5-10	13%
11-20	17%
21-30	23%
> 30	14%
Employment structure by age	
< 30	11%
31-40	17%
41-50	**34%**
51-60	30%
> 60	8%

HR policy

Unipetrol Group adopted current HR policy in 2013 which determines the development in the area of HR for years 2013–2017.

The Group Strategy focuses on developing an integrated company which produces and sells fuels and energy with a diversified asset structure. Realization of these ambitious objectives requires strong management and highly qualified employees who will be able to fulfil the strategic objectives and ensure effective management of incoming changes.

Strategic directions in HR policy

The corporate culture of Unipetrol is based on values listed below, adopted and applied in Unipetrol as well as in other companies of the capital Group of PKN ORLEN:

- Responsibility
- Progress
- People
- Energy
- Dependability

Based on this new corporate culture, HR supports managers in dealing with matters pertaining to personnel operations. In the area of segment management the HR department takes steps towards the highest possible synergies.

The HR department introduces processes and means which suit the needs of business, support the implementation of the Strategy (especially in areas such as downstream and energy) and also take into consideration social conditions. The HR department's activities focus on:

- an efficient recruitment and adaptation process which enables the choosing of employees with desirable competencies;
- targeted professional development of employees, which supports strengthening of competencies desired within the Group companies;
- a systematic approach to accumulation and exchange of knowledge within the Group;
- promotion of mobility, exchange of experience on the intercultural level;
- remuneration policy which allows recruitment of new employees and influences their motivation and commitment.

The HR department is responsible for the steady increase in the efficiency of HR processes within the Group and introduction of advanced and innovative solutions, while taking into account the optimization of costs.

Financial standing

Consolidated statement of financial position

As of 31 December 2016, non-current assets of Unipetrol Group amounted to CZK 32,270 million. In 2016, the Group acquired tangible and intangible assets worth CZK 10,788 million.

The impairment allowance of CZK 1,919 million recognized in the past in the refinery cash generating unit to non-current assets of ČESKÁ RAFINÉRSKÁ, a.s. was reversed as at 31 December 2016. Most investments were done in the downstream segment CZK 10,247 million, followed by investments in the retail segment CZK 472 million.

Total current assets amounted to CZK 36,382 million as of 31 December 2016 and were higher by CZK 4,458 million compared to the previous year, especially due to an increase in inventories and receivables. Compared to 31 December 2015 inventories increased by CZK 3,335 million and trade receivables increased by CZK 2,183 million driven by restored operations of the production units.

Total equity rose by CZK 6,112 million to the level of CZK 41,621 million in the year 2016 stemming mainly from net profit reached in the year 2016 in the amount of CZK 7,975 million compensated by dividend approved in amount of CZK 1,001 million.

Current liabilities were higher by CZK 7,668 million as at 31 December 2016 as compared with 31 December 2015 due to among others increase in trade liabilities by CZK 2,870 million, investment liabilities by CZK 2,108 million and tax liabilities by CZK 2,539 million.

Consolidated statement of profit or loss and other comprehensive income

The Group's revenues for the year 2016 amounted to CZK 87,813 million and were 19% lower than in the year 2015, due to low crude oil price and lower utilization of production capacity resulting from both the steam cracker and the Kralupy refinery shutdowns.

The Group's profit from operations of CZK 9,897 million on EBIT level for 2016 was influenced by a few one-offs items. The main contributor to the result was the amount of CZK 7.9 bn coming as the payments from insurers for the property damage and business interruption due to the steam cracker accident which the Group recognized in the 2016 financial statements. The second one-off contributor was the reversal of impairment allowance of downstream segment assets worth of CZK 1.9 bn based on the results of an analysis performed at the end of 2016.

The Group's net profit reached the level of CZK 7,975 million at the end of the year.

Consolidated statement of cash flows

Net cash provided by the Group's operating activities amounted to CZK 7,996 million in 2016.

At the same time, investment activities resulted in cash outflow in the amount of CZK 9,789 million driven by very high investment spendings and financing activities resulted in cash outflows in the amount of CZK 1,165 million driven by dividend payment to shareholders in amount close to CZK 1 bn.

The Group's financial position was still very strong at the end of the year 2016 as the net cash amounted to CZK 2,757 million and financial gearing, defined as the ratio of net debt and equity, amounted to (-) 6.6%.

Revenues

Trends in revenues for own products and services

	2016	2015	2014	2013	2012
	CZK million	CZK million	CZK million	CZK million	CZK million
Revenues	87,813	108,907	123,938	99,415	107,160

The Group's revenues for the year 2016 amounted to CZK 87,813 million and were 19% lower than in the year 2015, due to low crude oil prices and lower sales volumes of petrochemical products resulting from both the steam cracker and the Kralupy refinery shutdowns.

Structure of revenues by business segments

Business segment	2016	2015	2014	2013	2012
	Revenues in %	Revenues in %	Revenues in %	Revenues in %	Revenues in %
Downstream	89	91	91	89	91
Retail	10	9	9	11	9

In 2016, the external sales of the downstream segment decreased by CZK 20,771 million compared with the previous year and reached the level of CZK 78,543 million. This drop was due to the low crude oil price as well as lower sales volumes of petrochemical products due to the shutdown of steam cracker unit until October 2016.

The external sales of the retail segment in 2016 reached the level of CZK 9,105 million and were by CZK 386 million lower compared with the previous year due to decline in crude oil prices affecting the fuel prices however partially compensated by higher sales volumes.

Structure of sales revenues by area

Area	2016	2015	2014	2013	2012
	Revenues in %	Revenues in %	Revenues in %	Revenues in %	Revenues in %
Czech Republic	68	64	67	69	71
Other European countries	30	35	31	29	27
Other countries	2	2	2	2	2

Compared to the year 2015, the territorial structure of the Group's revenues remained stable with the majority of sales was directed toward EU countries.

Separate profit / loss and dividends of UNIPETROL, a.s.

(CZK million)	2016	2015	2014	2013	2012
Profit for distribution	47	2,143	328	938	404
Allocation to the reserve fund	--	--	--	47	20
Number of profit-bearing shares	181,334,764	181,334,764	181,334,764	181,334,764	181,334,764
Profit/loss per share (CZK/share)	0.26	11.82	1.81	5.17	2.23
Dividend per share (CZK/share)	--[1]	5.52	--	--	--
Total for distribution	47	2,143	328	891	384
Profit brought forward as of 31 December	9,239	10,193	6,331	6,050	5,132

[1] The decision on the distribution of the profit 2016 will be taken at the Annual General Meeting.

Property, plant and equipment

UNIPETROL, a.s., owns most of the land within the production facilities situated in the cadasters of Kralupy nad Vltavou and Litvínov towns. A major part of this land is situated underneath its subsidiaries' production facilities and underneath the production facilities of SYNTHOS Kralupy, a.s. UNIPETROL, a.s., also owns several plots of land outside of these production facilities, a part of which is used by its subsidiaries and SYNTHOS Kralupy, a.s., for their activities, e.g. landfills, roads, location of product pipelines etc.

The total area of land owned by UNIPETROL, a.s., within the cadasters of Kralupy nad Vltavou is approximately 2.496 million sq m and of Litvínov approximately 8.875 million sq m.

UNIPETROL, a.s., as a non-production company does not own any buildings or equipment on this land, nor has it any oil fields or natural gas production sources of its own. The property, plant and equipment on UNIPETROL, a.s.'s land are owned and operated predominantly by its subsidiaries that have their operations in the industrial facilities. To a lesser extent, other entities not belonging to Unipetrol Group are the owners or tenants of this property, plant or equipment where the subsidiaries have no use for such assets. SYNTHOS Kralupy, a.s. (previously KAUČUK, a.s.), which is not a part of Unipetrol Group any more, is a major owner of buildings and equipment on the premises of the chemical production facilities in Kralupy nad Vltavou.

On the basis of the agreement on the sale of KAUČUK, a.s., to the new owner, Firma Chemiczna Dwory S.A., Republic of Poland, an agreement benefiting SYNTHOS Kralupy, a.s., on the pre-emptive rights to specific in Chemical Production Complex Kralupy land used for its activities was executed. The pre-emptive rights are registered in the land register.

Tangible assets are described in detail in the Notes to the Consolidated Financial Statements. The land owned by UNIPETROL, a.s., is not encumbered by any liens.

The land is zoned for industrial activities and its use is governed by easement agreements executed between the owner of the land, UNIPETROL, a.s., and the companies operating on both cadastral areas. The easements are provided for a consideration.

Capital resources

Operational financing of the Group is provided mainly at the level of the parent company UNIPETROL, a.s. using available resources within existing cash pools or operational loans provided by reputable banks.

Thanks to the planned merger of Česká rafinérská with UNIPETROL RPA, credit lines were rearranged within the Group in 2016 with the aim of existence of bilateral loan agreements only between UNIPETROL, a.s. and the banks. The total amount of credit lines originating from these contracts is CZK 11,701 million (including a separate credit line for Unipetrol RPA of CZK 150 million in total), thereof CZK 10,123 million may be drawn in the form of bank overdrafts.

As part of operational financing of the parent company UNIPETROL, a.s. bank guarantees of CZK 2,018 million were provided for Unipetrol RPA's liabilities (worth of CZK 1,043 million), Spolana's liabilities (worth of CZK 51 million), Paramo's liabilities (worth of CZK 381 million) and liabilities of Unipetrol Slovensko (worth of CZK 543 million).

Additional bank guarantees were provided within the Group for Česká rafinérská (worth of CZK 21 million), Unipetrol Deutschland (worth of CZK 369 million) and Unipetrol RPA (worth of CZK 143 million).

On top of that, UNIPETROL, a.s., issued parent company guarantees for UNIPETROL RPA, s.r.o., and SPOLANA a.s. to secure excise tax and liabilities from the concluded contracts.

Risk management

Risk management in the Group is provided mainly by the documents "Financial Risk Management Policy" and "Market Risk Management Policy". These documents define the rules and recommendations regulating financial management activities in Unipetrol Group companies.

The documents create a module of rules and recommendations for risk management, and their purpose is to provide a formal framework for treasury operations. Appendices to these documents set out the credit limits for counterparties, dealers' competencies, permitted transactions and the tools for which special permission is required.

The documents define the permissions for each of the Treasury departments and, as the case may be, for the authorized financial management department of subsidiary Unipetrol RPA to carry out activities relating to associated (underlying) risks and reducing financial and commodity risks for the Group companies while meeting the conditions for the definition of hedging operations from the IFRS perspective.

The applicable financial risk management policy is based on the principle that the Group companies act as conservative entities which on no account use their funds or positions for speculative purposes.

Explanation on the use of alternative performance measures

Indicator	*Definition*	*Purpose*	*Reconciliation*
EBITDA	Operating profit/(loss) + depreciation and amortization	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.	*see note 3.1. of the notes to the consolidated financial statements*
EBITDA LIFO	Operating profit/(loss) + depreciation and amortization + LIFO effect	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).	*in CZK m* / ***for year 2015*** / ***for year 2016***
			EBITDA / 10,643 / 11,928
			LIFO effect / 236 / 109
			EBITDA LIFO / **10,879** / **12,037**
EBIT	Operating profit/(loss)	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.	*see note 3.1. of the notes to the consolidated financial statements*
EBIT LIFO	Operating profit/(loss) + LIFO effect	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).	*in CZK m* / ***for year 2015*** / ***for year 2016***
			EBIT / 8,716 / 9,897
			LIFO effect / 236 / 109
			EBIT LIFO / **8,952** / **10,006**
Free cash flow (FCF)	Net cash flow from operating activities + net cash used in investing activities	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.	*see Consolidated statement of cash flows*
Net working capital	Inventories + trade and other receivables - trade and other liabilities	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.	*see note 20.7.3. of the notes to the consolidated financial statements*
Net debt / net cash	Non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents	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	*see note 20.7.1. of the notes to the consolidated financial statements*

<table>
<tr><td></td><td></td><td>and cash equivalents.</td><td></td></tr>
<tr><td>Net debt / (equity – hedging reserve)</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>Net debt
see note 20.7.1. of the notes to the consolidated financial statements

Equity
see Consolidated statement of financial position

Hedging reserve
see Consolidated statement of financial position</td></tr>
<tr><td>Net debt / EBITDA</td><td>Net debt / EBITDA, where the EBITDA indicator is 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>Net debt
see note 20.7.1. of the notes to the consolidated financial statements

EBITDA
see note 3.1. of the notes to the consolidated financial statements
<table>
<tr><td>in CZK m</td><td>for year 2015</td><td>for year 2016</td></tr>
<tr><td>EBITDA</td><td>10,643</td><td>11,928</td></tr>
<tr><td>indicator adjusted for:</td><td></td><td></td></tr>
<tr><td>gain on acquisition</td><td>(-) 429</td><td>-</td></tr>
<tr><td>impairment of the steam cracker unit</td><td>(+) 597</td><td>-</td></tr>
<tr><td>other expenses incurred in the relation to the steam cracker unit accident</td><td>(+) 156</td><td>-</td></tr>
<tr><td>impairment allowance of the downstream segment assets reversal</td><td>-</td><td>(-) 1,919</td></tr>
<tr><td>EBITDA</td><td>10,967</td><td>10,009</td></tr>
<tr><td>Net debt</td><td>(5,857)</td><td>(2,757)</td></tr>
<tr><td>Net debt / EBITDA</td><td>(0.5)</td><td>(0.3)</td></tr>
</table></td></tr>
<tr><td>Capital expenditures (CAPEX)</td><td>Additions to non-current asset.</td><td>The indicator shows the additions to non-current assets of the company for the period. It allows monitoring of investing activities of the company.</td><td>see note 3.1. of the notes to the consolidated financial statements</td></tr>
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