CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

THE SYNTHOS S.A. GROUP

Oświęcim, ul. Chemików 1

Consolidated financial statements
for the 12 months ended
31 December 2016
prepared in accordance with the International
Financial Reporting Standards
as endorsed by the European Union

Oświęcim, 22 March 2017

MANAGEMENT REPRESENTATIONS

The Management Board of Synthos S.A. ("Company") hereby presents the consolidated financial statements for the twelve months ended **31 December 2016**, which comprise:

- The consolidated statement of comprehensive income for the period from 1 January to 31 December 2016;
- The consolidated statement of financial position as at 31 December 2016;
- The statement of changes in consolidated equity for the period from 1 January to 31 December 2016;
- The consolidated cash flow statement for the period from 1 January to 31 December 2016;
- Accounting policies and explanatory notes.

The consolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards as endorsed by the European Union (hereinafter "the EU IFRS") and in accordance with the requirements set in the Decree of the Council of Ministers of 19 February 2009 on current and periodic information to be provided by issuers of securities (Journal of Laws of 2009 No. 33, item 259), and present the Group's financial position in a true, fair and clear manner.

The Directors' Report of the Group presents a true view of the Group's development, achievements and situation, including a description of key risks and threats.

Signatures of the Management Board Members

……..……………………………..
Zbigniew Warmuz
President of the Board

…………………………………...
Zbigniew Lange
Board Member

………………………………..
Tomasz Piec
Vice President

…………………………………..
Jarosław Rogoża
Board Member

…………………..………………..
Michał Watoła
Person responsible for maintaining the books of account

During the reporting period, Mr Tomasz Piec, Member of the Management Board of Synthos S.A., was appointed as Vice President of the Management Board with effect as of 1 June 2016.
As of 31 December 2016 Mr Tomasz Kalwat resigned from being a member of the Management Board of Synthos S.A..
On 9 January 2017 the Supervisory Board appointed Mr Zbigniew Warmuz as President of the Management Board of Synthos S.A..

Oświęcim, 22 March 2017

(in PLN millions unless stated otherwise)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 12 MONTHS ENDED 31 DECEMBER 2016

	Note	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Sales revenue	3	4 755	4 058
Cost of sales	4	(3 862)	(3 301)
Gross profit on sales		**893**	**757**
Selling expenses	4	(152)	(126)
Administrative expenses	4	(203)	(164)
Costs of research and development	4	(30)	(16)
Other operating income/(expenses)	5	(57)	(1)
Operating profit		**451**	**450**
Finance income	7	38	31
Finance costs	7	(154)	(56)
Gain on sale of available-for-sale financial assets		-	42
Profit before tax		**335**	**467**
Income tax	8	(79)	(41)
Net profit		**256**	**426**
Other items of comprehensive income that may be reclassified to profit or loss in a subsequent period:			
Foreign exchange differences on translation of foreign operations		45	23
Measurement of available-for-sale financial assets	**22**	-	(48)
Measurement of pension plans		(23)	-
Other comprehensive income (net)		**22**	**(25)**
Total comprehensive income		**278**	**401**
Profit attributable to:			
Equity holders of the parent company		256	426
Net profit for the year		**256**	**426**
Comprehensive income attributable to:			
Equity holders of the parent company		278	401
Comprehensive income for the period		**278**	**401**
Basic and diluted earnings per share attributable to equity holders of the Company during the year (in PLN per share)		**0.19**	**0.32**

The consolidated statement of comprehensive income should be analysed jointly with the explanatory notes constituting an integral part of the consolidated financial statements

(in PLN millions unless stated otherwise)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

Assets	*Note*	31.12.2016	31.12.2015
Non-current assets			
Property, plant and equipment	9	2 472	2 287
Intangible assets	10	252	237
Available-for-sale financial assets	21	6	6
Deferred tax asset	11	68	14
Other non-current assets		1	1
		2 799	**2 545**
Current assets			
Inventories	12	551	467
Income tax receivable		49	63
Trade and other receivable	13	1 085	666
Cash and cash equivalents	14	1 152	1 051
		2 837	**2 247**
Total assets		**5 636**	**4 792**
Equity and liabilities			
Equity			
Share capital	15	40	40
Revaluation reserve	16	(23)	-
Foreign exchange differences on translation of entities		85	40
Retained earnings		1 768	2 213
Equity attributable to equity holders of the parent company	16	**1 870**	**2 293**
Non-controlling interests	15	13	13
		1 883	**2 306**
Non-current liabilities			
Loans, borrowings and other debt instruments	17	2 548	1 685
Employee benefits payable	21	40	4
Deferred income from government grants	9	228	224
Provisions	18	76	30
Deferred tax liability	11	77	50
Other non-current liabilities – finance leases	9	31	30
		3 000	**2 023**
Current liabilities			
Loans, borrowings and other debt instruments	17	22	21
Deferred income from government grants	9	9	9
Provisions	18	9	4
Income tax payable		56	-
Trade and other payables	19	657	429
		753	**463**
Total equity and liabilities		**5 636**	**4 792**

The consolidated statement of financial position should be analysed jointly with the explanatory notes constituting an integral part of the consolidated financial statements

(in PLN millions unless stated otherwise)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE 12 MONTHS ENDED 31 DECEMBER 2016

	Note	Share capital	Revaluation reserve	Foreign exchange differences on translation of entities	Retained earnings	Total equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
1 January 2015		40	48	17	2 118	2 223	13	2 236
Net profit		-	-	-	426	426	-	426
Other comprehensive income		-	(48)	23	-	(25)	-	(25)
Total comprehensive income, net		-	(48)	23	426	401	-	401
Payment of dividend	15	-	-	-	(331)	(331)	-	(331)
31 December 2015		40	-	40	2 213	2 293	13	2 306
Net profit		-	-	-	256	256	-	256
Other comprehensive income		-	(23)	45	-	22	-	22
Total comprehensive income, net		-	(23)	45	256	278	-	278
Payment of dividend	15	-	-	-	(701)	(701)	-	(701)
31 December 2016		40	(23)	85	1 768	1 870	13	1 883

The statement of changes in consolidated equity should be analysed jointly with the explanatory notes constituting an integral part of the consolidated financial statements

(in PLN millions unless stated otherwisej)

CONSOLIDATED CASH FLOW STATEMENT FOR THE 12 MONTHS ENDED 31 DECEMBER 2016

	Note	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Profit before tax		**335**	**467**
Adjustments			
Amortisation and depreciation	4	211	167
Recognition / reversal of write-downs against non-financial non-current assets		4	-
(Gain)/Loss on sale of available-for-sale [financial] assets		-	(43)
Foreign exchange (gains)/losses		33	(8)
(Gains)/Losses on investing activities		(28)	(17)
(Gains)/Losses on sale of property, plant and equipment		37	(1)
Interest		30	41
Costs of discontinued development works	5	38	-
Other		(27)	1
Operating profit before changes in working capital		**633**	**607**
(Increase)/decrease in receivables	20	(200)	240
(Increase)/decrease in inventories	20	10	29
(Increase)/decrease in current liabilities	20	106	(113)
Movement in provisions	20	50	-
Movement in employee benefits payable		(41)	-
Net cash generated in operating activities		558	763
Tax paid		(76)	(31)
Net cash from operating activities		**482**	**732**
Proceeds from sale of intangible assets and property, plant and equipment		3	2
Grants received	9, 10	21	89
Interest received		10	10
Proceeds from realised forward contracts		31	23
Purchase of intangible assets and property, plant and equipment		(186)	(577)
Purchase of investments		(1)	(1)
Acquisition of the EPS business of the Ineos Group	27	(292)	-
Disposal of available-for-sale assets		-	121
Inflows/(outflows) from the cash pooling agreement		-	49
Net cash from investing activities		**(414)**	**(284)**
Cash flows from financing activities			
Loans and borrowings received		784	-
Dividends and other payments to creditors	15	(701)	(331)
Outflows in respect of realised IRS derivatives		(3)	(6)
Interest paid		(72)	(49)
Proceeds from issuance of bonds		-	203
Net cash from financing activities		**8**	**(183)**
Net increase/(decrease) in cash and cash equivalents		**76**	**265**
Change in cash and cash equivalents in the balance sheet, of which:		**101**	**267**
Cash and cash equivalents at the beginning of the period		**1 051**	**784**
Effect of changes resulting from foreign exchange differences on cash and cash equivalents and valuation of term deposits		25	2
Cash and cash equivalents at the end of the period	14	**1 152**	**1 051**

The consolidated cash flow statement should be analysed jointly with the explanatory notes constituting an integral part of the consolidated financial statements

Information about the Group

The Synthos S.A. Group (formerly Grupa Kapitałowa Firmy Chemicznej "Dwory" S.A., hereinafter called "the Group") consists of the parent company and subsidiaries and it deals with the manufacture of chemicals. It is the largest European manufacturer of emulsion rubbers and the largest European manufacturer of expanded polystyrene.

The parent company of the Group is Synthos S.A. (hereinafter called "the Company" or "the Parent Company"), which is a joint stock company registered in Poland listed on the Warsaw Stock Exchange. The Parent Company's registered office is located in Oświęcim, ul. Chemików 1.

The Group's operations comprise in particular:

- manufacture of plastics;
- manufacture of synthetic rubber;
- manufacture of basic other non-organic chemicals;
- manufacture of basic other organic chemicals;
- manufacture of other chemical products not elsewhere classified;
- production and distribution of electricity;
- production and distribution of heat (steam and hot water);
- sewage treatment services;
- waste storage and treatment services;
- manufacture of plant protection products.

(in PLN millions unless stated otherwisej)

Basic information on the consolidated subsidiaries and joint arrangements is presented below:

Name and legal form of the entity	Registered office	Core activities	% of share capital held and votes
Subsidiaries			
Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna	Oświęcim	manufacture of chemical products	100%
Synthos Dwory 2 Sp. z o.o.	Oświęcim	manufacture of chemical products	100%
Synthos Dwory Dwory 2 spółka z ograniczoną odpowiedzialnością SD4 spółka komandytowa (formerly: Synthos Dwory4 sp. z o.o.)	Oświęcim	production of electricity	100%
Synthos Dwory Dwory 2 spółka z ograniczoną odpowiedzialnością SD5 spółka komandytowa (formerly: Synthos Dwory 5 Sp. z o.o.)	Oświęcim	production of electricity	100%
Synthos Dwory Dwory 2 spółka z ograniczoną odpowiedzialnością SD8 spółka komandytowa (formerly: Synthos Dwory 8 Sp. z o.o.)	Oświęcim	production of electricity	100%
Miejsko-Przemysłowa Oczyszczalnia Ścieków Sp. z o.o.	Oświęcim	sewage collection, treatment and disposal, neutralisation of waste, provision of sanitary and related services	76.79%
Synthos Kralupy a.s.	Kralupy nad Vltavou - Czech Republic	manufacture of chemical products	100%
Tamero Invest s.r.o.	Kralupy nad Vltavou – Czech Republic	production, distribution of electricity	100%
Synthos PBR s.r.o	Kralupy nad Vltavou - Czech Republic	manufacture of chemical products	100%
Red Chilli Ltd.	Nicosia	investment and capital activities	100%
Green Pepper SCSp	Luxembourg	investment and capital activities	100%
Bilberry SCSp	Luxembourg	investment and capital activities	100%
Synthos Agro Sp. Z o.o.	Oświęcim	manufacture of chemical products	100%
Synthos Finance AB	Stockholm - Sweden	investment and capital activities	100%
Forum 62 FIZ	Cracow	investment and capital activities	100%
Synthos do Brasil	Porto Alegre	commercial representative office	100%
Synthos US inc.	Ohio	commercial representative office	100%
Calgeron Investment LTD w likwidacji	Cyprus	investment and capital activities	99.87%
Synthos Styrenics Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością spółka komandytowa	Oświęcim	manufacture of chemical products	100%
Synthos Holding Netherlands B.V.	Breda	investment and capital activities	100%
Synthos Breda B.V.	Breda	manufacture of chemical products	100%
Synthos Styrenics Services B.V.	Breda	accounting and bookkeeping services	100%
Synthos Wingles SAS	Wingles	manufacture of chemical products	100%
Synthos Rebecourt SAS	Ribecourt	manufacture of chemical products	100%
Synthos Holding France SAS	Ribecourt	investment and capital activities	100%

(in PLN millions unless stated otherwisej)

Synthos Kimyasal Urunler Limited Sirketi	Istanbul	trading activities	100%
Joint arrangements (joint operations)			
Butadien Kralupy a.s.	Kralupy nad Vltavou – Czech Republic	manufacture of chemical products	49%

In 2016, the following changes took place in the Group's structure:
- On 14 March 2016 the subsidiary Oristano Investment Sp. z o.o. in Oświęcim w likwidacji was deleted from the National Court Register,
- On 18 May 2016 the subsidiary Synthos Agro Sp. z o.o. combined with Zakład Doświadczalny Organika Sp. z o.o. in Nowa Sarzyna – (business combination through acquisition),
- On 16 June 2016 the subsidiary Synthos Styrenics Synthos Dwory 2 Spółka z ograniczoną odpowiedzialnością spółka komandytowa was registered,
- On 18 November 2016 the subsidiary Green Pepper scsp was deleted from the register.
- On 23 November 2016 the subsidiary Calgeron Investment Limited was liquidated.

On 31 August 2016, the Group acquired the EPS (Expandable Polystyrene) business of the INEOS Group, by acquiring from INEOS Industries Holdings Limited with its registered office in Lyndhurst in the UK the entire issued share capital of INEOS Styrenics European Holding B.V., a company set up under the Dutch law, with its registered office at Konijnenberg 63, Breda, 4825 BC, the Netherlands ("the Company"). The acquisition of shares in the Company's share capital resulted in, among others, an indirect acquisition of shares in the Company's subsidiaries located in France, the Netherlands and Turkey. In addition, on 31 August 2016, INEOS Styrenics International SA with its registered office in Switzerland, a subsidiary of INEOS Industries Holdings Limited, signed an agreement with Synthos Styrenics Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością sp. k. for acquisition of the enterprise continuing the activities of INEOS Styrenics International SA ("the Swiss Enterprise"). The total price paid for the acquisition of the Company's shares and the acquisition of the Swiss Enterprise adjusted for the acquired cash was EUR 67.275 million.

Note 1. Accounting policies and explanatory notes

1. Basis for preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("the EU IFRS").

Data in the consolidated financial statements is provided in the Polish zloty, which is the Group's presentation currency, in full millions.

The consolidated financial statements have been prepared on the historical cost basis, with the exception of the following assets and liabilities measured at fair value: available-for-sale financial assets and financial instruments measured at fair value through profit or loss (including derivatives).

The estimates and related assumptions are subject to regular verification. Changes in accounting estimates are recorded in the period in which the estimates were changed or in the current and future periods if the changes in estimates relate both to the current and future periods.

The accounting policies presented below were applied consistently to all the periods presented in the consolidated financial statements.

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. At the date of authorisation of these financial statements, there are no circumstances indicating any threat to the ability of the Group companies to continue as going concerns.

2. New and amended accounting standards and interpretations

The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2015, except for the application of the following amendments to the existing standards and new interpretations binding for the annual periods beginning on or after 1 January 2015:

- Annual Improvements to IFRSs, Cycle 2012-2014, including amendments to IFRS 2 Share-based Payment, amendments to IFRS 3 Business combinations, amendments to IFRS 8 Operating segments, amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets, amendments to IFRS 13 Fair value measurement and amendments to IAS 24 Realted party disclosures, amendments to IFRS 7 Financial Instruments: Disclosure and amendments to IAS 19 Employee Benefits.
- Annual Improvements to IFRSs, Cycle 2012-2014, including amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to IAS 1 *Disclosure Initiative*

- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

- Amendments to IAS 19 Defined Benefit Plans: *Employee Contributions, and*
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities – *Applying the Consolidation Exception*, and
- Annual Improvements to IFRSs, Cycle 2012-2014, including amendments do IFRS 7: *Financial instruments: disclosure* and amendments to IAS 19 Defined Benefit Plans: *Employee Contibutions*

The Group has not decided to early apply any standard, interpretation or amendment that has been issued but is not yet effective in the light of EU regulations.

IFRS 15 *Revenue from Contracts with Customers*
This standard was issued on 28 May 2014 and will be applicable to annual periods beginning on or after 1 January 2018. The standard was endorsed by the European Union on 22 September 2016. IFRS 15 introduces a 5-step model for recognising revenue from contracts with customers. According to this Standard, revenue is recognised at an amount reflecting the value of the consideration due to the enterprise for the transfer of goods or services to the customer. The new standard will replace all the current requirements for recognising revenues under IFRS. With respect to annual periods beginning on or after 1 January 2018 the application of a full retrospective or modified retrospective approach is required. Early application of the standard is permitted.
The Group plans to implement the new standard in accordance with its required effective date. As at the date of these separate financial statements, the Management Board of Synthos S.A. has not yet finalised to analyse the impact of the application of this standard.

IFRS 9 *Financial Instruments*
In July 2014 the IASB issued the final version of IFRS 9 *Financial Instruments*. This standard shall replace the current IAS 39 *Financial Instruments*: *Recognition and Measurement* and all the previous versions of IFRS 9. IFRS 9 combines all the three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 shall apply to annual periods beginning on or after 1 January 2018, with the possibility of early application. This standard must be applied retrospectively except for hedge accounting; however, it is required to present comparable data. For hedge accounting, the application of the prospective approach is required with certain rare exceptions. The Group plans to apply the new standard as of its effective date. IFRS 9 contains new requirements and guidance for classification and measurement of financial assets and modifies accounting for hedging transactions. Considering the nature of the transactions made by the Group no serious changes are expected. IFRS 9 also includes a new impairment model based on the expected but not incurred credit losses. The Group's Management Board has not yet finalised to analyse the impact as at the date of the separate financial statements.

IFRS 16 *Leases*
On 13 January 2016 the International Accounting Standards Board issued the new International Financial Reporting Standard 16 "*Leases*", which will replace IAS 17. IFRS 16 wll apply to annual periods beginning on or after 1 January 2019. At the same time, early application of IFRS 16 will be permitted if the enterprise already applies IFRS 15 "*Revenue from Contracts with Customers*". The Group's Management Board has not yet completed its impact analysis as at the date of these consolidated financial statements.

3. Basis of consolidation

a) Subsidiaries

Subsidiaries are companies controlled by the Parent Company.
The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.

Subsidiaries are consolidated over the period from the Parent Company acquiring control over them until the control ceases.

Assets, liabilities and identifiable contingent liabilities of a subsidiary as at the date of acquiring control and its inclusion in the consolidated financial statements are recorded at fair value. A positive difference between the acquisition price, value of non-controlling interests and fair value of previously held shares and the fair value of acquired assets, liabilities and contingent liabilities results in recording goodwill which (if it does arise) is shown as a separate item of the consolidated statement of financial position. A negative difference between the acquisition price, value of non-controlling interests and fair value of previously held shares and the fair value of these assets, liabilities and contingent liabilities is taken directly to profit or loss.

Intercompany balances between the Group companies, transactions concluded within the Group and all the resulting unrealised gains or losses (except for cases where unrealised losses indicate impairment) as well as the Group's revenue and costs are eliminated in the consolidated financial statements.

b) Non-controlling interests and transactions with non-controlling shareholders

Non-controlling interests comprise shares in companies covered by consolidation not owned by the Group. The Group measures all non-controlling interests in an acquiree at the proportionate share (corresponding to the non-controlling interest) in net identifiable assets of the acquiree or at fair value. Non-controlling interests identified in net assets of the consolidated subsidiaries are recorded separately from the ownership interest of the parent company in these net assets. Non-controlling interests in net assets comprise:

a) the value of non-controlling interests at the initial acquisition date, calculated in line with IFRS 3; and
b) changes in equity attributable to non-controlling interests starting from the date of the acquisition.

Gains and losses and each item of other comprehensive income are attributed to the shareholders of the parent company and to non-controlling interests. Total comprehensive income is attributed to the parent company's shareholders and to non-controlling interests even if as a result non-controlling interests are negative in value.
Transactions with non-controlling shareholders which do not result in loss of control are shown as equity transactions, i.e. as transactions with owners acting under capital ownership rights. The difference between the fair value of the consideration and the purchased or sold share in the carrying value of the subsidiary's net assets is shown in equity.

c) Joint arrangements

Joint arrangements are arrangements over the operations of which the Group has joint control with another party.
Investments in joint arrangements are classified either as joint operations or as joint venture, depending on the contractual rights and obligations of each investor.
The Group only has shares in a joint operation; it does not have any joint ventures.
With reference to its share in a joint operation, the Group records:

- its assets, including its share in the jointly held assets;
- its liabilities, including its share in jointly drawn liabilities;
- its revenue from sales of its part of production of the joint operation, its share in revenue from sales of the production of the joint operation;
- its costs, including its share in jointly incurred costs.

The Group establishes the part of assets and liabilities as well as non-operating income and costs relating to the joint operation, which is attributable to it, based on its ownership interest in the jointly controlled entity. The Group establishes the part of operating income and expenses relating to the joint operation, which is attributable to it, based on the percentage share in purchases of the production of the joint operation. Intercompany transactions and balances have been eliminated.

(in PLN millions unless stated otherwisej)

4. Measurement of items denominated in foreign currencies

a) Functional currencies and presentation currency

Items included in the financial statements of the individual Group companies are measured in the currency of the primary economic environment in which a given entity operates ("the functional currency").

In the Group, there are three functional currencies based on the location of conducting business activities:

- in Czech companies, the Czech crown is the functional currency;
- in Polish companies, the Polish zloty is the functional currency;
- in Dutch and French companies, the Euro is the functional currency.

The Polish zloty is the presentation currency of these financial statements.

b) Translation of foreign operations

Assets and liabilities and revenue and costs measured in functional currencies other than the presentation currency have been translated into the presentation currency as follows:

- assets and liabilities measured in functional currencies have been translated to the presentation currency using the mid exchange rate of the National Bank of Poland as of the balance sheet date;

- revenue and costs have been translated using the mid NBP rate as of the transaction date or the average rate for the period if there were no significant exchange rate fluctuations in a given period;

- foreign exchange differences on translation have been recognised in other comprehensive income.

The following exchange rates of PLN were used for translation of foreign currency balances from the consolidated statement of financial position:

	30.12.2016	**31.12.2015**
EUR	4.4240	4.2615
USD	4.1793	3.9011
GBP	5.1445	5.7862

The following exchange rates of PLN were used for translation of foreign currency balances from the consolidated statement of comprehensive income of a foreign branch:

	30.12.2016	**31.12.2015**
CZK	0.1617	0.1526
EUR	4.3753	-

c) Transactions and balances

Transactions expressed in foreign currencies are recorded in the functional currency on the transaction date using the mid NBP rate, in Czech companies using the CNB (the Czech National Bank) rate and in Dutch and French companies using the ECB (the European Central Bank) rate as of the transaction date.
The monetary items of assets and liabilities expressed in foreign currencies are translated as at the balance sheet date at the mid rate for the functional currency binding as at that date. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the balance sheet date translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and liabilities carried at historical cost in a foreign currency are translated using the mid exchange for the functional currency rate prevailing at the date of the transaction.

5. Property, plant and equipment

a) Property, plant and equipment

Property, plant and equipment comprise assets:

- held by the Group to be used in the production process, in delivery of goods for resale and provision of services or for administrative purposes;
- which are expected to be used for a period longer than one year;
- in respect of which it is probable that the Group will obtain future economic benefits related to the assets; and
- the value of which can be reliably determined.

As at the date of initial recognition property, plant and equipment items are carried at the cost or purchase or manufacture.
The principles for capitalising the borrowing costs are discussed in point (d).

On initial recognition, the cost of purchase or manufacture of property, plant and equipment items includes the anticipated costs of their disassembly, removal and restoration of the site where the asset is located; the obligation to incur these costs arises at the moment of the asset’s installation or use for purposes other than manufacturing of inventories.

As at the end of the reporting period, property, plant and equipment items are stated at cost (cost of purchase or manufacture) less accumulated depreciation and impairment allowances.

b) Subsequent expenditure

Subsequent expenditure incurred on an item of property, plant and equipment is included in the asset’s carrying amount only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

c) Amortisation and depreciation

Property, plant and equipment items, or their material and separate components, are depreciated using the straight line method over their useful lives, taking account of the net realisable value of the remainder of the asset (residual value) at the moment of its scrapping.

(in PLN millions unless stated otherwisej)

The following useful life ranges have been adopted for the individual categories of property, plant and equipment:

· Buildings	up to 60 years
· Structures, of which:	
· Containers	10-30 years
· Silos	10-20 years
· Interceptors, pipelines, sewage systems, tracks, bridges, flyovers	10-40 years
· Streets, roads, yards	up to 35 years
· Boilers and energy machinery	up to 25 years
· Plant and machinery	3-25 years
· Vehicles	4-8 years
· Tools, instruments, movables and fittings	4-20 years

Fixed assets under construction are not depreciated.

Upon purchase, items of property, plant and equipment are divided into components when their cost of purchase or manufacture are significant compared with the cost of purchase or manufacture of the entire asset, and they are depreciated over their own useful life.

The correctness of the useful lives, depreciation methods and residual values of PPE items (unless immaterial) are verified by the Company on an annual basis.

d) Borrowing costs

Costs of borrowings which can be directly attributed to purchase, construction or production of an asset are capitalised as part of the cost of purchase or manufacture of the asset. The remaining borrowing costs are recognised in the income statement for the period.

Borrowing costs comprise:

- interest expense calculated using the effective interest rate method in accordance with IAS 39 *Financial Instruments: Recognition and Measurement;*
- financial charges in respect of finance leases, recorded in accordance with IAS 17 *Leases*; and
- foreign exchange differences arising in connection with borrowings denominated in foreign currencies to the extent that they are recognised as an adjustment of interest expense.

The upper limit for capitalisation of costs related to debt servicing is the actual amount of the costs of borrowings incurred by the Group.

Capitalisation of costs related to financing of investing activities starts when all of the following conditions have been met:

- capital expenditure is incurred;
- costs of debt servicing are incurred;
- actions are performed in connection with bringing an asset to its intended location and use.

Capitalisation should be discontinued when substantially all the activities necessary for preparing the given asset for its intended use or sale have been completed. The need to perform additional administrative and finishing works or alterations at the request of the buyer or user does not form a basis for further capitalisation of borrowing costs.

On commissioning an asset, capitalised borrowing costs, as an element of the cost of purchase or manufacture of a given asset, are depreciated over the useful life of the asset.

6. Intangible assets

a) Goodwill

Goodwill arises on acquisition of subsidiaries and is the surplus of the acquisition price, value of non-controlling interests and fair value of the previously held shares over the fair value of the acquired assets and liabilities of the acquiree.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is performed for such cash generating units or groups of cash generating units which according to expectations will benefit from the business combination on which the goodwill arose. Each CGU or CGU group to which goodwill was allocated represents the lowest level in Group, on which goodwill is monitored for internal management purposes. Goodwill is monitored on the operating segment level.

Goodwill is tested annually for impairment (or more frequently if there are indications of impairment). The carrying amount of goodwill is compared to its recoverable amount, which corresponds to the lower of the value in use or fair value less selling costs. Impairment allowances relating to goodwill are charged to profit or loss for the period and are not reversed in the next period.

b) Research and development

Expenditure incurred at the research stage with the intention of gaining new scientific or technical knowledge is charged to profit or loss as incurred.

Expenditure incurred on development the results of which are applied in developing or creating a new or considerably improved product are capitalised when production of the new product (or process) is technically viable and economically justified and the Group has technical, financial and other necessary resources to complete the development works. The capitalised costs include: the costs of materials, salaries of employees directly involved in the development works and a justified portion of indirect costs directly related to developing an intangible asset. Development costs are recorded as intangible assets and are subject to amortisation and impairment write-downs.

The remaining development costs are charged to profit or loss as incurred.

c) Emissions

Awarded emission allowances are recognised on a quantitative basis in off-balance sheet records. Purchased emission allowances are measured at cost and posted to inventories. During the year purchased emission allowances are accounted for the cost of finished goods sold at the amount of actually emitted pollution taking into consideration the settlement of emission allowances obtained free of charge, which are accounted for on a monthly basis proportionally to the period for which they were granted. Costs of emissions used are recognised in the cost of sales.

d) Licences related to rubber manufacturing units

The Group recognises acquired licences to use rubber manufacturing units at an amount corresponding to the expenditure incurred on their acquisition. These licences are amortised over the estimated useful lives of the units, set by the Group at 20 years.

The useful life estimates and amortisation method are reviewed at the end of each financial year.

e) Trademark

The Group recognises acquired rights to use reserved trademarks at cost as at the date of acquisition. The rights are amortised over the estimated period of their validity.

f) Renewable energy certificates

The Group recognises energy certificates in respect of production of energy using renewable sources, gas-fired plants and high efficiency cogeneration (green, red, yellow, white, purple, blue certificates) at fair value at the end of the month in which they were generated. At the balance sheet date the Group remeasures energy cetificates to net realisable value. An impairment write-down is recognised when the price obtainable from the sale of the certificates less costs of disposal is lower than the historical cost of production. Purchased renewable energy certificates and cogeneration certificates are recognised at cost.
Liabilities arising from the need to present the rights for cancellation are measured at an amount equal to the value of the rights to certificates held by the Group when the Group has a sufficient number of these rights to cover its liabilities. When the number of rights to certificates is lower than the number of rights to certificates required for cancellation, a provision is recognised at an amount equal to the fair value of the missing rights to certificates.

g) Other intangible assets

Other intangible assets acquired by the Group are stated at cost (purchase price), less accumulated amortisation and impairment.

Subsequent expenditure on the existing intangible assets is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The remaining expenditure is taken to profit or loss in the period in which it was incurred.

Intangible assets are amortised using the straight line method, taking account of their useful lives, unless not specified. Intangible assets with indefinite useful lives are subject to impairment testing at each balance sheet date.

The estimated useful lives or intangible assets subject to amortisation are as follows:

· Acquired client relations	5 years
· Know-how	5–10 years
· Licences, computer software	2 years
· Completed development projects	10 years
· Trademarks	up to 10 years
· Licences relating to units for production of new types of rubber	20 years

7. Leases

a) Finance leases

Finance lease agreements in which substantially all the risk and rewards of ownership are transferred to the Group are capitalised on the date of commencing a lease at the lower of: fair value of the leased asset and the present value of the minimum lease payments. Lease payments are divided between financial costs and repayment of principal instalments taking into account the fixed interest rate established for the liability. Finance costs are charged directly to profit or loss.

Assets used based on finance lease agreements are depreciated according to the principles adopted for own property, plant and equipment. If it is not reliably certain that on completion of a lease agreement the Group is going to obtain the ownership right, assets are depreciated for the shorter of: the lease term and the useful life.

b) Operating leases

A lease of fixed assets is classified as an operating lease when the terms of the agreement leave substantially all potential benefits and risks of ownership with the lessor. Lease payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.
Special promotional offers received are recorded in profit or loss together with the lease costs.

8. Inventories

Inventories are assets held for sale in the course of normal activities, assets in the course of production designated for sale or materials and raw materials used in the production process or in the process of providing services.
Inventory items are carried at the lower of the actual cost of their purchase or manufacture and net realisable value as at the balance sheet date.
The cost of purchase is the purchase price of an asset, comprising the amount due to the seller (net of VAT and excise duty) and in the case of imports, comprising charges to the State Budget and costs directly related to the purchase and adapting the asset for use or for trading, including transport, loading and unloading costs, less any rebates, discounts and other similar reductions and refunds.
The net selling price that can be obtained is the difference between the estimated selling price achieved in the course of normal business activities, less any rebates and discounts and the estimated costs of completion and costs necessary to effect the sale.
Inventories are stated net of write-downs.

Inventory write-downs are recorded in connection with impairment, in order to bring the value of inventories to the net realisable value. Write-downs are recorded in profit or loss under other operating expenses. Any reversals of inventory write-downs are recorded as other operating income. The amount of a write-down reduces the balance sheet value of inventories covered by the write-down.
Impairment tests of the individual inventory items are performed regularly during the annual reporting period. Obsolete inventories are written down to the net realisable value. Materials designated for use in the manufacturing process are not written down below their purchase price if it is expected that the products for the manufacture of which they are to be used will be sold at the cost of manufacture or above that cost. However, if a drop in prices of materials indicates that the cost of manufacture of the products will be higher than the net realisable value, the materials are written down to the net realisable value.

Issues of materials and goods for resale are recorded at the weighted average price.

Finished goods, semi-finished goods and work in progress are measured at the actual technical cost of manufacture comprising the justified portion of indirect fixed costs of manufacture, determined based on the normal utilisation of production capacity. Issues of finished goods are recorded using the weighted average method.

The cost of manufacture is the cost of the batch and the cost of processing finished goods and semi-finished goods attributable to the period of their manufacture. The cost of manufacture also includes allocation of fixed and variable indirect manufacturing costs, determined for the normal manufacturing level.

Indirect manufacturing costs allocated to the cost of manufacture include: amortisation and depreciation, repair and maintenance, salaries and wages, employee benefits, real property tax, land tax and the services of support departments.

The cost of manufacture does not include:

- costs being the consequence of not utilising the production capacity and of manufacturing losses;
- overheads which are not related to bringing inventories to the form and place which they have at the moment of valuation;
- costs of warehousing finished goods and semi-finished goods, unless incurring those costs is necessary as part of the production process;
- selling costs.

9. Impairment of assets

a) Recognition of impairment

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets are impaired. The material objective evidence of impairment includes: serious financial problems of the debtor, filing a lawsuit against the debtor, the occurrence of a significant unfavourable change in the economic, legal or market environment of the issuer, the continued significant or prolonged drop in fair value of an equity instrument below cost.

If any such evidence exists for available-for-sale financial assets, the cumulative losses recorded in other comprehensive income – measured as the difference between the acquisition price and the current fair value, less any impairment losses on that financial asset previously recognised in profit or loss – are removed from other comprehensive income and transferred to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss and relating to equity instruments are subject to reversal in correspondence with other comprehensive income. The reversal of impairment losses on debt financial instruments is recorded in profit or loss if in the subsequent periods, after recording the impairment loss, the fair value of these financial instruments increased as a result of events which occurred after recording the impairment loss.

If there are indications of impairment of loans and receivables stated at amortised cost, the amount of the impairment loss is determined as a difference between the carrying amount of assets and the present value of estimated future cash flows discounted using the original effective interest rate for these assets (i.e. the effective interest rate calculated on initial recognition for the assets based on a fixed interest rate and the effective interest rate determined on the most recent revaluation for assets based on a floating interest rate). Impairment losses are recorded in profit or loss. The carrying amount of such financial assets is determined taking account of impairment (resulting from credit losses) recognised in a separate account. Impairment losses on receivables (doubtful debt allowances), both recognised and reversed, are recorded in other operating expenses and income respectively.

Reversal of an impairment loss is recognised if in subsequent periods impairment is reduced and the reduction can be attributed to events which occurred after recording the impairment loss. Reversals of impairment losses are recognised in profit or loss.

Impairment of non-financial non-current assets

Non-financial assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of assessing impairment, assets are grouped at the lowest level on which they generate cash flows independently of other assets (cash-generating units). Cash generating units are established each time for the purpose of impairment testing.

Assets which do not individually generate cash flows are grouped at the lowest level at which cash flows arise independently of cash flows from other assets.

The individual operating segments in each company reflect the cash generating units of the Group. Each cash generating unit comprises:

- goodwill, if the CGU obtained synergies from combination with another entity;
- common assets, if reasonable and consistent principles of such allocation can be found.

If the carrying amount of an asset or a cash generating unit exceeds the estimated recoverable amount, its net carrying amount is reduced to the recoverable amount by recording an appropriate impairment allowance (write-down) and recognising an expense in profit or loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an impairment allowance is recorded in respect of a cash generating unit, the allowance is accounted for as follows:

- first of all goodwill allocated to the CGU is reduced;
- then the value of other assets allocated to the CGU is reduced in proportion to the share of the net carrying amount of each asset in the aggregate value of the CGU.

Impairment allowances are recognised in profit or loss.

b) Reversal of impairment allowances on non-financial non-current assets

Impairment allowances are reversed only when there was a change in estimates adopted at the stage of calculating the net realisable value since the time of recording the last impairment allowance. Impairment allowances recognised on goodwill are not reversed.

Impairment allowances are reversed only up to the carrying amount of a given asset (less depreciation) that would have been shown had the impairment allowance not been recorded.

10. Equity

Equity is recorded in the accounting books divided into equity components and in line with the binding regulations and the Parent Company's Memorandum of Association.

The Group's share capital is disclosed at the nominal value of the issued shares, in line with the Parent Company's Articles of Association. Share issue costs incurred on forming a joint stock company or increasing share capital reduce the Group's supplementary capital to the amount of share premium.

The amounts arising from profit distribution, undistributed profits/losses from previous years and net profit/loss for the year are presented in the consolidated financial statements as retained earnings.

11. Employee benefits

Employee benefits comprise all forms of benefits offered by the Group in return for work performed by the employees. These are both benefits paid in the course of employment and post-employment benefits. The Group records provisions for future liabilities in respect of retirement benefits and death benefits in order to match costs to the periods to which they relate.

a) Defined contributions plan

When employing its employees the Group is obliged to collect and remit contributions for employee pension benefits, in line with the binding regulations. These benefits, in accordance with IAS 19, are a state plan and constitute a defined contributions plan. In view of the above, the Company's obligation for each period is estimated on the basis of the amount of contributions to be made for a given year.

b) Defined benefits plan – retirement and death benefits

Pursuant to the binding regulations, the Group is obliged to pay retirement and death benefits at an amount that is consistent with the provisions of the Labour Code. Additionally, pursuant to the Collective Labour Agreement, retirement benefits of the Company's employees are increased to an amount that depends on the years of service of an employee worked in the course of employment in the Group. The minimum level of retirement benefits arises from the provisions of the Labour Code binding as at the date of paying out the retirement benefit.

The Group's liability relating to retirement benefits is calculated by estimating the amount of the employee's future salary in the period in which the employee will reach retirement age and by estimating the amount of the future retirement benefit. Retirement benefits are discounted to the present value. The discount rate is arrived at based on the market rate of return on Treasury Bonds as at the balance sheet date. The liability in respect of retirement benefits is recognised proportionately to the anticipated years of service of a given employee. Actuarial gains and losses on the valuation of liabilities in respect of defined post-employment benefits are recognised in other comprehensive income.

The calculation is performed by an authorised actuary using the projected unit credit method. Employee turnover is estimated on the basis of historical data and the anticipated level of employment in the future.
The above recognition and measurement principle is also applied accordingly to death benefits.

c) Benefits in the form of compensatory disability pensions

Pursuant to the provisions of the Civil Code, the Group is obliged to pay compensation in the form of compensatory disability pensions to former employees in respect of on-the-job illness.
The liability is calculated by an authorised actuary.

The provision for compensatory disability pensions is utilised at the moment of paying the benefits to former employees.

12. Provisions

Provisions are recorded when the following conditions have been met:

- the Group has a current (legal or constructive) obligation arising from past events;
- it is probable that the discharge of the obligation will result in an outflow of economic benefits;
- the amount of the obligation can be reliably estimated.

The amount of the provision is the most appropriate estimate of expenditure necessary to discharge the obligation at the balance sheet date. Management estimates the amount of the provision based on professional judgement supported by experience of similar events, and where necessary – opinions of third party experts. When the effect of the time value of money is material, provisions are estimated by discounting the expected future cash flows based on the pre-tax rate which reflects the present market estimates of the changes in the time value of money and, where appropriate, the risk related to a given liability item.

The balance of provisions is verified at each balance sheet date and adjusted to reflect the current and most appropriate estimate. The provision is utilised only in respect of those costs for which it was originally created.

a) Rehabilitation costs

In accordance with the environmental protection policy adopted by the Group and the relevant legal requirements, a provision for rehabilitation costs relating to polluted land or other PPE items is recorded when land or a different PPE item has been polluted.

b) Onerous contracts

A provision for onerous contracts is recorded when the economic benefits from a contract expected by the Company are lower than the unavoidable costs of fulfilling the contractual obligations.

13. Long-term (non-current) and short-term (current) liabilities

Liabilities are defined as an obligation arising from past events to provide benefits with a reliably estimated value, which will involve making use of an enterprise’s existing or future assets.

Short-term liabilities are all trade payables and all or a part of other payables which mature within 12 months from the balance sheet date.

If their maturity date exceeds one year from the balance sheet date, the balances of such liabilities are shown as long-term liabilities.

Liabilities other than financial liabilities measured at fair value through profit or loss are initially recorded at fair value adjusted for transaction costs, and are measured as at the balance sheet date at amortised cost established using the effective interest rate method. In the case of short-term liabilities, the value corresponds to the amount due.

On initial recognition, bank loans and borrowings are recorded at fair value, less the costs of obtaining a loan/borrowing. In subsequent periods, the liabilities in respect of bank loans are measured at amortised cost using the effective interest rate method.

14. Financial instruments

On initial recognition, financial instruments are included in one of the following categories:
- financial instruments measured at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

Purchase or sale of financial assets is recognised on the transaction date. Financial assets or liabilities are initially stated at fair value plus/less (in the case of a financial asset or liability not classified as measured at fair value through profit or loss) transaction costs, which can be directly attributed to the purchase or issuing of a financial asset or liability.

a) Financial instruments measured at fair value through profit or loss

Financial instruments measured at fair value through profit or loss include financial assets and liabilities acquired for the purpose of generating profit from short-term value changes, and derivative instruments which are not hedging instruments. Financial assets measured at fair value through profit or loss are stated at fair value, without deducting transaction costs, taking into account their market value as at the balance sheet date. The fair value changes of financial assets measured at fair value are recognised in profit or loss in other operating income/expenses or other finance income/costs. Financial assets measured at fair value with the fair value change recorded in profit or loss are classified as current assets, if the Management Board intends their realisation within 12 months of the balance sheet date.

Derivatives
The Group uses derivative instruments to hedge against interest rate risk and currency risk arising from operating, financing or investing activities.
The Group does not use hedge accounting. The Group holds derivative instruments in the form of currency forwards and IRS hedges.
Derivative financial instruments are stated at fair values as at the balance sheet date. Gains and losses on valuation are recorded in profit or loss in other operating income/expenses (forward contracts) and in financial activities (IRS). In the cash flow statement, realised gain or loss on forward contracts is presented in cash flows from investing activities and realised gain or loss on IRS contracts is presented in cash flows from financing activities.

b) Originated loans and receivables

Long- and short-term loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment allowances recorded on these receivables (further policies concerning allowances are presented in Note 1 point 9a).
They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are recorded in the balance sheet as trade and other receivables.

c) Available-for-sale financial assets

All the remaining financial assets are classified as available-for-sale financial assets. Available-for-sale financial assets are stated at fair value, without deducting transaction costs, taking account of their market value at the balance sheet date. If there are no market quotations on an active market and there is no possibility of reliably determining their fair values using alternative methods, available-for-sale financial assets are stated at purchase price, less impairment allowances if they were measured at historical cost. Positive and negative differences between the fair value and the purchase price of available-for-sale assets (if there is a market price determined on an active regulated market or whose fair value may be otherwise reliably determined) are carried to other comprehensive income.
Dividends from equity instruments available for sale are recognised in profit or loss on the Group obtaining the rights to them. The accounting policies concerning recording a reversal of allowances are presented in Note 9a.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank accounts and demand deposits. Cash and cash equivalents shown in the consolidated cash flow statement comprise the above-mentioned cash and cash equivalents.

16. Revenue

Revenue constitutes inflows of economic benefits, gross, for a given period, arising as a result of (ordinary) business activities of the Group, resulting in an increase in equity other than the increases due to contributions made by shareholders. Revenue only includes gross inflows of economic benefits received or receivable on own account, whereas the amounts collected on behalf of third parties, such as VAT and rebates, are not economic benefits and are excluded from revenue.

The Group’s revenue is mainly generated from sales of finished goods to industrial customers in the following product groups:
- Rubbers;
- Styrene derivatives;
- Latexes, dispersions and adhesives;
- Pesticides;
- Heat and electricity.

The prices are agreed in the contract between the parties to a large extent taking into account the prices of raw materials, mainly butadiene and styrene. Revenue is stated at fair value of the consideration received or receivable for the sale, less value added tax and any returns, rebates and discounts. The general principle for revenue recognition is that both revenue and the related costs can be measured reliably. Moreover, it must be sufficiently probable that the entity obtains economic benefits in the future.

Revenue from sales of goods for resale is recognised on the assumption that the general terms for recognising revenue have been fulfilled when the ownership rights and the related risks are transferred to the customer. The majority of sales of goods for resale are related to other products of C4 fraction disintegration (mainly raffinate) acquired together with butadiene, which are resold on the market.
Revenue from sales of electricity is determined based on invoices issued periodically based on the actual use. The prices are agreed in the contract between the parties and periodically updated.

Sales of goods for resale and finished goods are recognised in the income statement when significant risks and benefits resulting from ownership rights are transferred to the buyer.
Sales of services are recognised in profit or loss based on the unit price and turnover.
Revenue is not recognised when there is significant uncertainty as to the possibility of obtaining future economic benefits, determining the amount of costs incurred or the possibility of returns of finished goods/goods for resale.

a) Deferred income from government grants

Government grants are recorded in the balance sheet as deferred income when there is sufficient certainty of their receipt and the Group will meet the related conditions. Grants received as a reimbursement of costs already incurred by the Group are systematically recognised as income in profit or loss in the periods in which the related costs are incurred. Grants received as a reimbursement of the cost of assets recorded by the Group are systematically recognised as other operating income in the statement of comprehensive income over the useful life of a given asset.

b) Finance income

Finance income is recognised during the year if it is probable that the Group will obtain economic benefits related to a given transaction and the amount of income can be reliably measured.

The principles for recognising financial income:
- interest – at amortised cost taking into account the effective interest rate;
- foreign exchange gains on cash, loans taken, receivables and liabilities.

17. Costs

a) Cost of sales

Cost of sales comprises all costs related to the Group’s core operations, with the exception of selling expenses, administrative expenses, other operating expenses and finance costs. The manufacturing cost of a finished product comprises the costs directly attributable to the given product and a justified portion of fixed costs indirectly attributable to the manufacture of that product.

b) Selling expenses

Selling expenses are the costs related to sales.
These costs include:
- transport and handling (loading and unloading) charges;
- customs charges and trading commission (in the case of export sales);
- and other costs, product insurance during transport and other.

Doubtful debt allowances are recorded in other operating expenses and income.

c) Administrative expenses

Administrative expenses include:
- general administrative expenses related to the maintenance of specific Management Board sections;
- general manufacturing expenses (related to production not attributable to individual divisions) related to the maintenance and functioning of general use sections, such as laboratories.

d) Finance costs

Finance costs mainly include:
- interest on liabilities accrued and paid, determined based on the effective interest rate;
- foreign exchange losses on cash, loans taken, receivables and liabilities.

18. Income tax

Deferred tax is recognised in profit or loss, except for the situations when it relates to items recorded in other comprehensive income or directly in equity. Deferred tax is then also recorded in other comprehensive income or in equity.

The current portion of income tax constitutes a tax liability in respect of taxable income for a given year, determined using the tax rates binding at the balance sheet date and the adjustment of tax relating to prior years.

The deferred tax is calculated using the liability method, based on the temporary differences between the value of assets and liabilities estimated for accounting purposes and their value estimated for tax purposes. A deferred tax asset and provision are not recorded for the following temporary differences: goodwill where its amortisation is not treated as a tax-deductible cost, initial recognition of assets or liabilities which do not affect either the accounting profit or the taxable income, differences related to investments in subsidiaries and joint ventures to the extent that their realisation in the foreseeable future is not probable. The recorded amount of deferred tax is based on the expectations as to the method of the realisation of the carrying value of assets and liabilities, using the tax rates binding or decreed as at the balance sheet date.

A deferred tax asset is only recorded when it is probable that future taxable income will be available against which a given deferred tax asset can be realised. A deferred tax asset is reduced if it can be concluded that it is not probable that the tax benefits it represents can be realised.

Deferred tax in each company covered by consolidation is recognised on netting off the balances of the deferred tax asset and provision.

Note 2. Segment reporting

In accordance with IFRS 8 the Management Board determined operating segments which are applied in taking strategic decisions.
Information provided to the decision makers in the Group who decide on how to allocate resources and assess financial performance of particular segments concentrates on the industry groups of the products manufactured.

Reportable operating segments earn revenues primarily from the sales of specific groups of finished goods and from other operating activities. Finance income and costs are not included in the reportable operating segments as they are not covered by the reports submitted to the Management Board. The results of these activities are included in the lines "Finance income/costs".
Revenues from transactions with third parties, presented to the Management Board by operating segments, are measured in a manner consistent with the method used in the consolidated statement of comprehensive income. The amounts presented to the Management Board with regard to total assets by operating segments are measured in a manner consistent with the method used in the financial statements. These assets are allocated on the basis of segment operations and the physical location of the asset (this applies to trade receivables, inventories, fixed assets). Other assets, i.e. cash, shares, other receivables are included as unallocated assets.
Thus, the Group's segments covered by segment recording in accordance with IFRS 8 are as follows:

1. Rubbers

Production and sale of synthetic rubber is one of the core business areas of the Group. The Group manufactures synthetic rubber using the emulsion (ESBR) technology by way of polymerisation of butadiene and other chemicals (styrene, acrylonitrile or an appropriate organic acid). The Group manufactures two main brands of rubber (15xx and 17xx).
Synthetic rubbers, currently in 14 brands, are sold under the proprietary brand name of KER® and under the name of KRALEX®.
Most synthetic rubbers are sold to manufacturers of automobile tyres, such as: Michelin, Continental, Bridgestone, Goodyear or Pirelli. In addition, rubbers are the raw material for the production of rubber floor coverings, conveyor belts, technical rubber products (especially for the automotive industry) and footwear components. The tyre industry is a key driver of demand for ESBR and has an approximately 80% share in sales of elastomers by the Group. The remaining part of the ESBR sales turnover comes from markets other than the tyre market, such as the production of technical rubber, shoe soles, flexible conductors and conveyor belts.
The Group also manufactures the PBR Nd type of rubber (neodymium polybutadiene rubber). The most important application of PBR are tyres, mainly the tyre tread and sidewalls, which account for 70 percent of the global consumption of PBR. Other PBR applications include technical products (hoses, belts, footwear soles, golf balls, modification of styrene plastics). Regulations favouring so-called "green" tyres with lower rolling resistance and higher efficiency contributing to a lower fuel consumption primarily in Western Europe led to a significant increase in demand for PBR, in particular in the neodymium technology, which is used by, among others, Synthos. This change will continue in the future, in the European Union and also in other regions outside Europe which introduce tyre labelling systems (Japan, USA, South Korea). Polybutadiene rubbers, currently in two brands, are sold under the proprietary brand name of SYNTECA®. Currently works are underway on expanding the market offer in this particular type of synthetic rubber.

In 2015 a unit for the production of the modern SSBR rubber was commissioned in the Oświęcim plant. In 2016, the processes of obtaining acceptance for product specifications from the key customers, mainly tyre manufacturers, were continued. Obtaining such an acceptance is necessary for starting regular supplies. Regular supplies of the SSBR rubber were started by the Synthos Group in the 2nd quarter of 2016.
The SSBR rubber manufactured in the commissioned plant are used in the production of modern - both summer and winter - tyres with improved functional properties relating to wear resistance, rolling resistance and increased road grip ("performance tyres"). These properties result in a significantly lower consumption of fuel and an improved driving safety and comfort.

2. Styrene derivative products

The production of polystyrene plastics covers three main types of products obtained in the styrene polymerisation process which differ in the areas of application.

2.1. The first group consists of EPS expanded polystyrenes.
Expanded polystyrene (EPS) is produced in the suspension polymerisation process (in suspended matter) and in the extrusion process where the raw material is GPPS. The main applications of expanded polystyrene include the production of heat insulation panels for building insulation, the basic heat-insulating material used in Central Europe. Another important application of EPS is the production of transport packaging such as for household appliances, television sets, computers. EPS is also used for the manufacture of finishing and decorative elements in the construction industry and for the production of small objects, such as for example bricklayer's long floats and safety helmets for cyclists.

2.2. The second group consists of polystyrenes which include general purpose GPPS polystyrenes and HIPS high impact polystyrenes.
The main market for polystyrene, both GPPS and HIPS, is a widely understood food packaging industry. Polystyrene is used in the production of disposable dishes, all kinds of cups and containers for dairy products, trays, cutlery and used as a raw material in the manufacture of shower cubicles, jewellery packaging, everywhere where rigidity and transparency of the finished product is required.
HIPS is used in other products requiring an increased mechanical resistance. In order to obtain the required mechanical properties, HIPS is modified with polybutadiene rubber. In addition to packaging, this polystyrene is used for the production of radio and TV casings, components of domestic appliances, toys and furniture components.
GPPS is also sold to the construction market.

2.3. The third group comprises XPS boards produced using the extruded polystyrene production line.
Extruded polystyrene is produced on the basis of own raw materials – general purpose polystyrene (GPPS). An XPS board is a homogeneous insulating material with a smooth or embossed surface and a structure consisting of small closed cells.
It has a number of unique properties such as water resistance, thermal insulation, transverse and longitudinal strength, is fully recyclable, and is a self-extinguishing product. It is used primarily in the construction industry as thermal insulating material for building perimeter insulation, insulation of roofs with inverted layers, floor insulation, thermal bridges and multiple-wythe masonry walls. Owing to mechanical strength and resistance to freezing and thawing with minimal absorption of water it is used in the thermal insulation of roads, bridges, railroads and airports.

3. Dispersions, Adhesives and Latexes

The Group's offer includes acrylic dispersions, styrene and acrylic dispersions as well as dispersions of vinyl acetate polymers. The main application of acrylic dispersions, styrene and acrylic and vinyl and acrylic dispersions is the production of high quality paints, acrylic plasters, primers, sealers and many other construction chemicals. Polyvinyl acetate dispersions are used mainly in the manufacture of adhesives for wood and for the paper industry, to impregnate textile fabrics in the textile industry and in the construction industry for the modification of concrete and for the production of paints.
The Group has two units for the production of dispersions with a total production capacity of approximately 40 thousand tonnes per year. The current portfolio of dispersions offered on the market includes 18 products, sold under the proprietary trade names of WINACET® and OSAKRYL®.
Dispersion adhesives are offered under two brand names: WOODMAX® – designed primarily for the wood industry and wood-based materials in various classes of water resistance (D1, D2, D3 and D4) and PAPERMAX® – adhesives for the paper industry. Currently, sales are realised for the portfolio of adhesives containing 16 products.
Two types of synthetic latexes are manufactured: LBS concentrated butadiene-styrene latexes and LBSK styrene-butadiene-carboxylic latexes. Synthetic latexes are used among other things for the production of foam products: mattresses, thin film foams and in the production of carpets and floor coverings, for impregnating non-woven materials. One of the applications also includes the production of bitumen emulsions used as insulating coatings in the construction industry.

4. Media

This segment is engaged in the production of thermal energy and the distribution of that energy. It is also engaged in combined heat electricity generation and electricity trading and distribution. The market for primary energy products such as heat, electricity, transmission services for both electricity and thermal energy is the local energy market.

5. Agro

This segment is engaged in the production and sales of plant protection products and biocides. The AGRO segment provides seedling protection, plant protection against the damaging impact of pathogenic fungi over the entire vegetation season, protection of plants against pests during their growth and development, protection against weeds, and it also provides necessary micro- and macroelements for plants in the form of specialist fertilizers.

(in PLN millions unless stated otherwisej)

Business segments

	Rubber		Styrene derivatives		Dispersions, Adhesives and Latexes		Media		Agro		Other		Total	
	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Revenue														
Sale of goods for resale/ finished goods (external customers)	2 146	1 870	2 111	1 697	195	184	168	191	81	76	2	2	**4 703**	**4 020**
Sale of services (external customers)	-	-	-	-	-	-	38	24	-	-	13	13	**51**	**37**
Rental income (external customers)	-	-	-	-	-	-	-	-	-	-	1	1	**1**	**1**
Total revenue	2 146	1 870	2 111	1 697	195	184	206	215	81	76	16	16	**4 755**	**4 058**
Total costs	(1 852)	(1 650)	(1 955)	(1 549)	(177)	(169)	(158)	(164)	(83)	(69)	(22)	(6)	**(4 247)**	**(3 607)**
- of which R&D	(14)	(10)	(5)	(3)	(4)	(3)	-	-	(3)	-	(4)	-	**(30)**	**(16)**
Segment result	**294**	**220**	**156**	**148**	**18**	**15**	**48**	**51**	**(2)**	**7**	**(6)**	**10**	**508**	**451**
Other (costs)/revenues	(19)	-	3	3	-	-	12	7	-	(1)	(53)	(10)	**(57)**	**(1)**
Operating profit/(loss)	**275**	**220**	**159**	**151**	**18**	**15**	**60**	**58**	**(2)**	**6**	**(59)**	**-**	**451**	**450**
Finance income	-	-	-	-	-	-	-	-	-	-	-	-	**38**	**31**
Finance costs	-	-	-	-	-	-	-	-	-	-	-	-	**(154)**	**(56)**
Gain on sale of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**42**
Profit before tax													**335**	**467**
Income tax expense													**(79)**	**(41)**
Net profit													**256**	**426**
Segment assets	2 055	1 781	1 111	829	134	133	618	579	96	105	216	210	**4 230**	**3 637**
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	**1 406**	**1 155**
Total assets	2 055	1 781	1 111	829	134	133	618	579	96	105	216	210	**5 636**	**4 792**

(in PLN millions unless stated otherwisej)

Capital expenditure	25	369	43	33	9	33	73	123	3	14	33	5	**186**	**577**
Depreciation/ Amortisation	88	56	67	56	11	10	39	33	5	4	1	8	**211**	**167**

Geographical information

The Group distinguishes the following two geographical areas:

- Country – domestic sales cover all types of sales (production, trade, services) of the Group in Poland, the Czech Republic, Slovakia;
- Other countries – covers all types of sales of the Group in all countries of the world except for Poland, the Czech Republic and Slovakia.

All the Group's assets are located within the territory of Poland, the Czech Republic, France and the Netherlands.

Geographical information

	Country		Other		Total	
	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Revenue (sales to external customers)	2 574	1 877	2 181	2 181	4 755	4 058
Assets	5 125	4 792	511	-	5 636	4 792
Capital expenditure	186	577	-	-	186	577

Revenues from sales of the individual products including revenues from sales to the 10 largest customers are presented below. None of the Group's leading customers accounts for more than 10% of total revenues.

Revenues from segment sales:	**to 10 largest customers**	
	from 01.01.2016 to 31.12.2016	**from 01.01.2015 to 31.12.2015**
Rubbers	1 355	1 437
Styrene derivatives	589	735
Dispersions, adhesives and latexes	65	62
Media	67	52
Agro	1	1

(in PLN millions unless stated otherwisej)

Note 3. Sales revenue

	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Sales of finished goods	4 421	3 782
Sales of services	51	37
Sales of goods for resale and materials	282	238
Rental of investment properties	1	1
	4 755	**4 058**

Note 4. Cost of sales

	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
a) Amortisation and depreciation	211	167
b) Materials and energy used	3 106	2 632
c) External services	353	282
d) Taxes and fees	37	26
e) Employee benefit expense (Note 6)	244	186
f) Other costs by type	31	20
Total costs by type	**3 982**	**3 313**
Change in inventories of finished goods	12	77
Changes in settled costs	(17)	(16)
Selling expenses (negative amount)	(152)	(126)
Administrative expenses (negative amount)	(203)	(164)
Costs of research and development for internal purposes	(30)	(16)
Cost of finished goods sold	**3 592**	**3 068**
Cost of goods for resale and materials sold	270	233
Cost of sales	**3 862**	**3 301**

(in PLN millions unless stated otherwisej)

Note 5. Other operating income (expenses)

	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Grants	18	7
Compensation received from insurance companies	2	-
Reversal of doubtful debt allowances	10	5
Reversal of provisions	3	-
Reversal of write-down against non-current assets	3	-
Contractual penalties received	-	4
Reversal of write-downs against inventories	20	-
Surplus of fair value of acquired net assets over the purchase price	8	-
Other	9	6
Other operating income, total	**73**	**22**
Donations granted	(1)	-
Receivables written off	(1)	(2)
Recognition of doubtful debt allowances	(10)	(2)
Recognition of provisions	(7)	-
Write-down against non-financial non-current assets	(7)	-
Costs of discontinued development works*	(38)	-
Cost of unused production capacities	(12)	(5)
Utilisation of CO_2 emission allowances	-	(1)
Write-down of shares	-	(5)
Recognition of provision for the costs of liquidation of electrolysis	(46)	-
Other	(8)	(8)
Other operating expenses, total	**(130)**	**(23)**
Other operating income/(expenses), net	**(57)**	**(1)**

* The Company restated development works by an amount of PLN 38 million due to lower effectiveness of the projects than assumed at the beginning of their implementation. These projects were designed to develop alternative methods of acquiring raw materials. The main factor resulting in lower effectiveness of the restated projects is the relation of costs of obtaining raw materials using these methods in relation to current prices on the market.

(in PLN millions unless stated otherwisej)

Note 6. Employee benefit expense

	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Wages and salaries	189	143
Social insurance	44	33
Company Social Fund	2	2
Other employee benefits	9	8
Employee benefit expense, total	**244**	**186**

Administrative expenses	45	38
Cost of services sold	199	148
	244	**186**

Note 7. Finance income/(costs)

	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Revenue from loans and receivables	10	11
Net foreign exchange differences	-	5
Revenue from realisation, valuation of derivative financial instruments	28	15
Finance income, total	**38**	**31**
Costs of interest on debt instruments	(77)	(51)
Costs of interest on amounts due to the state budget	(15)	-
Net foreign exchange differences	(50)	-
Costs of commitment fee	(6)	-
Other	(6)	(5)
Finance costs, total	**(154)**	**(56)**
Finance income/costs, net	**(116)**	**(25)**

(in PLN millions unless stated otherwisej)

Note 8. Income tax

Income tax recognised in profit or loss

	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Income tax		
Income tax for the current period	38	17
Income tax for prior years	62	-
	100	**17**
Deferred tax		
Temporary differences recognised/reversed	(21)	24
Income tax recognised in the statement of comprehensive income	**(79)**	**24**

Effective tax rate

	%	from 01.01.2016 to 31.12.2016	%	from 01.01.2015 to 31.12.2015
Profit before tax		**335**		**467**
Income tax at statutory income tax rate of	19%	64	19%	89
Non-deductible expenses (permanent differences)		4		1
Income tax from result of Synthos Dwory spółka z ograniczoną odpowiedzialnością spółka jawna*		(12)		(51)
Write-off of asset arising from investment allowance		(8)		11
Adjustment of income tax from prior years		62		(4)
Deferred tax asset on tax losses derecognised		2		2
Other		(6)		(7)
Deferred tax asset recognised following transformation of general partnerships*		(27)		-
	24%	**79**	**9%**	**41**

*As a result of transformation of the legal status of Synthos Dwory Sp. z o.o. to Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością S.K.A., and then to a general partnership, in the period from 1 November 2011 to May 2016 this entity ceased to be the CIT taxpayer.

In 2016 the Group effected legal status transformations both in the subsidiaries and within the structure of the capital group, as a result of which Synthos S.A. is a taxpayer in respect of income earned from being a partner in Synthos Dwory 7 sp. z o.o. spółka jawna, Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością SD4 spółka komandytowa (formerly: Synthos Dwory 5 Sp. z o.o.), Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością SD5 spółka komandytowa (formerly: Synthos Dwory 8 Sp. z o.o.), Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością SD5 spółka komandytowa (formerly: Synthos Dwory 8 Sp. z o.o.).

In 2016 the Tax Inspection Office commenced inspections in Synthos S.A. for the financial years 2010 – 2015. As a result of these inspections the Tax Inspection Office assessed an additional CIT liability for 2010 – 2014 of PLN 31 million, and additionally the Company recognised a provision for a potential additional tax liability for 2015 of PLN 31 million. These proceedings are currently at the stage of an appeal filed with the Tax Office of Appeal in Kraków and appeals filed with the Provincial Administrative Court in Kraków.

(in PLN millions unless stated otherwisej)

Note 9. Property, plant and equipment

	Land	Buildings and structures	Plant and machinery	Vehicles	Other	Fixed assets under construction	Total
Gross book value as at 1 January 2015	**33**	**899**	**1 680**	**41**	**67**	**483**	**3 203**
Additions							
- Purchase	**-**	**-**	**-**	**-**	**-**	**452**	**452**
- Reclassification	**-**	**340**	**321**	**5**	**24**	**(690)**	**-**
Disposals:							
- Sale / scrapping	**-**	**(4)**	**(26)**	**(1)**	**1**	**(1)**	**(31)**
Foreign exchange differences on translation of foreign operations	**1**	**11**	**26**	**1**	**-**	**1**	**40**
Gross book value as at 31 December 2015	**34**	**1 246**	**2 001**	**46**	**92**	**245**	**3 664**
Accumulated depreciation as at 1 January 2015	**-**	**311**	**859**	**21**	**39**	**7**	**1 237**
Additions							
- Depreciation for the period	**-**	**35**	**108**	**4**	**6**	**-**	**153**
Disposals:							
- Sale / scrapping	**-**	**(3)**	**(25)**	**(1)**	**-**	**-**	**(29)**
Foreign exchange differences on translation of foreign operations	**-**	**2**	**14**	**-**	**-**	**-**	**16**
Accumulated depreciation as at 31 December 2015	**-**	**345**	**956**	**24**	**45**	**7**	**1 377**
Net book value							
As at 1 January 2015	33	588	821	20	28	476	1 966
As at 31 December 2015	34	901	1 045	22	47	238	2 287

(in PLN millions unless stated otherwise)

	Land	Buildings and structures	Plant and machinery	Vehicles	Other	Fixed assets under construction	Total
Gross book value as at 1 January 2016	34	1 246	2 001	46	92	245	3 664
Additions:							
- Purchase	-	-	-	-	-	138	138
- Reclassification	-	50	184	6	8	(248)	-
- Purchase of the Ineos Group	58	38	110	-	-	-	206
Disposals:							
- Sale / scrapping	-	(4)	(12)	(3)	-	-	(19)
Foreign exchange differences on translation of foreign operations	3	18	41	1	-	1	64
Gross book value as at 31 December 2016	95	1 348	2 324	50	100	136	4 053
Accumulated depreciation as at 1 January 2016	-	345	956	24	45	7	1 377
Additions							
- Depreciation for the period	-	47	130	5	9	-	191
- Establishment of impairment write-downs	-	-	-	-	-	3	3
Disposals:							
- Sale / scrapping	-	(2)	(10)	(2)	(1)	-	(15)
Foreign exchange differences on translation of foreign operations	-	4	21	-	-	-	25
Accumulated depreciation as at 31 December 2016	-	394	1 097	27	53	10	1 581
Net book value							
As at 1 January 2016	34	901	1 045	22	47	238	2 287
As at 31 December 2016	95	954	1 227	23	47	126	2 472

Depreciation charges on PPE were shown in profit or loss under the cost of sales at the amount of PLN 156 million (2015: PLN 117 million).

Leased fixed assets

As at the end of the reporting period, apart from the land under finance lease described below (carrying amount of PLN 31 million) the Synthos S.A. Group did not have any other fixed assets used under finance leases.
Synthos Kralupy a.s. in Kralupy upon Vltava and in Litvinov, in the Czech Republic, uses land on the basis of a lease contract with the land's owner. The lease contract has been concluded for an unspecified period and all changes in the contract must be accepted by the parties to the contract. The Group presents the land in the consolidated financial statements under property, plant and equipment. The value of the leased land is a derivative of the value of the liability estimated as the present value of future payments under the lease contract. The value of the lease liability was calculated as a perpetual annuity with annual payments of rent of CZK 16,872,000 (PLN 3 million) using the 9% discount rate. The lease liability of PLN 31 million as at the balance sheet date is shown under “Other non-current liabilities”.

Fixed assets under construction

As at 31 December 2016 the Group held fixed assets under construction with a value of PLN 126 million (as at 31 December 2015: PLN 238 million). This amount comprised several dozen started investment projects, of which the most important include: construction of desulphurising and denitriding units – PLN 37 million, construction of units for extrusion-based manufacturing of the EPS - Invento X beads together with a polymer additive manufacturing unit - with the related expenditure amounting to PLN 11.5 million, construction of a product formulation plant in the Agro segment – expenditure amounting to PLN 5 million.

The Group performed an impairment test on fixed assets under contruction. As at 31 December 2016, there are no indications of impairment of uncompleted development projects.

Grants

In the previous reporting periods the Group signed agreements to obtain funding for its investment projects. In 2016 the Group obtained cash from grants totalling PLN 21 million (2015: PLN 89 million). The total balance of grants received and outstanding as at 31 December 2016, amounting to PLN 237 million (31 December 2015: PLN 233 million) is presented in the consolidated statement of financial position in the line item of deferred income from government grants (divided as appropriate into the non-current and current portion).
In 2016, an amount of PLN 13 million (2015: PLN 7 million) was recognised under other operating income in respect of amortisation of grants proportionally to the depreciation of the fixed assets financed in part by these grants.
The most significant investment projects for which the Group received grants are discussed below.

a) Research and development centre

On 23 November 2012 the Company concluded an agreement with the Ministry of the Economy for additional funding for the New Technologies Research and Development Centre (Centrum Badawczo-Rozwojowe Nowych Technologii) which was established in Oświęcim. On 10 September 2015 an annex to the Agreement was concluded whereby the term of the Agreement was extended to 30 November 2015.

The Agreement was settled as at the end of the previous year, and the eligible costs of the investment exceeded PLN 60 million. The Company will receive 50% i.e. over PLN 30 million support from the Innovative Economy Operational Programme. The project covered the construction of laboratories for synthesising (laboratory and semi-technical scale), analytical testing and application research. Almost 73% of the project costs were earmarked for purchasing state-of-the-art research equipment. The investment was commissioned in 2015.
The project enabled creating a Research and Development Centre equipped in state-of-the-art apparatus, the main purpose of which is to develop and implement for production new and innovative products, including mainly new types of synthetic rubber. They will allow tyre manufacturers to develop products with much lower rolling resistance and an increased road grip, which will translate into a significantly lower fuel consumption and an improved driving safety.
As part of this Project a new, innovative technology of manufacturing the main raw material for synthesising the above-mentioned synthetic rubber i.e. the butadiene will also be developed. This technology, unlike those currently used, will be based on renewable raw materials, which will enable the Company to become independent of tradtitional sources of supply. The implementation of this project resulted in the creation of 25 new jobs in the Research and Development department, which is one of the key covenants for the implementation of the project. In addition, the Company is obliged to maintain these jobs for a period of at least 5 years after the final settlement of the project.
The Company did not incur any expenditure for this purpose in 2016 (2015: PLN 36 million). In 2016 an amount of PLN 3 million was recognised under other operating income (2015: PLN 1 million) in respect of accounting for grants proportionally to the depreciation of the fixed assets financed in part by the grant. In 2016 the Company did not receive any cash from grants (in 2015 it received PLN 19 million). The total balance of outstanding grants received by the Group is PLN 27 million (2015: PLN 30 million) and it is presented in the consolidated statement of financial position under the line item of deferred income from government grants.

b) The SSBR rubber manufacturing unit

In December 2012 Synthos S.A. signed an agreement with the Ministry of the Economy for the funding of the “Implementation of an innovative technology for manufacturing SSBR X3 rubbers in Synthos Dwory 7” project.
The aim of the investment is to diversify the company’s production by marketing a new innovative product, i.e. functionalised styrene and butadiene rubber obtained using the solvent method (S-SBR). Product innovation will be achieved through the implementation of an advanced production technology for rubbers with unique characteristics and properties, purchased by Synthos S.A. from The Goodyear Tire & Rubber Company.
The amount of eligible expenses exceeds PLN 489 million, of which the amount of funding is nearly PLN 147 million. At least 160 new jobs will be created as a result of the project.
In 2013 works were started on the implementation of the project. The investment was completed in September 2015.
In 2016 the Company obtained cash from grants amounting to PLN 18 million (2015: PLN 57 million).

(in PLN millions unless stated otherwisej)

Note 10. Intangible assets

	Development costs	Concessions, computer licences, computer software and other	Trademarks, production know-how	Production licences	Other intangible assets	Total intangible assets
Gross amount as at 1 January 2015	**42**	**78**	**55**	**98**	**101**	**374**
- Purchase	2	14	13	-	-	29
- Sale / scrapping	-	(6)	-	-	-	(6)
- Foreign exchange differences on translation of foreign operations	-	-	-	-	2	2
Gross amount as at 31 December 2015	**44**	**86**	**68**	**98**	**103**	**399**
Accumulated amortisation as at 1 January 2015	**1**	**49**	**-**	**2**	**95**	**147**
- Amortisation for the period	-	8	4	2	-	14
- Foreign exchange differences on translation of foreign operations	-	(1)	-	-	2	1
Accumulated amortisation as at 31 December 2015	**1**	**56**	**4**	**4**	**97**	**162**
Net amount						
As at 1 January 2015	**41**	**29**	**55**	**96**	**6**	**227**
As at 31 December 2015	**43**	**30**	**64**	**94**	**6**	**237**

(in PLN millions unless stated otherwisej)

	Development costs	Concessions, computer licences, computer software and other	Trademarks, production know-how	Production licences	Other intangible assets	Total intangible assets
Gross amount as at 1 January 2016	**44**	**86**	**68**	**98**	**103**	**399**
- Purchase	-	2	-	(1)	3	4
- Purchase of Ineos Group	-	-	4	55	10	69
- Impairment	(38)	-	-	-	-	(38)
- Sale / scrapping	-	(1)	-	-	(4)	(5)
- Foreign exchange differences on translation of foreign operations	-	2	-	2	4	8
Gross amount as at 31 December 2016	**6**	**89**	**72**	**154**	**116**	**437**
Accumulated amortisation as at 1 January 2016	**1**	**56**	**4**	**4**	**97**	**162**
- Amortisation for the period	-	10	4	4	2	20
- Sale / scrapping	-	(1)	-	-	-	(1)
- Foreign exchange differences on translation of foreign operations	-	1	-	-	3	4
Accumulated amortisation as at 31 December 2016	**1**	**66**	**8**	**8**	**102**	**185**
Net amount						
As at 1 January 2016	**43**	**30**	**64**	**94**	**6**	**237**
As at 31 December 2016	**5**	**23**	**64**	**146**	**14**	**252**

As at the balance sheet date, intangible assets comprise mainly: purchased licences for the manufacture of products, trademarks, computer software.

Licences mainly include a licence for the production of polybutadiene rubber amounting to PLN 33 million (based on this licence, in 2011 the Group launched the production of the PBR rubber in Synthos PBR s.r.o.), licence for the production of the SSBR rubber amounting to PLN 58 million (based on this licence, in 2013 the Group commenced the construction of the SSBR rubber manufacturing unit), licence for the production of the polybutadiene rubber amounting to PLN 7 million to be used for launching a new investment project in Synthos do Brasil and patents and production know-how of PLN 66 million. In 2016 the Group renegotiated the licence agreement for the production of the polybutadiene rubber, as a result of which the Group became able to transfer the rights under this agreement to Synthos PBR. The transfer of the rights under the licence provided a basis for launching a project aimed at increasing the production capacity in Synthos PBR from 80 thousand tonnes to 120 thousand tonnes of the polybutadiene rubber.
As at 31 December 2016, the above-mentioned licences were tested for impairment. No impairment was identified as a result of these tests.
The “development costs” item includes expenditure incurred for developing new products and commercialising the processes of acquiring key raw materials for production from alternative sources, to diversify the sources of supplies of the key production raw materials in the Capital Group.
The Group performed an impairment test with regard to costs of uncompleted development works. As at 31 December 2016, the Group restated development works by an amount of PLN 38 million. The main factor resulting in lower effectiveness of the restated projects is the currently low prices of raw materials on the market.

Note 11. Deferred tax

Deferred tax assets and liabilities were recorded in respect of the following assets and liabilities:

(in PLN millions unless stated otherwisej)

Deferred tax assets and liabilities

	Assets		Liabilities		Net amount	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Property, plant and equipment and intangible assets	(15)	(3)	89	71	74	68
Other investments	(1)	(1)	-	-	(1)	(1)
Inventories	(1)	(1)	4	-	3	(1)
Trade and other receivables	(1)	-	13	20	12	20
Employee benefits	(10)	-	-	-	(10)	-
Provisions	(16)	(1)	-	-	(16)	(1)
Investment allowance	-	(15)	-	-	-	(15)
Liabilities	(49)	(24)	-	-	(49)	(24)
Bank loans	(3)	-	-	-	(3)	-
Tax losses deductible in future years	(1)	(10)	-	-	(1)	(10)
Deferred tax assets / liabilties	**(97)**	**(55)**	**106**	**91**	**9**	**36**
Offseting	29	41	(29)	(41)	-	-
Deferred tax assets / liabilties in the statement of financial position	**(68)**	**(14)**	**77**	**50**	**9**	**36**
Deferred tax assets/liabilities to be realised within 12 months	-	(13)	-	23	-	10
Deferred tax assets/liabilities to be realised within more than 12 months	-	(1)	-	27	-	26

The consolidated cash flow statement should be analysed jointly with the explanatory notes constituting an integral part of the consolidated financial statements

(in PLN millions unless stated otherwisej)

Change in temporary differences during the period

	As at 01.01.2016	Change in temporary differences recognised in: Profit or loss	Currency translation reserve (Other comprehesnive income)	Acquisition of an entity	As at 31.12.2016
Property, plant and equipment and intangible assets	68	(6)	(2)	14	74
Other investments	(1)	-	-	-	(1)
Inventories	(1)	4	-	-	3
Trade and other receivables	20	(6)	(2)	-	12
Employee benefits	-	2	-	(12)	(10)
Provisions	(1)	(15)	-	-	(16)
Investment allowance	(15)	16	(1)	-	-
Liabilities	(24)	(22)	(3)	-	(49)
Bank loans	-	(3)	-	-	(3)
Tax losses deductible in future years	(10)	9	-	-	(1)
	36	**(21)**	**(8)**	**2**	**9**

	As at 01.01.2015	Profit or loss	Currency translation reserve (Other comprehesnive income)	Acquisition of an entity	As at 31.12.2015
Property, plant and equipment and intangible assets	64	3	1	-	68
Other investments	(1)	-	-	-	(1)
Inventories	(1)	-	-	-	(1)
Trade and other recievables	22	(2)	-	-	20
Provisions	(1)	-	-	-	(1)
Investment allowance	(37)	21	1	-	(15)
Liabilities	(23)	(1)	-	-	(24)
Tax losses deductible in future years	(13)	3	-	-	(10)
	10	**24**	**2**	**-**	**36**

(in PLN millions unless stated otherwisej)

Note 12. Inventories

	31.12.2016	31.12.2015
Materials	215	208
Work in progress	64	59
Finished goods	266	195
Goods for resale	6	5
	551	**467**

Inventories are presented net of write-downs, amounting to PLN 3 million as at 31 December 2016 (31 December 2015: PLN 7 million). Changes in the amount of the write-downs are due to the sale, utilisation or scrapping of the relevant items and are recognised in the consolidated statement of comprehensive income under other operating (expenses)/ income. The amount of released write-downs against inventories, recognised in the profit or loss, was PLN 20 million in 2016 (2015: PLN 9 million). As at 31 December 2016, the value of inventories pledged as security for the Group's loan liabilities amounted to PLN 119 million.

Note 13. Trade and other receivables

	31.12.2016	31.12.2015
Trade receivables from other entities	956	610
Receivables in respect of other taxes	90	51
Prepayments for purchase of fixed assets	30	1
Prepayments	9	4
	1 085	**666**

Trade receivables are presented net of doubtful debt allowances amounting to PLN (13) million (31 December 2015: PLN (13) million). Doubtful debt allowances were recognised due to the likelihood that the receivables will not be recoverable. The amount of doubtful debt allowances recognised in the profit/loss for 2016 was PLN (10) million (2015: PLN (2) million). In addition, doubtful debt allowances of PLN 10 million (2015: PLN 5 million) were reversed due to the fact that the underlying receivables had been paid.

Cash-pooling receivables include receivables from the related parties of Butadien Kralupy a.s. (joint arrangement of the Group) and they have been recognised as appropriate in the consolidated financial statements of the Group as a result of applying the new IFRS 11 as of 1 January 2014.

As at 31 December 2016, receivables pledged as security for the Group's loan liabilities amounted to PLN 377 million (31 December 2015: PLN 200 million).

The trade credit in the normal course of sales is 30-120 days depending on the operating segment.
The carrying amount of trade receivables approximates their fair value due to their short-term nature.

With respect to receivables stated at amortised cost, their fair value for disclosure purposes was estimated based on discounted cash flows using a discount rate based on the current market interest rates (level 2 in the fair value measurement hierarchy).

(in PLN millions unless stated otherwisej)

Note 14. Cash and cash equivalents

	31.12.2016	31.12.2015
Cash at bank	1 127	488
Short-term deposits (due within up to 3 months)	25	563
Cash and cash equivalents, as shown in the balance sheet	**1 152**	**1 051**
Cash and cash equivalents, as shown in the statement of cash flows	**1 152**	**1 051**

The Group did not have any restricted cash and cash equivalents.
The carrying amount of cash and cash equivalents corresponds to their fair value.

Note 15. Equity

	31.12.2016	31.12.2015
Number of shares as at the beginning of the period	1 323 250 000	1 323 250 000
Number of shares as at the end of the period	**1 323 250 000**	**1 323 250 000**
Par value of 1 share (PLN)	0.03	0.03

Holders of ordinary shares are entitled to receive the dividends passed by a resolution and are entitled to one vote per share at the Annual General Meeting of the Company's Shareholders. All shares give equal entitlement to the Company's assets should the assets be divided.
As at 31 December 2016, shareholders holding more than 5% of total votes in the Company included:

Mr Michał Sołowow – who holds indirectly – through the subsidiaries listed below – 826,559,009 votes at the AGM, representing 62.46% of the total number of votes at the AGM of Synthos S.A.

Subsidiary's name	Registered office	Number of shares of Synthos S.A.	% of share capital and the total number of votes at the AGM of Synthos S.A.
FTF Galleon S.A.	Warsaw	682 918 112	51.61%
Ustra S.A.	Kielce	143 640 897	10.85%
		826 559 009	**62.46%**
Aviva Otwarty Fundusz Emerytalny BZ WBK	Warsaw	66 803 137	5.05%

The changes in the holding of significant blocks of shares in the reporting period, i.e. from 1 January 2016 to 31 December 2016, were notified by the Issuer in current report no. 40/2016. The changes have been reflected in the table above.
There were no changes in the shareholding structure of significant blocks of the Issuer's shares after the reporting period – in the period from 31 December 2016 until the date of the submission of this report.
FTF Galleon S.A., with its registered office in Warsaw, is the ultimate parent of the Group. The ultimate controlling party is Mr Michał Sołowow.

Dividend paid per share

	31.12.2016	31.12.2015
Dividend paid per share	0.53	0.25

In 2016 the Company paid an interim dividend of PLN 701 million.
The interim dividend was paid out of the reserve capital set up for the payment of the dividend or interim dividend.
In 2015 the Ordinary General Shareholders' Meeting resolved to pay a dividend of PLN 331 million. This dividend was paid on 17 July 2015.

Non-controlling interests

Total non-controlling interests as at 31 December 2016 amounted to PLN 13 million and related to Miejsko-Przemysłowa Oczyszczalnia Ścieków Sp. z o.o. with its registered office in Oświęcim. Below we present the condensed financial statements of the subsidiary in which the Group holds non-controlling interests (data in PLN million).

	31.12.2016	31.12.2015
Non-current assets	62	63
Current assets	8	5
Assets	70	68
Equity	60	60
Non-current liabilities	6	5
Current liabilities	4	3
Sales revenue	24	22
Net profit	-	2
Comprehensive income	-	2

Note 16. Other equity

	2016	2015
Share capital*	40	40
Revaluation reserve	(23)	-
Reserve capital*	13	766
Reserve capital for dividend*	393	-
Foreign exchange differences on translation of entities	85	40
Retained earnings	1 362	1 447
Equity attributable to equity holders of the parent company	**1 870**	**2 293**

* data presents equity of the Parent Company

(in PLN millions unless stated otherwisej)

Note 17. Loans, borrowings and other debt instruments

This Note presents information on the Group's liabilities in respect of loans, borrowings and other debt instruments.

	31.12.2016	31.12.2015
Non-current liabilities		
Liabilities in respect of bonds	1 752	1 683
Liabilities in respect of bank loans	796	-
Liabilities in respect of [other] borowings	-	2
	2 548	**1 685**
Current liabilities		
Liabilities in respect of interest on bonds	20	17
Liabilities in respect of [other] borrowings	2	4
	22	**21**

Further information on liabilities in respect of loans and bonds is presented in Note 21.

Time schedule for repayment of loans and other debt instruments

31 December 2016

currency and interest rate	Total	Up to 1 year	Over 5 years
Fixed interest rate	**1 772**	20	1 752
EUR/PRIBOR + margin	**798**	2	796
	2 570	22	2 548

31 December 2015

currency and interest rate	Total	Up to 1 year	Over 5 years
Fixed interest rate	**1 706**	21	1 685
	1 706	21	1 685

In 2014 and 2015, the Group, through its subsidiary Synthos Finance AB (publ) with its registered office in Stockholm, Sweden, issued senior notes with a total nominal value of EUR 400,000,000 ("Notes"). The Notes have a fixed interest rate of 4.000% p.a., with interest payable in semi-annual periods (on 30 March and 31 December), first payment of interest on 30 March 2015 and maturity date set at 31 December 2021. The Notes were issued at a price equal to 100% of their nominal value, for a total amount of EUR 400,000,000. The Notes represent a senior liability and, in the category of payment, they are treated on an equal basis with the existing and future unsecured senior debt. The Notes are unsecured and are guaranteed jointly and severally by the Issuer and its subsidiaries: Synthos Dwory 7 Spółka z ograniczoną odpowiedzialnością sp. j., SYNTHOS Kralupy a.s., TAMERO INVEST s.r.o. and SYNTHOS PBR s.r.o. (jointly with the Issuer as "Guarantors"). The Synthos S.A. Group allocated the funds acquired from the issue of the Notes for the repayment of its debt towards the banks.
On 7 June 2016 a revolving loan agreement for an amount up to EUR 220 million was concluded between Synthos S.A., Synthos Dwory 7 sp. z o.o. sp.j., Synthos PBR s.r.o., Synthos Kralupy a.s., Tamero Invest s.r.o. and Synthos Agro sp. o.o. as the borrowers and Powszechna Kasa Oszczędności Bank Polski S.A., Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank Zachodni WBK S.A., HSBC Bank Polski S.A., ING Bank

(in PLN millions unless stated otherwisej)

Śląski, HSBC Bank plc as lenders. Powszechna Kasa Oszczędności Bank Polski S.A. also acts as the credit agent and security agent.
During the reporting period, EUR 180 million of the loan was made available.

Note 18. Provisions

	Decommissioning of assets	Rehabilitation	Other provisions	Total
Amount at 1 January 2016	**30**	**3**	**1**	**34**
	46	**-**	**6**	**52**
Amount at 31 December 2016	**76**	**3**	**7**	**86**
Non-current portion	76	-	-	**76**
Current portion	-	3	6	**9**
	76	3	6	**85**
Amount at 1 January 2015	**30**	**3**	**1**	**34**
Amount at 31 December 2015	**30**	**3**	**1**	**34**
Non-current portion	30	-	-	**30**
Current portion	-	3	1	**4**
	30	3	1	**34**

Provision for costs of decommissioning of assets

In December 2005, the Management Board of Firma Chemiczna Dwory S.A. decided to close the electrolysis department. The level of contamination of the buildings of the electrolysis department identified based on tentative measurements and previous experiments of the Group indicates the need to totally demolish them and incur recycling costs to meet the environmental requirements determined by legal regulations and those stated in the integrated permit for the electrolysis department.
During the reporting period, the Group reviewed the amount of costs expected to be incurred due to the decommissioning of assets, the expected date of completion of the demolition works and the applied discount rate. As a result, the Group recognised an additional provision of [PLN] 46 million.
The provision was estimated based on the assumption that the demolition works will be completed by the end of 2019.

Provision for hydrological protection of underground water

The provision relates to environmental protection risk. This risk is associated with the hydrogeological protection of underground water where there is an increased presence of free oil hydrocarbons in the soil. The updated risk analysis for the subsoil shows some pollution with free aromatic hydrocarbons where the storage facilities of liquid gas, styrene and polystyrenes are located.
As at 31 December 2016, the Group recognises a provision for expected costs of land rehabilitation. At the same time the Group is conducting research and protective works to prevent the penetration of contaminants through the hydrogeological protection barriers.

(in PLN millions unless stated otherwisej)

Note 19. Trade and other payables

	31.12.2016	31.12.2015
Trade payables to other entities	509	308
Taxation and social insurance payables, excluding income tax	7	2
Wages and salaries payable	21	9
Accruals	85	60
Special funds	1	1
Capital commitments	24	41
Payables from interest on amounts due to the state budget	6	-
Other	4	8
	657	**429**

The carrying value of trade payables approximates their fair value due to the short term to their maturity.

With respect to liabilities carried at amortised cost, the fair value for disclosure purposes was estimated based on discounted cash flows using the discount rate based on the current market interest rates.

(in PLN millions unless stated otherwisej)

Note 20. Reasons for differences between changes in some statement of financial position items and corresponding changes in cash flows

	from 01.01.2016 to 31.12.2016	from 01.01.2015 to 31.12.2015
Receivables:		
Change in trade and other receivables in the consolidated statement of financial position	(419)	283
Change in prepayments for fixed assets and receivables under investing activities	29	(8)
Acquisition of a company	132	-
Foreign exchange differences on translation	58	(35)
Change in receivables in the consolidated statement of cash flows	**(200)**	**240**
Liabilities:		
Change in trade and other payables in the consolidated statement of financial position	228	(223)
Change in the balance of capital commitments	17	111
Acquisition of a company	(142)	-
Foreign exchange differences on translation	3	(1)
Change in liabilities in the consolidated statement of cash flows	**106**	**(113)**
Inventories:		
Change in inventories in the consolidated statement of financial position	(84)	29
Acquisition of a company	85	-
Foreign exchange differences on translation of foreign operations	9	-
Change in inventories in the consolidated statement of cash flows	**10**	**29**

Provisions:		
Change in provisions in the consolidated statement of financial position	51	-
Exchange differences on translation of foreign operations	(1)	-
Change in provisions in the consolidated cash flow statement	**50**	**-**

(in PLN millions unless stated otherwisej)

Note 21. Employee benefits payable

Due to the fact that the Group subsidiaries operate in different countries, the Group runs various employee benefit plans. Majority of such liabilities arise from mandatory legal regulations in the individual countries as well as specific clauses in the remuneration regulations.

The table below presents the types of liabilities under future employee benefits by country:

31 December 2016	**The Netherlands**	**France**	**Poland**	**The Czech Republic**	**Total**
Pension plan	19	3	-	-	22
Retirement compensation plan	-	2	-	-	2
Jubilee bonus plan	2	3	-	-	5
Pension compensation plan	2	5	-	-	7
Retirement benefits	-	-	1	-	1
Death benefits	-	-	2	-	2
Compensatory disability pensions	-	-	1	-	1
Provision for employee benefits	**23**	**13**	**4**	**-**	**40**

The valuation of the above-mentioned liabilities was made by actuaries based on the following assumptions:

	The Netherlands	**France**	**Poland**
Discount rate	2,0%	1,5%	3,0%
Inflation index	1,75%	1,75%	-
Future salary increases	2,8%	2,8%	1,3%
Future pension increases	1,75%	1,75%	-
Source of information about death rates	Prognosefl AG2016	TGH05&TGF05	GUS 2015
Employee rotation ratio	-	-	14%

(in PLN millions unless stated otherwisej)

Note 22. Financial risk management objectives and policies

Financial risk management

The Group's everyday activities expose it to credit risk, liquidity risk and market risk (which includes mostly the interest rate and foreign exchange risks). The objective of financial risk management in the Group is to minimise the impact of market factors such as foreign exchange rates and interest rates on the basic financial parameters approved in the Group's budget for a particular year (profit and loss, level of cash flows) with the use of natural hedging and derivatives.

Credit risk

Credit risk is the risk of the Group incurring financial losses due to the failure by the customer or counterparty to a financial instrument to meet its contractual obligations. Credit risk is mainly related to the Group's receivables from customers and cash at bank.

The following table presents the Group's maximum exposure to credit risk:

	31.12.2016	31.12.2015
Trade and other receivables	995	615
- of which:		
Dispersions, latexes and adhesives	26	21
Rubbers	488	304
Styrene plastics	361	200
Agro	14	13
Media	27	5
Other	79	72
Cash and cash equivalents	1 152	1 051
	2 147	**1 666**

Based on the binding procedures in place at the Group, as well as a large customer base, it is considered that the concentration of credit risk is not significant. The Group assesses the credibility of its customers on an ongoing basis and in justified cases requires appropriate collateral. In addition, approximately 34% of the Group's receivables are covered by a receivables' insurance policy.

Counterparties for whom the Group does not have a history of cooperation, or sales occur occasionally, make purchases in the form of a prepayment. In contrast, trade credit is granted to customers for whom a positive history of cooperation exists and whose creditworthiness was assessed on the basis of both internal and external sources. Exposure to credit risk is defined as total outstanding receivables that are monitored individually for each customer.

Group sales are concentrated in three main segments associated with the business profile.

a) The biggest group consists of receivables from the recipients of rubbers – approx. 49% of receivables. The counterparties in this segment represent a non-homogeneous group in terms of their legal status, as they include both companies and sole traders.
b) The second important segment consists of receivables from the recipients of styrene plastics – 36% of receivables. The legal status of the counterparties in this segment is pretty homogeneous, as the majority of them are entities which are part of international concerns. In this group, 55% of the balance of receivables is insured.

(in PLN millions unless stated otherwisej)

c) The third major segment associated with the principal activities of the Group includes receivables from the recipients of dispersions, adhesives and latexes – 3% of receivables. In terms of customers' legal status, this group is similar to the second segment. At the same time, 69% of the receivables are insured.

In the opinion of the Management Board, credit risk in respect of receivables is insignificant.

Impairment

The table below shows the ageing structure of trade receivables:

	31.12.2016 Cost	31.12.2016 Impairment	31.12.2015 Cost	31.12.2015 Impairment
Not overdue	924	-	576	-
Overdue	84	-	52	-
1-30 days	49	-	24	-
30-180 days	5	-	5	-
181-365 days	7	-	-	-
more than 1 year	23	(13)	23	(13)
	1 008	**(13)**	**628**	**(13)**

Increases and decreases in doubtful debt allowances were as follows:

	2016	2015
As at 1 January	13	16
Recognised	10	2
Reversed	(10)	(5)
As at 31 December	**13**	**13**

Cash and deposits

Cash and cash equivalents are deposited with highly reliable financial institutions, in the following banks: Citibank Handlowy, PKO BP, BNP Paribas, Bank ING, Pekao S.A., Royal Bank of Scotland, HSBC, BZWBK, Komercni Banka.

The Group places its cash solely in financial institutions with the best reputation. The Management Board of the Parent Company does not perceive any significant risk of impairment of cash at bank.

	31.12.2016	31.12.2015
Banks with AA- rating	46	82
Banks with A+ rating	221	135
Banks with A- rating	165	660
Banks with BBB+ rating	19	4
Banks with BBB rating	700	170
Banks with BB+ rating	1	-
Total cash at bank	**1 152**	**1 051**

Liquidity risk

The liquidity risk is the risk that the Group will be unable to discharge its financial liabilities as they become due and payable. The activities taken to mitigate this risk include proper management of financial liquidity through accurate assessment of the level of cash held based on cash flow plans prepared for various time horizons. As at 31 December 2016 the

(in PLN millions unless stated otherwisej)

Group had an overdraft limit available for utilisation of PLN 180 million (2015: PLN 500 million) and a revolving loan agreement for an amount of EUR 220 million. As at 31 December 2016 the Group utilised EUR 180 million of this loan.

31 December 2016

	Carrying amount	Contracted, undiscounted cash flows	Up to 1 year	1-5 years	Over 5 years
Financial liabilities					
Liabilities in respect of bonds	(1 772)	(2 124)	(71)	(2 053)	-
Liabilities in respect of bank loans	(796)	(798)	(2)	(796)	-
Liabilities in respect of [other] borrowings	(2)	(2)	(2)	-	-
Trade and other payables	(617)	(617)	(617)	-	-
	(3 187)	**(3 541)**	**(692)**	**(2 849)**	**-**

31 December 2015

	Carrying amount	Contracted, undiscounted cash flows	Up to 1 year	1-5 years	Over 5 years
Financial liabilities					
Liabilities in respect of bonds	(1 702)	(2 114)	(68)	(273)	(1 773)
Liabilities in respect of [other] borrowings	(4)	(4)	(4)	-	-
Trade and other payables	(409)	(409)	(409)	-	-
	(2 115)	**(2 527)**	**(481)**	**(273)**	**(1 773)**

Market risk

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to cash, cash equivalents held in bank deposits and liabilities from a revolving loan, with variable interest rates based on EURIBOR + margin or WIBOR + margin and issued bonds bearing a fixed interest rate.

The table below shows the Group's susceptibility (maximum exposure) to changes in interest rates by presenting financial instruments broken down by floating interest rates:

31 December 2016

	Base interest rate			
	WIBOR	PRIBOR	EURIBOR	USDLIBOR
Variable interest rate instruments				
Cash and cash equivalents	38	32	1 025	57
Liabilities in respect of loans and borrowings	-	(2)	(796)	-
	38	**30**	**229**	**57**

31 December 2015

	Base interest rate			
	WIBOR	PRIBOR	EURIBOR	USDLIBOR
Variable interest rate instruments				
Cash and cash equivalents	537	101	375	38
Liabilities in respect of loans and borrowings	-	(6)	-	-
	537	**95**	**375**	**38**

The Group has no financial instruments with a fixed interest rate measured at fair value through profit or loss. Liabilities in respect of issued bonds bearing a fixed interest rate are measured at amortised cost. Therefore, a change in the interest rate at the balance sheet date will not affect the valuation of those instruments and consequently the statement of comprehensive income.

The Group conducted a sensitivity analysis of variable-interest-rate financial instruments to changes in the market interest rates. The table below shows the impact which an increase and decrease in the interest rate by 100 bp would have on the profit or loss and on equity. The analysis was conducted on the assumption that all other variables, such as foreign exchange rates, are held constant.

	Profit or loss		Equity	
	Increases 100bp	Decreases 100bp	Increases 100bp	Decreases 100bp
WIBOR				
31 December 2016	-		-	-
31 December 2015	5	(5)	5	(5)
PRIBOR				
31 December 2016	-	-	-	-
31 December 2015	1	(1)	1	(1)
EURIBOR				
31 December 2016	2	(2)	2	(2)
31 December 2015	4	(4)	4	(4)
LIBORUSD				
31 December 2016	-	-	-	-
31 December 2015	-	-	-	-

Foreign exchange risk

Foreign exchange risk arises from issued bonds, a revolving bank loan and business transaction settlements. Approximately 76% of revenues and 90% of the costs of the Group are related to transactions settled in foreign currencies. Exchange rate fluctuations affect the level of revenues from sales and the costs of purchasing raw materials. Strengthening of the domestic currency has a negative impact on the profitability of export and domestic sales, although changes in revenues from export and from domestic sales measured on the basis of quotations caused by exchange rate fluctuations are offset by changes in the costs of raw material import (or measured on the basis of currency quotations), thus largely mitigating the Group's exposure to foreign exchange risk.
The foreign exchange risk management consists of the following processes: risk identification and measurement, monitoring of the situation on the financial markets, matching – where possible – the amounts of liabilities and receivables in specific currencies.

The following table presents the profile of the Group's sensitivity (balance sheet exposure as at 31 December 2016) to the risk of changes in exchange rates by presenting financial instruments broken down by currencies in which they are denominated (data in PLN million).

31 December 2016	Foreign currency items			Functional currency items	
	EUR	**USD**	**GBP**	**CZK**	**PLN**
Trade and other receivables	618	203	-	55	119
Cash and cash equivalents	1 025	57	-	32	38
Trade and other payables	(400)	(32)	-	(84)	(101)
Bond and loan liabilities	(2 568)	-	-	(2)	-
Balance sheet exposure to foreign exchange risk	**(1 325)**	**228**	**-**	**Not applicable**	**Not applicable**

31 December 2015	Functional currency items			Foreign currency items	
	EUR	**USD**	**GBP**	**CZK**	**PLN**
Trade and other receivables	376	92	-	58	89
Cash and cash equivalents	375	38	-	101	537

Trade and other payables	(203)	(48)	-	(65)	(93)
Bond and loan liabilities	(1 702)	-	-	(4)	-
Balance sheet exposure to foreign exchange risk	**(1 154)**	**82**	**-**	**Not applicable**	**Not applicable**

The Group conducted a sensitivity analysis of financial instruments denominated in foreign currencies to changes in foreign exchange rates. The table below shows the impact which a 10% strengthening or weakening of the functional currencies in respect of all the currencies as at the balance sheet date would have on the profit or loss. The analysis was conducted on the assumption that all other variables, such as interest rates, are held constant.

	31 December 2016		**31 December 2015**	
	+10 p.p.	-10 p.p.	+10 p.p.	-10 p.p.
Effect on net profit/loss				
USD	23	(23)	8	(8)
EUR	(133)	133	(115)	115
Effect on equity				
USD	23	(23)	8	(8)
EUR	(133)	133	(115)	115

Price risk

The Group's exposure to changes in market prices concerns mainly holdings of shares listed on the NYSE EURONEXT.

Available-for-sale financial assets

	2016	**2015**
As at 1 January	6	133
Decrease as a result of sale of shares*	-	(120)
Valuation recognised in the revaluation reserve**	-	(7)
As at 31 December	**6**	**6**

*In 2015 the Capital Group sold the shares of Echo investment S.A. for an amount of PLN 121 million. The PLN 42 million profit from the sale is recognised in the statement of comprehensive income under the "Gain on sale of available-for-sale financial assets".

** In 2015, a PLN 7 million loss from remeasurement was recognised in other comprehensive income and, simultaneously, the cumulative gain of PLN 42 million recognised in the revaluation reserve was transferred due to the sale of shares.

Schedule of shares held 2016	**Number of shares**	**Value in PLN million**
- Global BioEnergies	59 625	6
Total	**59 525**	**6**

Schedule of shares held 2015	**Number of shares**	**Value in PLN million**
- Global BioEnergies	59 625	6
Total	**59 525**	**6**

(in PLN millions unless stated otherwisej)

The Group conducted a sensitivity analysis of the shares held to a change in the stock exchange prices of these assets. The table below shows the impact of a +/- 10% increase/decrease in share prices on the value of those assets.

	Other comprehensive income	
	10% increase in share prices	10% decrease in share prices
31 December 2016	-	-
31 December 2015	(1)	(1)

Risk of changes in prices of raw materials, finished goods and services resulting in a drop in the margin realised by the Group.

The Group is exposed to the risk of changes in market prices of used raw materials and its own products. That risk is minimised through the relevant provisions in sales agreements relating the prices of the products sold by the Group to the market prices of the raw materials from which they are made. As the price formula included in the sales contracts is directly related to the manufacturing cost, the embedded derivative does not meet the criteria for separate recognition in the financial statements.

Fair value of financial instruments

Details of the fair values of financial instruments for which fair value can be estimated are presented below:

- Financial instruments measured at fair value as at 31 December 2016

	Level 1	Level 2	Level 3
Available-for-sale assets	6	-	-

- Financial instruments measured at fair value as at 31 December 2015

	Level 1	Level 2	Level 3
Available-for-sale assets	6	-	-

Level 1
Shares of companies listed on stock exchanges and bonds issued on active markets. The fair value was determined based on stock exchange quotations.

Other instruments:

- Cash and cash equivalents, short-term bank deposits. The carrying amount of the above-mentioned instruments approximates their fair value due to the short maturity of these instruments;
- Trade receivables, other receivables, trade payables. The carrying amount of these instruments approximates their fair value due to their short-term nature;
- Long-term borrowings and bank loans. The carrying amount of these instruments approximates their fair value due to the floating nature of their interest rates;
- Liabilities in respect of long-term bonds issued, the nominal value of one bond is EUR 100,000, fair value as at the balance sheet date is between EUR 102.2 and EUR 102.25 per bond;

(in PLN millions unless stated otherwisej)

- With respect to receivables and liabilities carried at amortised cost (except bonds), the fair value for disclosure purposes was estimated based on discounted cash flows using the discount rate based on the current market interest rates (level 2 in the fair value measurement hierarchy).

Capital and liquidity management

The basic guideline of the Group's capital and liquidity management policy is to maintain a strong capital base, stable financing and a proper relation between the two. This will underpin the confidence of investors, lenders and the market and will guarantee the Group's future development. The Group monitors changes in the shareholding structure, the return on equity ratios, the equity to liabilities ratios and the ratios of operating results to financial liabilities and costs of their servicing.

Item	2016	2015	Change
Return on equity (ROE)[1]	13,60%	18,47%	(4,88%)
EBITDA[2)] / equity	35,16%	26,76%	8,40%
Current ratio[3)]	3,77	4,85	(1,08)
Quick ratio[4)]	3,04	3,84	(0,80)
Gearing to equity[5)]	199%	108%	92%
Net debt[6)] / EBITDA	2,35	1,11	1,24
EBITDA / Costs of debt servicing[7)]	8,57	12,59	(4,02)

1) Net profit for the year to equity as at the balance sheet date
2) EBITDA: operating profit/loss for the year plus amortisation and depreciation
3) Current assets to short-term liabilities as at the balance sheet date
4) Current assets less inventories to short-term liabilities as at the balance sheet date
5) Total liabilities to equity as at the balance sheet date
6) Net debt: financial debt in respect of issued bonds and securities, loans and borrowings, and leases, less cash and cash equivalents
7) Costs of debt servicing: The amount of interest and fees on financial indebtedness due (accrued or paid) for a given financial year

The structure of assets and liabilities indicates that the Group has a stable financial position. The return on equity is at a high level of 13.6%. Liquidity ratios significantly exceed those commonly considered to be safe. The Group reports an increase in sales revenue and improved its operating result, which resulted in the improvement of the EBITDA to equity ratio. During the financial year there were no changes to the Group's capital and liquidity management policies.

Note 23. Commitments

1. Operating lease agreements in which the Company is the lessee

Future minimum payments under non-cancellable lease contracts are as shown below:

	31.12.2016	31.12.2015
Up to 1 year	4	4
Between 2 and 5 years	15	14
More than 5 years	4	7
	23	**25**

2. Capital commitments

As at 31 December 2016, the Group had capital commitments of PLN 177 million (31 December 2015: PLN 188 million).

Note 24. Related party transactions

Remuneration paid or payable to Members of the Parent Company's Management and Supervisory Boards:

	31.12.2016	31.12.2015
Short-term employee costs (salaries and related surcharges and bonuses)	11	6
Total	**11**	**6**

Transactions with other related parties (in PLN million)

	31.12.2016	31.12.2015
Receivables		
Other	-	1
Total	**-**	**1**
Payables		
Other	-	1
Total	**-**	**1**
Costs		
Other	11	10
Total	**11**	**10**

Note 25. Events after the balance sheet date

No significant events occurred after the balance sheet date.

Note 26. Accounting estimates and assumptions

In the consolidated financial statements, the Group applies estimates that are based on assumptions concerning the future. They are subject to a regular assessment based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

a. Provision for costs of decommissioning of assets

The Group recognises a provision for the costs of decommissioning of assets. The details of how it is recognised are included in Note 18. During the reporting period the Group reviewed the amount of costs expected to be incurred due to the decommissioning of assets, the expected date of completion of the demolition work and the applied discount rate. As a result, the Group recognised an additional provision of PLN 46 million.

Should the expected lifetime of the buildings change by 1 year, the amount of the provision would change by PLN 2 million.

b. Deferred tax asset and its recoverability

In the financial year, the Group adjusted the amount of the deferred tax asset recorgnised in connection with the tax relief obtained, as discussed in Note 11. The adjustment of the asset was based on current forecasts concerning tax results that Synthos PBR s.r.o. plans to achieve until the end of the period covered by the tax relief (i.e. by 31 December 2016). The forecasts conducted have shown that, in the present market conditions, the current value of the asset which may be utilised is lower than that on which the deferred tax asset had been recognised in the prior years. Details of writing off the deferred tax asset are provided in Note 8 to the financial statements.

c. Expenditure for development works

Development works comprise costs incurred in connection with project activities, developing new products for customers and costs of works on reducing the costs of obtaining the main raw materials for production from alternative sources, and are related to the rubber segment. In the financial year, 100% of the projects with a value of PLN 5 million are in progress. The Management Board expects that the works in progress will be completed by 2020.
The Group is obliged to perform valuations and estimate the ability of the respective projects to generate financial benefits in the future. Such assessments are performed with respect to forecasted cash flows and business plans for each project, prepared for a period of 20 years with the assumption of additional cash flows to be generated by the projects or limiting of the cash outflows from the Group. Moreover, the Group analyses development works in terms of continuously meeting the conditions for capitalising costs and recognising impairment. During the year under review, the Group identified an impairment of the costs of uncompleted development works relating to several projects. As at 31 December 2016 the Group restated the balance of development works. The criteria for capitalisation of costs of development works are presented in Note 1 item 6b.

d. Useful lives of property, plant and equipment and intangible assets

In the financial year, the review of useful lives did not result in a need to change the adopted useful lives. The adopted useful lives for property, plant and equipment and intangible assets are presented in Note 1 items 5 and 6.

e. Joint arrangement – Butadien Kralupy a.s.

The Group holds shares in Butadien Kralupy a.s., which meet the definition of a joint operation under IFRS 11 *Joint Arrangements*, due to the obligation to repurchase from Butadien Kralupy a.s. the products manufactured under the joint operation. Thus, in practice the parties are the only source of cash inflows ensuring continuation of the joint operation's activities, and therefore, the parties have the right to substantial benefits from the assets of the arrangement and are obliged to settle its liabilities.

f. Uncertainty arising from tax settlements

Regulations concerning VAT, corporate income tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference, inconsistent interpretations and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system.

Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

On 15 July 2016, amendments were made to the Tax Ordinance to reflect the provisions of the General Anti-Avoidance Rule ("the GAAR"). The GAAR is targeted to prevent origination and use of factitious legal structures designed to avoid payment of taxes in Poland. Similar regulations apply in other countries in which the Company's subsidiaries operate, including in the Czech Republic. The GAAR defines tax avoidance as an activity performed mainly with a view to obtaining tax benefits, which is, in the given circumstances, contrary to the object and purpose of the tax law. In accordance with the GAAR, an activity does not bring about tax benefits if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite the lack of economic or commercial rationale for such involvement, (iii) mutually exclusive or mutually offsetting items as well as (iv) other activities similar to those mentioned above may be treated as an indication of the existence of artificial activities which are subject to the GAAR. The new regulations will require a considerably greater judgment in assessing the tax effects of individual transactions.

The GAAR should be applied to transactions performed after its effective date and those for which, although they had been made prior to the GAAR's effective date, tax benefits were or continue to be obtained after its effective date. The implementation of the above-mentioned regulations will enable Polish tax inspection authorities to challenge such legal arrangements used by the taxpayers as group restructuring or reorganisation.

The Group recognises and measures current and deferred income tax assets and liabilities in accordance with the provisions of IAS 12 *Income taxes* based on taxable profit (tax loss), taxable base, carry-forward of unused tax losses, unused tax credits and tax rates, taking into account its assessment of the uncertainties arising from tax settlements.

If there is any uncertainty as to whether or to what extent the tax authority will accept the individual tax settlements of transactions, the Group accounts for such settlements taking into consideration its assessment of the uncertainty.

g. Measurement of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial techniques. The assumptions adopted for this purpose are presented in Note 21.

Note 27. Business combinations

On 31 August 2016, the Group acquired the EPS (Expandable Polystyrene) business of the INEOS Group, by acquiring from INEOS Industries Holdings Limited with its registered office in Lyndhurst in the UK the entire issued share capital of INEOS Styrenics European Holding B.V., a company set up under the Dutch law, with its registered office at Konijnenberg 63, Breda, 4825 BC, the Netherlands ("the Company"). The acquisition of shares in the Company's share capital resulted in, among others, an indirect acquisition of shares in the Company's subsidiaries located in France, the Netherlands and Turkey. In addition, on 31 August 2016, INEOS Styrenics International SA with its registered office in Switzerland, a subsidiary of INEOS Industries Holdings Limited, signed an agreement with Synthos Styrenics Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością sp. k. for acquisition of the enterprise continuing the activities of INEOS Styrenics International SA ("the Swiss Enterprise"). The total price paid for the acquisition of the Company's shares and the acquisition of the Swiss Enterprise adjusted for the acquired cash was EUR 67.275 million.

Presented below is the impact of the acquisition on the assets and liabilities of the Issuer's Capital Group at the acquisition date:

	(PLN million) *
Property, plant and equipment	206
Intangible assets	69
Deferred tax asset	12
Inventories	85
Trade and other receivables	133
Cash and cash equivalents	111
Trade and other payables	(205)
Net assets acquired	**411**
% of acquired assets	100%
Purchase price **	(403)
Excess of the fair value of the acquired net assets over the cost of acquisition	**8**
Deferred tax	3
Total excess of the fair value of the acquired net assets over the cost of acquisition	11

* - the figures in PLN are calculated based on the PLN/EUR exchange rate as at 31 August 2016 - EBC amounting to PLN/EUR 4.3436

** - purchase price has been determined as the equivalent of the amount paid in EUR, translated using the actual FIFO rate

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