ACTIVITY REPORT OF THE SYNTHOS GROUP

01.01.2016 - 31.12.2016

ACTIVITY REPORT

OF THE SYNTHOS S.A. GROUP

FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

Table of Contents

INTRODUCTION

1. INTRODUCTION

The Group is one of the leading producers of chemical raw materials in Central and Eastern Europe. Its registered office is in Poland and the main production facilities in Poland and Czech Republic. According to IHS Chemical data, the Group is a leading European producer of synthetic rubber and a leading producer of expandable and extruded polystyrene. Integration of the Group with raw material suppliers ensures a stable source of raw materials such as C4 fractions, butadiene, benzene and ethylene, which are acquired from local cracking installations. The Group has a broad and diversified customer base from different industries, including in particular from the automotive, construction and packaging industry. The Group has cultivated long-term relations with its key customers, including market leaders, for many decades. By using its proprietary protected technologies the Group has transformed over the years into a modern global producer of synthetic rubber, at the same time developing in other business segments, both through organic growth and its own know-how and acquisitions. Since 2004 the Company's shares have been listed on the Warsaw Stock Exchange (WSE). As at 31 Dec 2016, the Company's market capitalization was PLN 6,113 million.

The Group's sales revenues were PLN 4,755 million for the year ended 31 December 2016, while its EBITDA result was PLN 662 million. The Group's business is divided into four main segments: butadiene and rubber ("**Synthetic Rubber Segment**"), styrene and its derivatives ("**Styrene Plastics Segment**"), dispersions, adhesives and latex ("**Dispersions, Adhesives and Latexes Segment**"), and plant protection chemicals ("**Agro Segment**"). The Group also derives revenues from ancillary activities related to production and distribution of heat from its own power plants and revenues from electricity trading and distribution ("**Other Operations"**, including "Utilities" which are presented as a separate segment in the consolidated financial statements). Other Operations comprise also revenues and expenses not allocated to other segments.

RISK FACTORS

2. RISK FACTORS

2.1 Risks related to the Group's business and industry

Disruptions in global economy and in financial markets may have adverse impact on the Group's activity

The Group's operations are based largely the sale of chemicals used as raw materials and intermediate products in a broad range of industries, including in particular in the automotive, packaging and construction industries. The demand for the products of the Group's customers is impacted by general economic conditions and other factors, including the conditions in particular branches , labor and energy costs, exchange rate changes, interest rate fluctuations and other factors beyond the Group's control.

As a result, the volume and profitability of the Group's sales depends on the aforementioned conditions and on the economic situation in Poland, Czech Republic, France and the Netherlands and in the remaining part of Europe and globally. The Group may not guarantee that events that have adverse impact on the industries and markets in which it operates, in particular such as downtrend in the Polish, European or global economy, interest rate hikes, unfavorable exchange rate fluctuations and other factors, will not occur or will continue. Any significant downtrend in the industries of the Group's customers or deterioration of the economic conditions in Poland, Europe or globally may have adverse impact on the Group's business, results, financial standing and prospects.

Fluctuations in the prices of the raw materials used for production of the Group's products or disruptions in deliveries of raw materials may have adverse impact on the Group's production costs

The Group's production costs may be directly influenced by the volatility of raw material and fuel costs, which depend on the global demand and supply, and other factors beyond the Group's control. In the year ended 31 December 2016, the costs of the Group's main raw materials (C4 fraction, butadiene, benzene, ethylene, ethylbenzene and styrene) totaled PLN 2.3 billion and accounted for 59.6% of all own costs of sales. Because these raw materials constitute a significant portion of the Group's own costs of sales, the Group's profit before tax and margins are subject to the unfavorable impact of changes in the costs of raw materials if the Group is not able to pass on higher prices to its customers. The probability of materialization of such risk may increase if recipients accumulate significant inventories and as a result temporarily limit their orders. Although in the longer run changes of raw material prices will be reflected in the products' sales prices, in the short run the volatility of raw material prices is a challenge because the Group may not be able to pass the costs on to customers quickly by adjusting prices of its own products. The Group believes that sudden prices changes may also affect customers' demand. In extraordinary cases, such as a force majeure reported by a key supplier, the Group may experience shortage of materials for manufacture of its products. Alternatively, in the case of limited availability of any key raw material, the Group may not be able to produce some of its products in the quantities required by its customers, which may have an adverse impact on the utilization of its production capacity and sale of products.

In addition, the Group's production processes require significant amounts of energy and energy fuels. Above all, the Group utilizes hard coal, mine gas and natural gas to produce steam for various technological processes and heating energy used among others to heat the cities of Oświęcim and Kralupy. The electricity used in the Group's technological processes is produced with the heat generated by firing energy fuels and its surplus is sold to the market. In the year ended 31 December 2016, the costs of hard coal, mine gas and natural gas used for heating accounted for 5% of the Group's cost of sales of products and materials, compared to 7% in the year ended 31 December 2015 and 7% in the year ended 31 December 2014. The prices of hard coal and natural gas over the past year declined, which is a positive trend for the Group. Disruptions in the supply of hard coal and natural gas to the Group's production facilities may have an adverse impact on the Group's business, results, financial standing and prospects.

The chemical industry is cyclical, which may cause fluctuations in the results of the Group's activity

The Group's operations are cyclical and, what is more important, the variation in the balance between supply and demand in the chemical industry and the Group's future operating results may still be subject to such cycles and variation. Historically, the chemical industry as a whole has experienced interchanging periods of shortage of production capacity, leading to tight supply and higher prices and margins, followed by periods of significant increase of production capacities causing oversupply, diminished production capacity utilization and lower prices and margins. The factors that historically contributed to margin volatility in the chemical industry, in particular in the Group's industry, most of which are beyond the Group's control, include:

- exchange rate fluctuations in the case of manufacturers with global presence and distribution;
- oversupply in connection with increase of the production capacity by the existing and new competitors;
- short-term fluctuations in utilization of the production capacities in connection with scheduled changes and unscheduled stoppages;
- regulatory requirements causing technological and production changes; and
- political and economic conditions causing sudden price changes for the Group's key raw materials, including C4 fraction, butadiene, benzene, ethylene or styrene.

Considering the uncertainty of the global economic environment (which may cause decrease of demand) and the implications of volatility of the balance of supply and demand in the chemical industry, increase of supply may increase the pressure on the Group's margins and may have a significant adverse impact on the Group's business, results, financial standing and prospects.

The Group is highly dependent on a limited number of regional suppliers of its main raw materials and its revenues and profits may drop significantly in the case of loss of one or more such suppliers

The Group's activity requires significant amounts of raw materials, including C4 fractions, butadiene, benzene, ethylene and styrene, which the Group obtains mainly from regional cracking installations, such as PKN Orlen (constituting a single group together with the Unipetrol Group), Sabic and OMV, that supply raw materials to the Group's production facilities in the Czech Republic and Poland. The Group's Czech production facilities are also connected by pipelines to selected suppliers, including a pipeline to the Unipetrol Group, through which the Group obtains C4 fraction, ethylene and benzene for the production facilities in the Czech Republic. In addition, the Group is the owner of 49% shares in a joint venture established together with the Unipetrol Group, normally satisfying approx. 50% of the Group's demand for butadiene, which is the main raw material for production of synthetic rubber.

The uniqueness of the Group's activity requires regular supplies of raw materials for its production facilities, which means that it may not always be able to avoid reliance on a single supplier. Any disruption or delay in deliveries of the raw materials from the given supplier or loss of the supplier in a situation where the Group is not able to find an appropriate alternative at the required time, may force it to reduce production. If any of the Group's suppliers for any reason is not able to satisfy the supply requirements (for example in connection with insolvency, destruction of its production facilities or refusal to perform an agreement), the Group may not be able to acquire the raw material from other suppliers in sufficient quantities or at the same or lower price. Materialization of any of these risks may have an adverse impact on the Group's business, results, financial standing and prospects.

The plants producing expandable polystyrene, located in Western Europe, are supplied with styrene by several recognized producers, with whom they are bound by long-term relationships. In order to reduce the risk, part of the supply is also made on the basis of cooperation with commercial companies supplying styrene also coming from other regions than Western Europe. However, this does not fully eliminate the risk in the event of a disruption of supplies by one of the permanent manufacturers, particularly in the event of a failure of the installation.

The Group is dependent on certain key customers purchasing material portion of its sales and its revenues and profits may drop significantly in the case of loss of one or more such customers

The Group derives a material part of its revenues from sales to certain key customers. In the year ended 31 December 2016, five of the Group's biggest customers were responsible for 24.1% of its sales revenues, with four of them being producers of car tires. Consequently, maintaining close relations with the Group's key customers is of critical importance. Deterioration or discontinuation of these relations may lead to a significant decline of sales, revenues, profitability and cash flows and have adverse impact on the Group's activity and reputation.

In addition the Group is exposed to credit risk pertaining to default in payment or non-performance of obligations by customers as regards trade and other receivables. Failure to perform the obligations by the customers or the possibility of termination of their contracts with the Group may prevent the Group from satisfying its demand for working capital. The risk is enhanced by financial difficulties experienced by customers, including bankruptcy, restructuring and liquidation or potential weakness of the industry. A customer's failure to pay the amount due to the Group may have a significant adverse impact on the Group's business, results, financial standing and prospects. Although the Group has introduced procedures and policies aimed at minimizing this risk, such as insurance of receivables, monitoring of credit exposures and granting of credit limits to customers, such procedures and policies may be insufficient and may not secure the Group against the risk of defaults in payment and/or non-performance of obligations by customers.

The Group's capability to produce its key specialist products may deteriorate as a result of failure to maintain appropriate licenses and the Group may not guarantee that it will be able to extend all required certificates, consents and authorizations pertaining to its activity

The Group's ability to produce key specialist products depends on the holding of licenses to use patents, patent applications and other intellectual property. In July 2011 the Group launched production of polybutadiene rubber on a neodymium catalyst to produce enhanced performance tires based on Michelin's license in the Group's production facility in the Czech

Republic. In 2015, in the facilities in Oświęcim, the Group launched an installation to produce modern SSBR butadiene and styrene rubbers based on a license from The Goodyear Tire & Rubber Company.

The Group may not guarantee that it will be able to maintain its licenses, including its licenses with Michelin and Goodyear. If the Group is not able to maintain or secure alternative licenses on acceptable terms or develop proprietary technologies that do not breach third party intellectual property rights, the Group may not be able to sell some of its products, which may have a significant impact on the Group's business, results, financial standing and prospects.

The Group's activity requires different certificates, consents and authorizations in different jurisdictions. The Group may not guarantee that it will be able to extend all the required certificates, permits and authorizations upon their expiry. The eligibility criteria for such certificates, permits and authorizations may change and may be more restrictive. In addition, new requirements pertaining to certificates, permits and authorizations may be enacted in the future. Introduction of new or more restrictive provisions of law, regulations, certification requirements, permits and authorizations applicable to the Group's activity may significantly increase the costs of compliance and maintenance, prevent the Group from continuation of its existing activity, or limit or prevent expansion of activity. Each such event may have adverse impact on the Group's activity, financial results and future prospects.

The large-volume organic chemical industry is highly competitive and the Group may have problems with maintaining its current market position

The industry in which the Group operates is highly competitive and exposed to strong competition from big international producers and from smaller regional competitors. The Group's biggest competitors in the synthetic rubber market include Arlanxeo, Trinseo, Versalis and Sibur. The Group's major competitors on the styrene plastics market are BASF, Ravago and Sunpor (EPS) and Styrolution, Total, Trinseo and Versalis (PS).

The competition is based on a number of factors, such as product quality, service and price. The Group's competitors may improve their competitive position in the Group's core end markets through successful launch of new products, improvement of their production processes or expansion of their production capacity or extension of their facilities. In addition, if the Group is forced to raise the prices of its synthetic rubbers, latex raw materials, polystyrenes or butadiene, other manufacturers who offer similar products made of cheaper raw materials, for example as a result of using a different chemical composition, may be able to improve their market position and force the Group to cut its prices to compete with its competitors. The competition between chemical products based on styrenes and other products on end markets on which we compete is fierce. The supply (production capacity) exceeds the potential demand in this market and the Group may be forced to adjust its process to match competitive offers. In addition, increase of competition on the part of the existing and new products may reduce the demand for the Group's products in the future and its customers may decide to use alternative sources to satisfy their needs.

Also, it is hard to determine the long-term impact of competition on these products. Some of the Group's competitors may be able to reduce their product prices if they have lower operating expenses. Alternatively, some competitors may have higher financial, technological or other resources, increasing their resistance to changes of costs and demand in the market. These competitors may be in a better position to withstand the changes of market conditions than the Group. Competitors may also be able to respond quicker than the Group to new and emerging technologies or changes of customer requirements. If the Group is not able to keep up with the product and production process innovations of its competitors it may not maintain its existing market position.

In addition consolidation of the Group's competitors or customers may cause a reduction of the demand for its products and hinder its competition with other entities. If the Group is not able to effectively compete with other chemical producers based on styrene or if other products can effectively substitute the Group's products, its sales may decline.

The Group may not be able to adapt its products or technologies on time to the changing customer requirements and competitive challenges and customers may substitute the Group's products with other products that the Group does not offer

The market segments on which the Group's customers compete experience periodic technological changes, continuous product improvement, product replacement and changes of customer requirements. More pronounced competition from existing or newly developed products offered by the Group's competitors or companies whose products offer similar functionalities may exert an adverse impact on the demand for the Group's products.

For example, in the EPS industry, competition between producers leads to constant launch of improved product classes with lower heat conduction which requires adaptation of the Group's products to satisfy customer requirements and maintain the demand for its products.

The Group tries to identify, develop and offer innovative products, satisfying the changing customer requirements and facing competitive challenges. Nonetheless, if the Group is not able to maintain or further develop its product portfolio, customers may decide to acquire comparable products from competitors, which may have an adverse impact on the Group's business, results, financial standing and prospects.

The Group may not be able to develop products which satisfy customers' needs sufficiently. In addition, quick commercialization of the products that the Group will develop may be disrupted or delayed by production difficulties or other technical difficulties, lack of acceptance by the industry or insufficient size of the industry required to support new products, new competitive products, and difficulties with moving from the experimental phase to the production phase, which is typical of the product development process, particularly in moving from the laboratory phase to the semi-technical phase. Such disruptions or delays may have an adverse impact on the Group's business, results, financial standing and prospects.

The Group may not be certain that the investments it makes in its technology department and research and development department will accrue proportionately higher net sales or profits. The Group's teams dealing with research and development work and application technology closely cooperate with the customers on development of the high quality innovative products and applications, which are custom-made to their specific needs.

In addition, alternative materials, products or technologies may be developed and the existing ones may be improved or replace the ones currently offered by the Group. For example, substitute products may impact the demand for the Group's products in particular emulsion rubber and polystyrenes. Progress in production, including increase of demand for substitute end products which use other materials and improvement of quality of competitive substitute products used for production of the existing end products, and fluctuations of product and raw material prices, may increase the relative advantage of the substitute products and reduce the demand for the Group's products due to the customers switching to substitutes. For example, regulations pertaining to tire labelling in the EU drove up demand for types with upgraded performance parameters (SSBR and NdBR rubbers) for passenger cars, with better properties than emulsion rubber, which is the main product in the Group's offering. Also polystyrene faces the risk of substitution. Packaging applications may also use competitive materials such as polymers, in particular polypropylene, polylactide and paper. The cost of switching to one of these alternative materials is relatively low, because modern production lines can generally switch between polymers. Additional investments may be required in the area of polyethylene terephthalate ("PET") processing, and in some cases also polypropylene. If such newly developed or improved products or alternative products are offered at lower prices and have preferred properties or other advantages, especially from a regulatory perspective, and the Group is not able to offer similar, new or improved products, it may lose many customers, which may have an adverse impact on the Group's business, results, financial standing and prospects.

The Group may have difficulties with implementing and capitalizing acquisitions

The Group has experience in executing acquisitions. The Group implements and intends to continue acquisitions of companies or assets used to conduct similar or complementary activity, provided that appropriate acquisition opportunities are identified. To finance future acquisitions the Group may need to borrow money which will increase its burden following from debt and may impact the Group's capability to make payments resulting from its debt instruments. It may happen that the Group will not be able to raise financing for the planned acquisitions on favorable terms or at all. To manage all successful acquisitions the Group has to extend and continue to improve its operating, financial and management information systems, nonetheless the increased impact of the leverage may impair the Group's capabilities in this respect. The Group may have limited free cash resources and consequently may not be able to make appropriate investments in the target to enable it to achieve the desired synergy effect. The Group has already executed and may continue to execute strategic acquisitions thanks to which it may expand its current product offering or ensure additional geographical or product diversification of its operating segments. However these acquisitions can be exposed to different types of risk, including:

- problems with effective integration of operating activities;
- inability to maintain business relations established before the acquisitions;
- increase of operating costs;
- the costs associated with ensuring and maintaining compliance with prevailing provisions of law, rules and regulations, including in particular in terms of expansion in new markets, if any;
- loss of key employees of the target;
- possibility of unexpected liabilities;
- problems with achieving the forecast effect of increase of efficiency, synergies and cost savings.

The Group may not guarantee that any of its acquisitions will ultimately bring about the originally expected benefits (the abovementioned risk also applies to the EPS segment recently acquired from INEOS). In addition, the Group may not be able to identify attractive acquisition candidates or not be able to raise funding or not be able to execute potential acquisitions on attractive terms.

Exchange rate fluctuations may have significant impact on the Group's operating results and may significantly disrupt comparability of the results for individual financial periods.

The Group conducts its activity in many countries. The Group's results are reported in appropriate foreign currencies and then translated into PLN at the prevailing exchange rate to be taken into account in the consolidated financial statements. The main currencies whose exchange rate fluctuations constitute one of the Group's risk factors are: EUR, PLN, USD and CZK. The value of these currencies vs. Polish zloty has fluctuated significantly in recent years. This situation may recur in the future. The possible depreciation of these currencies vs. Polish zloty will reduce the PLN equivalent of these amounts, which present the operating performance in the consolidated financial statements. The possible appreciation of these currencies will cause these amounts to rise accordingly. Because the revenues on sales of the Group's products in EUR and USD exceed the costs of raw materials incurred in these currencies, the appreciation of the PLN versus EUR or USD may exert an adverse impact on the generated margins and operating results. In addition, because the ratio of sales revenues in EUR to USD exceeds the corresponding ratio on the side of the costs in these currencies, depreciation of EUR vs. USD may exert an adverse impact on the margins and operating results. In addition, with regard to products sold for foreign currencies, any appreciation of PLN in relation to these currencies will have negative impact on the Group's operating results. Exchange rate fluctuations may also interfere with the comparability of operating results in individual financial periods.

One of the consequences of the currency structure of the Group's purchases of raw materials, sale of products, incurring of loans and borrowings and holding of cash in foreign currencies is that the Group has been and will be exposed to FX rate fluctuations, which may materially influence the its operating results, assets and liabilities and cash flows expressed in Polish zlotys. In 2016, 76% of the Group's revenues and 90% of its costs were associated with transactions settled in foreign currencies (mainly EUR and USD). Exchange rate fluctuations affect the amount of sales revenues and the cost of raw material purchases. Appreciation of the local currency has negative impact on profitability of exports and sales in the domestic market, nonetheless changes in revenues on exports or domestic sales measured on the basis of quoted exchange rates and caused by their fluctuations, are balanced by changes of the cost of import of raw materials (or measured on the basis of FX exchange rate quotations), thus largely neutralizing our exposure to the FX risk.

The Group incurs transaction FX risk each time it effects purchase or sale transactions settled in a currency other than the local currency of the entity which entered into the transaction. Due to FX volatility, the Group may not guarantee that it will be able to manage its FX transaction risk effectively or that exchange rate fluctuations will not have an adverse impact on the Group's business, results, financial standing and prospects.

Decommissioning of the cracking installation may have impact on the ethylene and butadiene market.

As producers adapt their operations to the demand generated by the market, the import of cheap ethylene or polyethylene from the United States or Middle East may impact the profitability of European cracking installations and, as a consequence, lead to closure of the installations which turn out less competitive. In addition, migration of European cracking installations towards light hydrocarbons (ethane) may also impact the butadiene market. According to IHS Chemical's data, in the period from 2008 to 2012 in Western Europe, cracking lines with the total production capacity of approx. 0.5 million tons per annum, i.e. 2.3%, were decommissioned. This trend was continued in the next years – in 2013 Versalis closed down one of its two lines in Priolo, Italy, with the total production capacity of 300 thousand tons of ethylene p.a., and in October 2015 Total shut down another cracker in Carling in eastern France with the production capacity of 320 thousand tons of ethylene per annum. Due to low margins in the period of high oil prices, managers of petrochemical plants made a decision to adapt part of the crackers to be able to process light raw material feedstock instead of benzene fractions; INEOS in Grnagemouth (United Kingdom) and Rafnes (Norway), Borealis in Stenungsund (Sweden), SABIC in Wilton (United Kingdom), which will reduce the production of butadiene. On the other hand, investment projects were started to extract butadiene from C4 fraction, so far hydrogenated in Europe, to increase the supply of butadiene (BASF and Evonik in Antwerp, LyondellBasell in Vesseling, OMV in Burghausen, TVK in Tiszaujvaros). Decommissioning of European crackers and switching to light feedstock may lead to limited availability of butadiene and increased costs of transport of these products from non-European countries. Currently, due to lower oil prices, this trend has slowed down and production is based on heavier feedstock to the extent possible. However one cannot avoid the risk that in the future, when oil prices will go back up, the costs of raw materials produced in Europe will increase and the purchase of raw materials from cracking installations outside Europe may turn out unprofitable. The Group's production costs may exert an adverse impact on the Group's business, results, financial standing and prospects.

The surplus production capacity of synthetic rubber in China may have an adverse impact on the Group's business.

China is one of the most rapidly developing synthetic rubber markets in the world; it wields significant influence on the global synthetic rubber market. In the recent years the general level of production on the Chinese synthetic rubber market has improved significantly thanks to increase of concentration in the industry, which has led to quick increase of production capacity. The production capacity of China's synthetic rubber industry significantly exceeded the market demand, as a result of which the market could not absorb the full production volume generated by this industry. For this reason China may take actions to export their products to the EU at competitive prices, which would increase the amount of synthetic rubber offered in Europe. This may undercut demand for the Group's products and, as a consequence, exert an adverse impact on the Group's business, results, financial standing and prospects.

Many of the contracts concluded by the Group with suppliers contain provisions which may limit the quantity of the raw materials delivered to the Group in a force majeure situation.

Many of the Group's supplier contracts contain provisions which make it possible for the suppliers to limit the quantity of the raw materials delivered to the Group below the contracted volumes in a force majeure situation. In a situation in which the Group would be forced to look for alternative sources of raw materials, or a supplier does not want to perform, or cannot perform, its obligations under the raw material supply agreement, or if a supplier terminates its agreement with the Group, the Group could potentially be unable to acquire such raw materials from alternative suppliers at the right time on comparable or more attractive terms, which could have an adverse impact on the Group's business, results, financial standing and prospects.

The Group's main shareholder may impact certain actions, e.g. payment of dividends, which may bring benefits to shareholders at the cost of creditors or may stop controlling the Group's activity.

Mr. Michał Sołowow directly and indirectly holds 62.46% of the Company's shares and as at 31 December 2016 controls its activity. Mr. Sołowow may exert significant impact on appointment of the Company's supervisory board and management board members and may take actions beneficial to the interests of the Company's shareholders at the cost of the interests of its creditors, including as regards decisions pertaining to dividend payout.

The interim dividend payout ratio on Synthos SA's shares was 243% of the Group's consolidated net profit in 2016 and 78% of the Group's statutory consolidated net profit in 2015. The Group may continue to pay dividends in accordance with the rules it has adopted and the limitations following from the Group's agreements. Dividends paid out from the Group's retained profits which may be much higher than the net profits generated by the Group in future periods, may weaken the Group's capital strength, reduce its cash flows and impact the ability to repay its debt. In connection with the Bond issue, the group is also subject to standard high-yield covenants which may impair its ability to finance future activity and capital needs and to take advantage of business opportunities and conduct current operations.

In addition, if Mr. Sołowow makes a decision to sell all or some of his shares, each new controlling shareholder will have the possibility of implementing a strategy different from the Group's operating strategy as at the date of this report. Each impact on or instability in the Group's corporate governance may have a significant impact on the Group's business, results, financial standing and prospects.

Failure to comply with the regulations pertaining to grants may impact the Group's activity.

The Group received approval of grants from the EU and the state budget for investments and research and development activity which as at 31 December 2016 amounted to approx. PLN 418 million and which have been partly distributed or will be distributed over the next few years. Up to yearend 2016 the Group received PLN 264 million from the Ministry of the Economy, the Polish Agency for Entrepreneurial Development, the National Environmental Protection and Water Management Fund and the National Center for Research and Development. In 2016, the Group signed grant agreements totaling PLN 70 million, in 2015 for PLN 59.2 million, in 2014 for PLN 19.4 million, in 2013 for PLN 45 million and in 2012 for PLN 207.9 million, including PLN 43.3 million under the "Innovative Economy" Operational Program to finance the Group's Research and Development Center in Oświęcim and PLN 146.8 million for the project entitled "Implementation of an innovative technology for manufacture of SSBR X3 rubber in Synthos Dwory 7", under which the Group started to build a new production line for advanced SSBR and Li-BR rubbers with a capacity of 90 thousand tons per annum, as part of expanding the Group's portfolio by introducing new and innovative products. The Group also obtained grants from the National Environment Protection and Water Management Fund (NFOŚiGW). To maintain the received grants the Group is obligated to fulfil strict regulatory undertakings such as project promotion, maintaining project integrity for the period of five years from the completion and attaining the headcount level specified in the application. If the Group fails to fulfill the obligations, it will have to return the received grants together with statutory interest. Failure to comply with the above regulations may have an adverse impact on the Group's business, results, financial standing and prospects.

The Group is subject to different regulations and provisions pertaining to taxes, customs, international trade, export control, zoning and occupancy, and labor and employment, which may require modification of the Group's business practices and lead to higher costs

The Group is subject to different regulations, including regulations on customs and international trade, provisions of law on export/import control, and the related regulations. The above provisions of law and regulations impose limitations on the countries in which the Group may conduct activity, persons or entities with which it may cooperate, products which it may acquire or sell and conditions on which it may conduct activity, including exposure antidumping limitations and proceedings. In addition the Group is subject to antimonopoly regulations, zoning and occupancy regulations applicable to production facilities in general, and regulating imports, promotion and sale of the Group's products, activity of production facilities and warehousing facilities, and its relations with customers, suppliers and competitors. In the event of amending these provisions of law or regulations or their breach by the management board, employees, suppliers, procurement agents or trading companies, the costs of certain goods may rise, the Group may experience delays in shipments of goods, be subject to penalties, or suffer damage to its reputation; all these factors may reduce the demand for the Group's products and cause damage to its activity and have an adverse impact on the results of its operations. For example, the Group is exposed to the risk of dumping prices of products from China or India – if the prices charged are below the level of the prices charged in China or India or below the production cost, which may harm the Group's competitive position. In addition, in some areas the Group uses certain forms of trade protection, including antidumping protection and the EU Authorized Economic Operator program, which ensures expedited customs service for materials crossing international borders. In the case of loss of such protection, the Group's operating results may suffer.

In addition, changes of regulations on statutory minimum wages or other regulations pertaining to employee benefits may cause the Group to incur additional salary and benefit costs, which may have an adverse impact on its profitability.

In calculation of the global provision for income taxes and other tax liabilities the Group adopts certain judgments and believes that its tax estimations are rational. Nonetheless the level of accuracy of such tax estimations may be lower because the Group submits tax returns in multiple jurisdictions where it does not have in-depth knowledge of the tax regulations. The Group may be exposed in the future to inspections of tax authorities and the tax authorities may not agree with its tax interpretation of certain material items, including past and future mergers and/or disposals, and demand as a result recalculation and potential increase of its tax liability. In addition changes to the existing regulations may also increase the Group's effective tax rate. The Group may also be subject to new tax regulations that may affect its tax structure. A significant increase of the Group's tax burden may have a significant adverse impact on the Group's business, results, financial standing and prospects.

Legal requirements are subject to frequent changes and depend on the interpretation and the Group is not able to predict the ultimate cost of compliance with such requirements or their effects on the conducted activity. The Group may be obligated to incur significant expenditures or change its business practices to ensure compliance with the existing or future provisions of law or regulations, which may increase the costs or significantly reduce the possibility of conduct of its activity.

Failure to satisfy the conditions of state tax incentive schemes may impact the Group's operating results

SYNTHOS PBR s.r.o., the Group's Czech company, benefits from state tax incentive programs in the form of tax relief granted by the Czech government for 2011-2016, when the company is exempted from corporate income tax. The tax relief in question applies only if SYNTHOS PBR s.r.o. satisfies the requirements imposed by Czech and EU law and the Czech government; otherwise, the Group may lose the unused relief and be obligated to refund the part already used, together with applicable penalties, which could affect the Group's business, results, financial standing and prospects.

The Group may be held liable in connection with environmental pollution

A large number of the Group's existing, former or abandoned production buildings and facilities have a long industrial history, which comprises, among others, chemical processing, hazardous substances and storage of waste and related activities, e.g. related to landfills. As a result, soil or groundwater pollution may occur in the future in connection with discharge of substances, which has occurred in some facilities in past, and it is possible that further pollution may be detected in these or other locations in the future.

Some provisions, regulations and court rulings regarding environmental protection impose on current or former owners, operators or users of such facilities and locations liability for the pollutions occurring in or originating from such facilities or locations, regardless of the causes or omissions or knowledge of the pollutions. The Group may be at any time held liable for examination and removal of the pollution coming from the Group's facilities or caused by the activity conducted in the Group's facilities, which may be the source of significant, unexpected costs. Occurrence of a leakage of hazardous materials in the future, detection of a previously unknown pollution or imposition of new obligations regarding examination or removal of pollution in the Group's facilities may be the source of significant, unexpected costs. The Group may also be obligated to pay fines or fees if the emissions and/or other impacts exceed regulatory limits; the Group has paid such fines and/or fees in the past.

The emergence of environmental liability for which the Group does not have the appropriate security may have an adverse impact on its financial results. The Group is of the opinion that the securities provided by the sellers from whom it has purchased the assets or entities will help to limit the costs associated with environmental liability from before their acquisition, this situation may still have adverse impact on the Group's financial results to the extent to which: (i) the sellers do not fulfill their obligations regarding their security, and/or (ii) the Group breaches of obligations to refrain from certain activities which may deteriorate the existing status quo or limit the related losses.

Additionally the Group may be obligated to recognize or significantly increase the financial provisions for the obligations and liabilities associated with the costs of removal of such pollutions. If the Group does not manage to precisely anticipate the amounts or timing of such costs, the impact of such a situation on the Group's business, results or financial standing in each period in which such costs will have to be incurred may be material. Additionally in some jurisdictions the authorities have the power to establish pledges on real estate and to seize the accounts of the entity using the property to cover the costs of removal of the pollutions.

Provisions for environmental protection liabilities may be insufficient

The Group carries out regular review of all types of environmental risk and provisions created for such risks. Provisions are recognized when the Group has a current liability resulting from past events, the amount of the liability can be reliably estimated and it is probable that settlement of such liability will require the use of resources that have economic value. Provisions are calculated on the basis of among others: known events, type and scope of pollutions, land reclamation techniques, prevailing provisions of law and regulations, and estimated risks, as at each balance sheet date, and adjusted as needed on the next balance sheet dates. Since such calculations are based on a number of factors, many of which may change, and depend on unpredictable circumstances, the Group may not guarantee that such provisions will be sufficient. For instance, from time to time the Group may incur the costs of reclamation in the existing Group facilities and in newly purchased facilities. If it turns out that environmental damage has occurred as a result of the Group's current or historical activity (to which the Group is a successor), the Group may incur significant costs of removal of the pollutions and pay significant fines. If the provisions recognized for environmental liabilities are lower than the anticipated costs of compliance with the environmental regulations, the Group may be obligated to make additional payments which may have a significant adverse impact on the Group's business, financial standing and results.

Ensuring compliance with extensive and changing environmental protection and health and safety at work regulations may require significant expenditures.

In its production activity the Group uses large quantities of hazardous substances, produces hazardous waste, generates sewage and emits air pollutants. Consequently, the Group's activity is subject to extensive environmental and occupational health and safety provisions of law and regulations at both national and local level in multiple jurisdictions. Many of these provisions and regulations have been made more restrictive over time, and the costs of compliance with such requirements may continue to increase, including the costs associated with capital expenditures for pollution protection facilities. Additionally the Group's production facilities require operation permits, renewed periodically, which may be revoked in the event of non-compliance. The required permits may not be issued or may not be kept valid, and the permits issued may contain more restrictive requirements, limiting the activity or requiring further investments to satisfy the conditions of the permit issued. For instance, in connection with the EU Regulation on registration, evaluation, authorization and restriction of chemicals ("**REACH Regulation**") or the new EU Regulation on classification, labelling and packaging ("**CLP Regulation**"), each key raw material, chemical material or substance, including the Group's products, may be classified as having toxicological or health impact on the environment, users of the Group's products or the Group's employees.

The REACH Regulation imposed significant obligations on the entire chemical industry in respect to testing, evaluation and registration of key chemicals and semi-finished chemical products. Each delay in full registration of the substance in accordance with the requirements may result in imposition of penalties for breach of these provisions or regulations or impossibility to sell the Group's products containing them. The procedures associated with the REACH Regulation are costly and time-consuming and lead to increase of production costs and lower margins on chemical products.

In Poland the following have been introduced: the new Polish Environmental Protection Act ("Environmental Protection Act"), Directive of the European Parliament on industrial emissions ("IED Directive") and additional regulations on land, soil and underground water pollution. The Environmental Protection Act introduces new, lower emission standards for the power sector and new obligations for owners of land as regards examination and reclamation of polluted land. The Group has implemented a modernization and new equipment investment program making it possible to adapt the combined heat and power plant operating in Synthos Dwory 7 Spółka z ograniczoną odpowiedzialnością spółka jawna to the requirements expressed in the new limits. As part of this process, the Group is building a new desulfurization and denitrification installation for one of the existing boilers, and a new fluid-bed boiler. The technological commissioning of these installations was slated for 31 March 2017. Each delay in execution of the process described above may result in imposition of penalties for breach of these regulations. As part of the changes introduced in the Environmental Protection Act, an "Opening Report" was prepared for all the installations of Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna.

Ensuring compliance with the more restrictive environmental requirements may also increase the Group's costs of transport and storage of raw materials and finished products, as well as the costs of storage and disposal of waste. The Group may additionally incur significant costs, including financial penalties, fines, damages, criminal and civil-law sanctions and reclamation costs, or experience disruptions in our activity in the case of non-compliance with these regulations or failure to satisfy the requirements contained in the permits obtained.

Compliance with the current and future regulations on greenhouse gas emissions may require significant additional operating and capital expenditures by the Group.

Emissions of carbon dioxide, methane and other greenhouse gasses ("**GHG**") are a standard by-product of the Group's production processes. For the past few decades the concerns regarding the relation between GHG and global climate changes have led to increased control of regulatory bodies and the public and to proposal and approval on the national and international level of regulations pertaining to monitoring, regulation and control of carbon dioxide emissions and other GHG emissions.

In the EU the Group's emissions are controlled within the framework of the European Emissions Trading System ("**EU ETS**") – pan-European industrial GHG emissions trading system. The Group has been subject to the EU ETS from 1 January 2013. The Group has been granted emission rights for the period from 2014 to 2020 and it is probable that it will be obligated to purchase additional CO_2 emission entitlements in the future. It is expected that the EU ETS system will become increasingly restrictive with time. If the current proposals are implemented they may have influence on the Group's compliance costs under the EU ETS.

Ensuring compliance with the existing and future GHG regulations affecting our operations, including those discussed above, may result in increase of capital expenditures on fixed assets such as, for example, installation of more high-efficiency environmental technologies or purchase of entitlements to emissions of carbon dioxide or other greenhouse gases.

It is not possible to anticipate what form the future regulations will assume, nor to estimate any of the costs the Group will have to incur in connection with these or other future requirements. In addition to elevated expenditures, as discussed above, these requirements may also have an adverse impact on the supply of energy in the Group and the costs (and types) of raw materials used by the Group as fuel, and ultimately may reduce the demand for its products. Occurrence of any of the aforementioned consequences, or all of them, may exert a significant adverse impact on the Group's business, results, financial standing and prospects.

Regulatory and statutory changes in the jurisdictions in which the Group manufactures and sells products may lead to increase of costs or decrease of demand.

The Group's products are used for many different applications which have to satisfy specified regulatory requirements, e.g. requirements for products used for food, used in the packaging industry or products used in the automotive industry. Many of the product applications in the end markets in which the Group sells its products are regulated by different national and local regulations, laws and provisions. For example, such aromatic compounds as benzene or styrene and more complex compounds, such as antioxidants or plasticizers, which are used for manufacturing the Group's products have been subject to increased attention of the regulators due to potentially significant or perceived health and safety issues. Changes of regulations may necessitate additional costs of compliance, seizure, confiscation, withdrawal or fines; each of these measures may prevent or stop the process of development of the Group's products, their distribution and sales. For example, the demand for polystyrene from the packaging market may gradually decline due to the observed pursuit of administrative bans (as is the case in some US cities with respect to expandable polystyrene in the catering packaging and the food service chain).Changes of environmental and occupational health and safety regulations prohibiting or limiting the use of such waste materials in the Group's products or in the products of its customers may have an adverse impact on the Group's business, results, financial standing and prospects. Inability to properly manage the security, health, product liability or environmental risk associated with them, product life cycles and production processes, may have significant adverse impact on the employees, local communities, stakeholders, the Group's reputation and the results of its operations.

Production in the manufacturing facilities may be disrupted for many different reasons and disruptions may expose the Group to significant losses or liabilities.

Due to the nature of its activity, the Group is exposed to hazards associated with chemical production and the related storage and transportation of raw materials, products and waste. These hazards may lead to disruption or suspension of the Group's activity and have an adverse impact on the efficiency and profitability of the given production facility or the overall Group. These potential risks of disruption comprise among others:

- leakages and cracks in the pipelines and storage tanks;
- explosions and fires;
- unfavorable weather, including flood and natural disasters;
- terrorist attacks;
- failure of mechanical equipment securing the process and limiting emission of pollutions;
- contamination, chemical leakages and other outflows or release of toxic or hazardous substances or gasses; and
- exposure to toxic chemicals.

As part of its operations the Group has come across such threats as the hazards and disruptions described above (excluding terrorist attacks), which are normally associated with chemical production. The Group's production facility in Poland is listed in the State Fire Brigade list as a facility with high risk of occurrence of a serious industrial failure. This directly follows from the quantity of substances considered to be hazardous that are stored on the Company's premises. Since the Group's facilities operate near big population concentrations, any fire could impact the nearby communities.

In 2016 the Company updated its safety system documentation on account of the amended legal requirements associated with the entry into force of the Seveso III Directive. The outcome of these efforts was that the production facility of Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna had its "Safety Report" approved on 4 September 2016 by the Małopolskie Voivodship Commander of the Voivodship State Fire Brigade. The Group's other companies hold up-to-date documentation regarding their safety system and the pertinent decisions of the competent authorities for their facilities.

All of the aforementioned risks may also expose employees, customers and local community and other persons to toxic chemical compounds and other hazards, pollute the natural environment, cause damage to property, damage to body or death, lead to disruption or suspension of activity, damage the Group's reputation and negatively impact efficiency and profitability of the given production facility or the whole Group, and entail the necessity to remove the damages, state intervention, closure by regulatory bodies, imposition of penalties or fines by the state authorities or claims of state entities or third parties. Legal claims and actions taken by regulatory authorities may entail imposition of civil and criminal penalties which may influence the sale of products, reputation and profitability of the Group. There is no certainty that the compliance, management and response systems in the area of environmental protection and health and safety at work are sufficient to prevent such potential risks or to remedy any such disruption or incident.

Additionally, the activities performed by the Group's employees in the production process and the resulting contact with hazardous substances may increase the risk of accident. Despite the Group's best efforts to promote awareness through training, there is no certainty that the implemented measures and safety programs will prevent accidents on site or occupational diseases among the Group's employees, which may have an adverse impact on the Group's business and financial results.

If a natural person successfully makes a claim against the Group it may not have appropriate insurance to cover the amount of such claim or its cash flows may be insufficient to pay it. Such situations may have a significant adverse impact on the Group's business, results, financial standing and prospects.

If any disruption occurs, other plants with adequate capacity may not be available, may cost much more or may require ample time to launch production. Each of these scenarios may have an adverse impact on the Group's business, results, financial standing and prospects. If one of the Group's key production facilities is not able to manufacture products for a longer period of time, such limitation of production following from the disruption may reduce the sales and the Group may not be able to satisfy the customers' needs, as a result of which they may look for new suppliers. Additionally if disruption of production occurs in a production facility that fully or nearly fully uses its production capacity, subsequent product shortages may be particularly painful since the production of such facility may not return to the levels from before the disruption.

Although the Group has insurance, inter alia, property insurance, insurance against environmental damage and general third party liability insurance, in the amounts and of the types that in the Group's opinion, are typical of the industry, it does not currently have a business interruption insurance and additionally the Group may not be fully insured against all possible disruptions, in connection with the limitations and exclusions comprised in the Group's insurance agreements. Although so far the risks associated with chemical production have not materialized in the form of incidents which would significantly disrupt the Group's activity or expose it to significant losses, it may not guarantee that it will not incur such losses in the future.

The Group is dependent on job continuity and recruitment of key managers and the loss of any of them may have an adverse impact on its business.

The Group's ability to maintain its competitive position and implement the business strategy depend to a large extent on its senior management. Loss or limitation of the services of the Group's top management, or inability to attract and retain additional senior executives may have an adverse impact on the Group's business, results, financial standing and prospects. The competition for staff with appropriate experience is very high in connection with the relatively small resources of qualified people, which impacts the Group's ability to retain the existing senior management and attract additional qualified personnel. In the event of departure of any of the members of top management the Group may have difficulties with replacing them and incur additional costs to recruit people to replace them. The Group does not have life insurance for any of the management board members and does not intend to purchase such a product in the near future.

The Group relies on its own capabilities to recruit, retain and train management, sales and marketing personnel, administration, operations, research and development and other staff. The nature of the Group's operations and research and development activity require employment of personnel with qualifications and skills in the area of chemistry and other technical and scientific specializations. There is a high demand for qualified and skillful technical personnel, including chemists, and the competition between potential employers is intensive. If qualified and skillful employees leave or if the Group is not able to attract, retain, train and motivate additional qualified and skilled employees, this may have an adverse impact on the Group's business, results, financial standing and prospects.

The Group may not be able to implement its business strategy.

The Group's future financial results and success depend largely on its ability to effectively implement its business strategy. The Group may not guarantee that it will successfully implement the business strategy or that implementation of the strategy will allow it to maintain or improve its competitive position. The Group's business strategy is based on assumptions regarding future demand for the Group's existing products and new products and applications on which the Group works, and also the Group's further capability to manufacture its products profitably. The Group's ability to implement its business strategy depends, among others, on its ability to dispose of specific entities or discontinue specific product lines on attractive terms and with minimum disturbances, to finance operations and develop products, maintain efficient high-quality production activity, respond to changes in the competitive and regulatory environment, access to high-quality raw materials, on time and in a cost-efficient manner, and to retain and attract highly skilled technical, management, marketing and financial personnel.

The Group may not be able to implement its business strategy comprising expansion to new markets such as South America or North America. Preparations to expand the Group's product portfolios may turn out unprofitable and launch of the Group's innovative products may be difficult. Additionally, the costs associated with implementation of the Group's strategy may turn out much higher than currently expected, and the costs associated with the Group's own research may not be fully recovered. Each failure in preparation, verification or implementation of the Group's business strategies in a timely and efficient manner may have an adverse impact on the Group's business, results, financial standing, prospects and cash flow.

Conduct of the Group's activity is inseparably associated with its ability to maintain and protect its intellectual property.

The Group develops and protects its intellectual property rights to products and processes for development, production and marketing of its products, using a combination of patents, trade secrets, copyrights and trademarks. The Group uses unpatented know-how, trade secrets, processes and other proprietary information, using different methods of protecting such information. These methods include non-disclosure agreements, agreements on transfer of rights to inventions, agreements with employees, independent sales agents, distributors, consultants, universities and research institutes with which the Group maintains partner cooperation. Nonetheless these agreements may be breached. Governmental agencies and other national and state regulatory bodies may require disclosure of such information in order for the Group to obtain the right to sell the product. An agency or regulator may also disclose such information on its own initiative if it concludes that the information does not constitute confidential business information or trade secret. The Group's competition may also otherwise come into possession of the trade secrets, know-how and other unpatented proprietary technologies or develop them independently.

In addition, the Group has patents associated with a number of components and products and has filed patent applications for other components and products. The Group also files applications for further patents in the ordinary course of business, as needed. Nonetheless these preventive measures offer only limited protection and do not protect, for example, against competitors coming into possession of proprietary information or independent development of such information by other entities. The Group may not guarantee that existing or future patents of the Group will ensure its appropriate protection or any competitive advantage and that any future patent applications will lead to obtaining the patent, or that the Group's patents will not be omitted, nullified or found impossible to enforce.

The Group's additional proprietary rights to intellectual property may be also be challenged, which would have a significant adverse impact on the Group's business, results, financial standing and prospects. In specific cases a litigation regarding intellectual property may be used to obtain competitive advantage. In the past the Group has been a party to litigation regarding patents and other intellectual property and may be a party to such litigation in the future. If a third party takes legal action against the Group, the Group may incur significant defense costs and may not guarantee that such litigation will be resolved to the Group's advantage. If such litigation is resolved to the Group's disadvantage it may suffer significant losses and be subject to prohibition to carry out tests, production or sale of certain Group technologies and products.

All proceedings before the national patent or trademark office or national or state court may end with negative resolutions regarding the priority of our inventions and limitation or rejection of claims in issued and requested patents. The Group may also incur significant costs of such proceedings. Additionally the laws of certain countries in which the Group's products are or may be sold may not protect its products and intellectual property to the same extent as in Europe or at all. The Group may also not be able to protect, in certain countries, its rights associated with trade secrets, trademarks and proprietary unpatented technologies.

The Group's products may breach intellectual property rights of other entities, which may lead to unexpected costs on the part of the Group or prevent it from selling its products.

The Group still looks the possibility of improving its business processes and developing new products and applications. Many of the Group's competitors have significant intellectual property resources, which the Group has to constantly monitor to avoid their breach. Although the Group follows the principle of avoidance of intentional breach of valid patents, existing or future, and other intellectual property rights belonging to other entities, it cannot guarantee that the Group's processes and products do not breach and will not breach issued patents. If there are patents owned by other entities, or if such patents are issued in the future for the Group's products, processes or technologies, it is possible that the Group will be liable for breach of such patents and may be forced to take remedial or recovery actions to continue its production and sales activity as regards the products found breaching such patents. Litigation pertaining to intellectual property is often costly and time-consuming, regardless of the substantive value of the claim made and the Group's involvement in such litigation may distract the Group's management's attention from operating activities. If the Group identifies that any of its processes, technologies or products breaches valid intellectual property rights of other entities, it may try to obtain a license from the owners of such rights or significantly redesign its products to avoid a breach. The Group may not be able to obtain the required licenses on satisfactory terms or at all, or may not be able to redesign its products in a way allowing it to avoid the breach. In addition, if the Group is accused of a breach and loses the case, it may be forced to pay significant compensations or may be subject to an injunction prohibiting it to use the technology or sell products breaching such rights. Occurrence of any of the above cases may force the Group to incur significant costs and prevent it from selling its products.

Failure to maintain an effective internal control system may have an adverse impact on the Group's ability to report its financial results timely and reliably.

The Group has established and maintained internal control measures required for reliable reporting of financial results and facilitating effective prevention of fraud. As at 31 December 2016, the Group has not identified any material weakness in this system. The Group continues to assess and improve its internal control measures in financial reporting; nonetheless, it cannot guarantee that the measures it has taken so far, or measures it may take in the future, will be sufficient to prevent deficiencies in the internal control system, which may have a significant adverse impact on the Group's ability to satisfy the prevailing requirements in financial reporting.

Deterioration of relations with the Group's employees or trade unions or failure to extend, renew or negotiate on favorable terms the collective bargaining agreements may have an adverse impact on the Group's business.

Maintaining good relations with the Group's employees, trade unions, Employee Councils and other employee representatives is of key importance in the Group's business. Each deterioration of relations with the Group's employees, trade unions, Employee Councils and other employee representatives may have an adverse impact on the Group's business, results, financial standing and prospects.

Some Group employees employed in the Czech Republic, France and The Netherlands are covered by company and national collective bargaining agreements. These agreements usually supplement pertinent statutory provisions pertaining to, among others, general work conditions, such as maximum number of work hours, holiday leaves, termination rules, retirement rules, social benefits and incentive schemes. National collective bargaining agreements and company collective bargaining agreements also comprise provisions which may impact the Group's ability to restructure the activities and the facilities or to lay off employees. The Group may not be able to extend the prevailing collective bargaining agreements or renew them on the existing terms or after their expiry negotiate favorable collective bargaining agreements in due time, without disruption of work, strikes or similar protest actions. The Group may additionally be party to additional company collective bargaining agreements and the existing national collective bargaining agreements may be amended. Such additional company collective bargaining agreements or changes may increase the Group's operating costs and have adverse impact on the Group's business, results, financial standing and prospects.

There is a similar threat on the Polish side, however the remuneration rules are regulated by the Remuneration Bylaws.

Court proceedings instigated against the Group and unfavorable rulings may be detrimental to the Group's activity.

The Group may not reliably predict the cost of instigation, defense or final resolution of litigation or other proceedings instigated by the Group or against it, including injunctions and awarded compensations. The Group has already been and may be in the future a party to court and other proceedings pertaining to intellectual property, trade agreements, environmental protection, health and safety at work, work and employment conditions or other damages following from the actions taken by natural persons or entities beyond the Group's control. In the case of court proceedings pertaining to intellectual property, unfavorable resolution may comprise annulment, cancellation or other loss of significant intellectual property rights used in the Group's activities, or injunction prohibiting the Group from using the business processes or technologies subject to patents of third parties or other intellectual property rights of third parties. Court proceedings in cases pertaining to environmental pollution or exposure to hazardous substances in the work place or the Group's products may expose the Group to significant liability. Unfavorable resolution of any court proceedings or other proceedings may have significant adverse impact on the Group's business, results, financial standing and prospects.

The Group's activity is associated with the risk of claims on account of product liability.

Despite the fact that the Group is a supplier of raw materials rather than producer of finished products, its development, production and sale of specialized polymer emulsions and other materials entails a risk of exposure to third party liability claims for product, product recall and the related negative publicity. Although the Group makes efforts to protect against such claims and risk through observing the standards and specifications and through negotiation of contracts, it may not guarantee that the efforts made in this respect will protect it against this kind of claims. For example, a Group's customer may make an attempt to obtain from it an input in a situation where a consumer has taken legal action against it regarding product liability or a consumer may make claims regarding product liability directly against the Group. A product liability claim or issuance of an unfavorable ruling may result in significant and unexpected expenditures, may impact consumer or customer trust in the Group's products and may distract the management's attention from other duties. Success of a claim regarding product liability or a number of such claims exceeding the Group's sum insured, for which the Group does not have other securities, may have significant adverse impact on the Group's business, results, financial standing and prospects.

The insurance purchased by the Group may not fully cover all potential threats.

The Group has typical insurance for companies from the industry with a similar standing, however such insurance may not cover all the risks associated with the Group's activity or production process and the related use, storage, transport of raw materials, products and waste to and from the production facilities or distribution centers. The Group has purchased insurance with covers limits which it deemed appropriate, and with general wordings, nonetheless such cover is subject to limitations, including limitations pertaining to higher retentions and deductibles and limits of liability amounts and types. Despite making all due efforts to purchase specialized insurance for environmental liability and removal of pollutions, the Group may incur losses exceeding the insurance limits or outside the conditions of the Group's insurance policy cover, including on account of liability for removal of environmental pollution. Additionally, from time to time different types of insurance for companies in specialized areas of chemical industry were not available on economically acceptable terms or in some cases they were not available at all. Potentially the Group incurs additional risk of bankruptcy of one or more insurers. Additionally serious disturbances in the domestic and global financial market may have negative impact on the ratings and financial standing of some insurers. Future downgrading of ratings of a number of insurers may have negative impact on both the availability of the appropriate insurance cover and its cost. In the future the Group may not be able to obtain the insurance cover at the existing level or at all, and the premiums for the purchased insurance may significantly increase.

The Group may experience failures of IT systems, disruptions in the operation of the networks and breaches of data security.

Failures of IT systems, including the risks associated with system updates, disruptions in operation of networks or breaches of data security may cause disturbances in the Group's operating activities through limitation of operational efficiency, delay in transaction processing and reducing the Group's ability to protect customer information or internal information. The Group's IT systems, including back-up systems, may be damaged or their operation may be disrupted by: power cuts, computer and telecommunication equipment failures, computer viruses, breach of internal or external securities, events such as fires, earthquakes, floods and/or errors of the Group's employees. Although the Group has taken measures to eliminate such threats through implementation of sophisticated network safeguards, back-up systems and internal control measures, it cannot guarantee that a system failure or breach of data safeguards will not have significant negative impact on the Group's business, results, financial standing and prospects.

Risk of failure to meet the financial goals of the EPS business acquisition of the INEOS Group

One of the development paths of Group is the implementation of the acquisitions. Execution of capital acquisitions refers to entities having modern products, extending the Group's existing portfolio of products or market opportunities, i.e. relatively low-valued companies with good market prospects.

Each acquisition project carries the risks of failure to meet operational and financial targets.

In 2016 Synthos S.A. entered into purchase agreement of EPS business of INEOS Group with INEOS Industries Holdings Limited, seated in Lyndhurst, United Kingdom. Within the purchase transaction of INEOS Styrenics, Synthos S.A. took over three production sites, two of which are located in northern France (Wingles and Ribécourt) and the third in the Netherlands (Breda). In addition, the site in Breda has a state-of-the-art technology center, which houses a specialist research laboratory and pilot plants that test innovative products implemented by the company.

Synthos S.A. assumes that the purchase of INEOS Styrenics will allow the delivery of the highest quality expandable polystyrene (EPS).

At the same time Synthos S.A. assumes that in the long term it will be possible to obtain cost-competitive styrene (the Group's styrene capacity exceeds 600,000 tones per annum). This may lead to the lack of achievement of the assumed efficiency of the acquisition that took place in 2016.

2.2 Risk associated with the Group's financial profile

A significant portion of external capital and high cost of debt service may have negative impact on the Group's activity and may prevent execution of liabilities following from Bonds.

After issuing the Bonds and executing the Revolving Credit Facility, the Group's level of financing with borrowed capital has increased significantly. As at 31 December 2016 the Group's total liabilities for bonds, bank loans, borrowings and financial leases stood at roughly PLN 2.6 billion. In addition, the Group may incur further debt in the future, including debt to finance future acquisitions. Although the Bond Issue Agreement imposes certain limitations regarding further debt, they are subject to numerous exceptions and exclusions and therefore if certain terms and conditions are met, the debt amount incurred in compliance with those covenants may be considerable.

The Group may incur further debt, also on the level of subsidiaries, which may increase the credit risk and decrease the share in revenues.

Subject to the limitations contained in the Bond Issue Agreement, the Group and its subsidiaries may incur additional liabilities, including liabilities with repayment priority over the Bonds in connection with collaterals established on specified assets. All possible future liabilities on the level of entities that are not sureties, have structural priority over Bonds. In addition the Group may incur a loan with a maturity preceding the maturity of the Bonds. Although the Bond Issue Agreement imposes certain limitations regarding further liabilities, they are subject to numerous exceptions and exclusions, therefore if certain conditions are met, the debt amount incurred in compliance with the Bond Issue Agreement may be considerable. If the Group or its subsidiaries incur additional liabilities, the scale of the existing risks may increase. In the Bond Issue Agreement does not prohibit the Company from incurring liabilities which, within the meaning of these agreements, do not constitute debt.

To service the debt and continue its core business, the Group needs significant cash. The ability to generate sufficient cash depends on a number of factors beyond the Group's control, and the Group may be forced to take other measures aimed at settling its liabilities, which may not always turn out effective.

The ability to repay and refinance the debt and finance working capital and capital expenditures will depend on future operating results and ability to generate sufficient cash. This depends to a certain extent on implementation of the adopted business strategy, competitive, market, regulatory and other factors, also those discussed in the chapter "*Risk Factors*" which are in most cases beyond the Group's control.

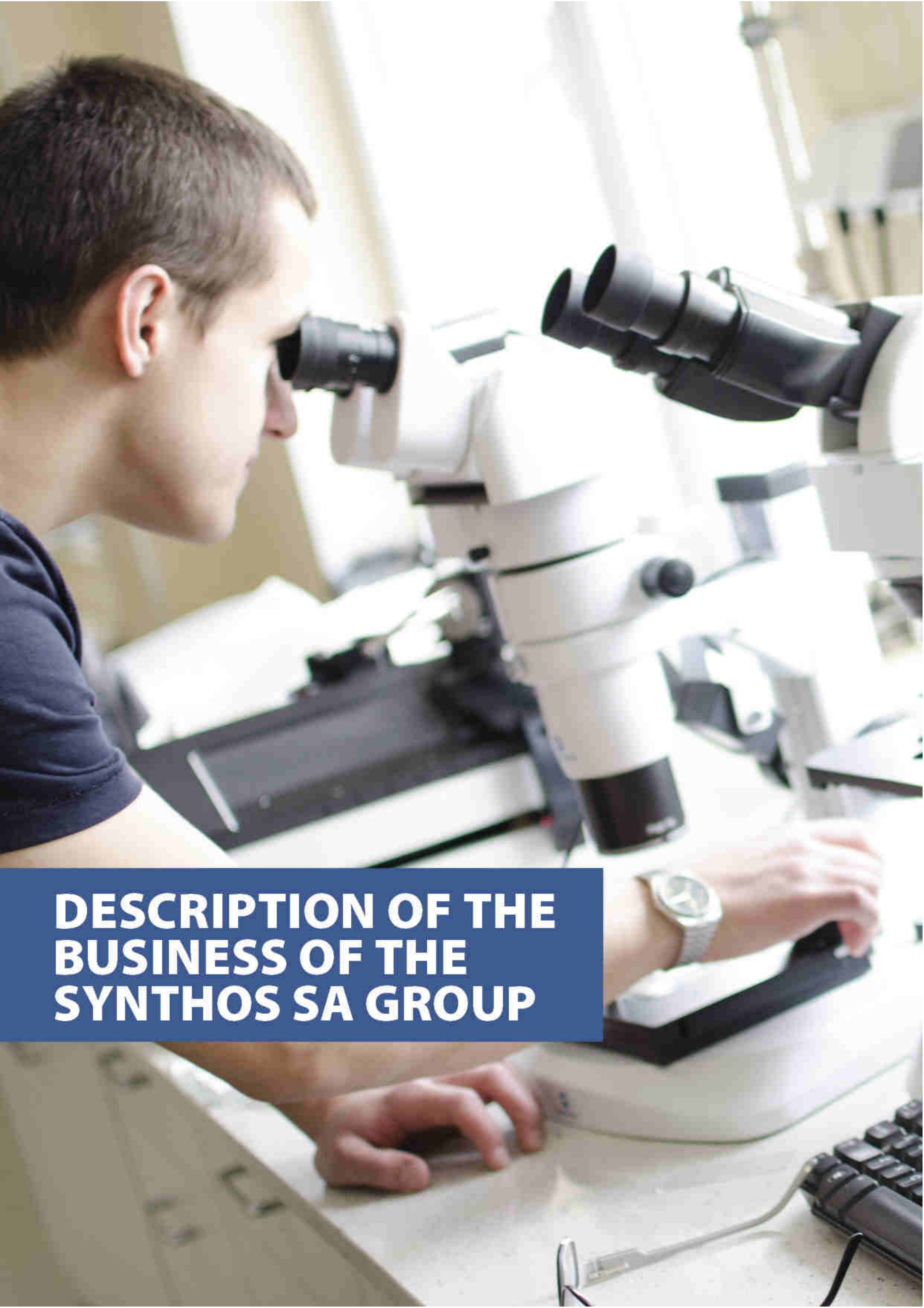
The Group may not guarantee that it will generate in the future sufficient cash flow on operating activity and that the debt and equity financing instruments will be available to the Group in the amount sufficient to enable timely repayment of liabilities and satisfy liquidity requirements.

If future cash flows on operating activity and other capital resources turn out insufficient to repay liabilities upon maturity or ensure liquidity the Group may be forced to:

- limit or defer specific business actions and capital expenditures;
- dispose of assets;
- raise additional capital or incur liabilities; or
- restructure or refinance all or part of the debt, including Bonds, on or before the redemption date.

The Group may not guarantee that it will be able to implement any of the aforementioned solutions at all, by a specific date or on economically viable conditions. In particular, the ability to restructure or refinance debt will depend partly on the Group's financial standing at a given point in time. What is more, the Group may be unable to find alternative financing and even of the Group obtains alternative financing, it could be on unfavorable or unacceptable conditions. If the Group is not able to perform its liabilities thanks to alternative financing, it may also be unable to satisfy its liabilities on account of debt, including the Bonds. In such a case, the debt under other agreements or instruments which comprise acceleration clauses triggered by breach of other agreements or cross-default clauses regarding other agreements, including the Bond agreement, liabilities may become due and payable on demand, and the Group may not have sufficient funds to repay all of its debt, including repayment of the Bonds.

Each case of lack of timely repayment of the amount due on account of the Bonds will result in downgrading of the Group's creditworthiness, which will impair its ability to incur additional liabilities. In addition, the terms of debt, including the Bonds, and each future debt, may impair the ability to implement the aforementioned alternative solutions. In the event of lack of results or operating resources, the Group may face liquidity problems and be forced to dispose of material assets or parts of business to service the debt and perform other liabilities. The terms and conditions of the Group's debt, including the provisions of the Bond Issue Agreement, limit the possibility of transfer or disposal of assets. In addition, there is no certainty that the assets which the Group would like to dispose of would be marketable at a given point in time, and if so, if the impact of such sale and its timing would be acceptable. If the attempts to take the above actions fail the Group may have no sufficient resources to perform its liabilities.



DESCRIPTION OF THE BUSINESS OF THE SYNTHOS SA GROUP

3. DESCRIPTION OF THE BUSINESS OF THE SYNTHOS SA GROUP

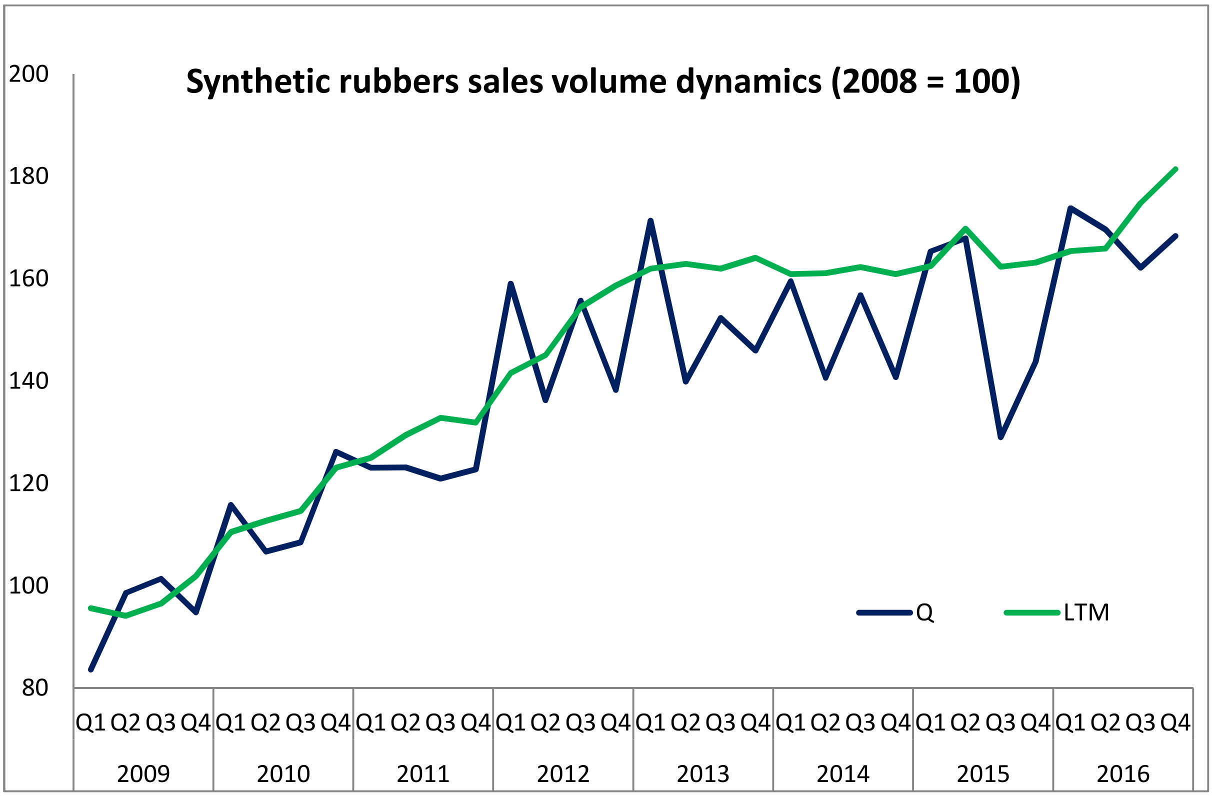
3.1 General information

The business of the Group is divided into four main segments: butadiene and rubber ("**Synthetic Rubber Segment**"), styrene and its derivatives ("**Styrene Plastics Segment**"), dispersions, adhesives and latex ("**Dispersions, Adhesives and Latexes Segment**"), and plant protection chemicals (AGRO). The last of these segments has been split off in 2015. The Group also derives revenues from ancillary activities related to production and distribution of heat from its own power plants and revenues from electricity trading and distribution ("**Other Operations"**, including "Utilities" which are presented as a separate segment in the consolidated financial statements). Other Operations comprise also revenues and expenses not allocated to other segments.

The business of the Group relies on three main segments:

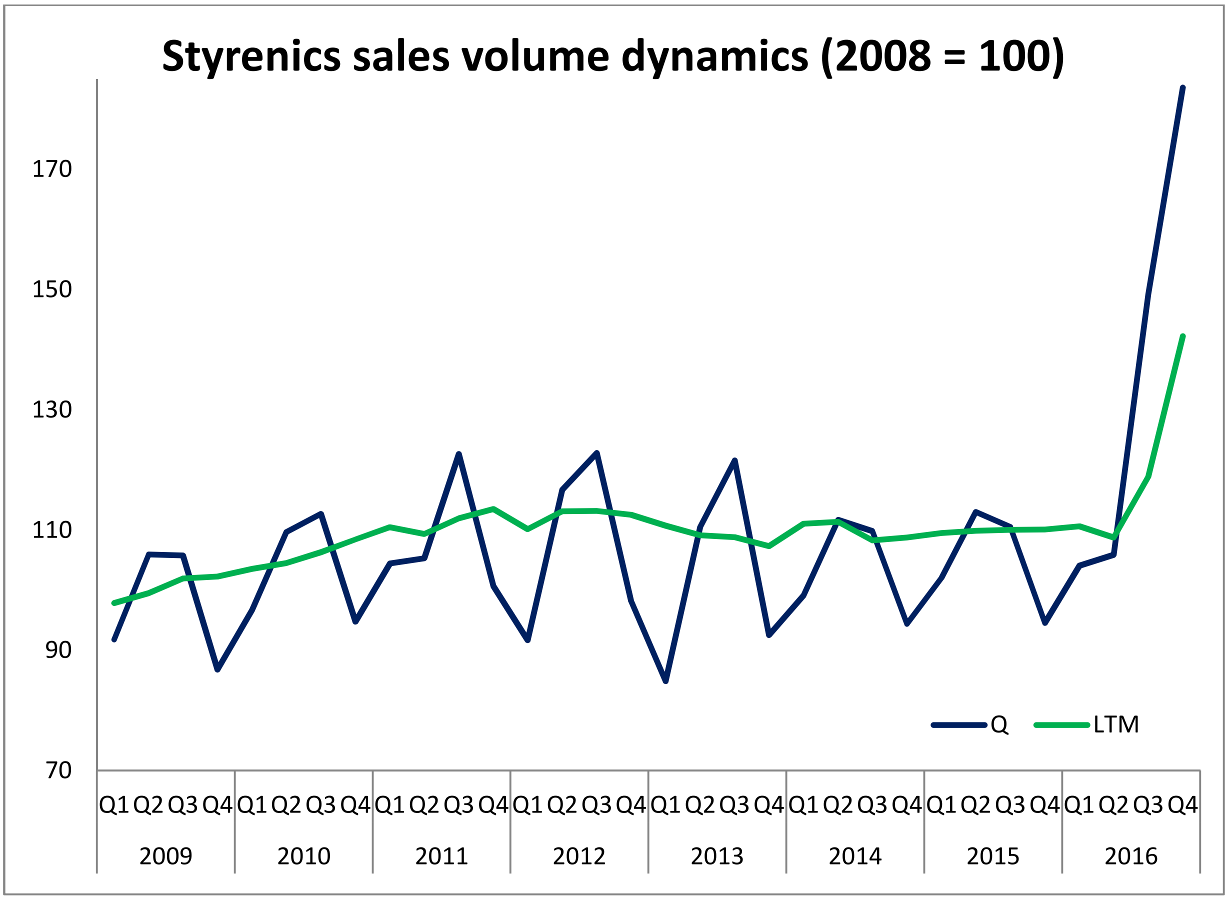
Synthetic Rubber Segment

The Synthetic Rubber Segment is a core segment of the Group's business. The Group's offtakers of roughly 80% of the sales volume of the products in this segment are the principal tire market players, including Michelin, Continental, Bridgestone, Goodyear and Pirelli. The remaining 20% of sales volume in this segment is split among various other markets, including manufacturers of technical rubber goods, soles of footwear, elastic cables and transmission belts. In 2016 the Synthetic Rubber Segment generated sales revenues totaling PLN 2,146 million and EBITDA of PLN 363 million for the 12 months ending on 31 December 2016.



Styrene Plastics Segment

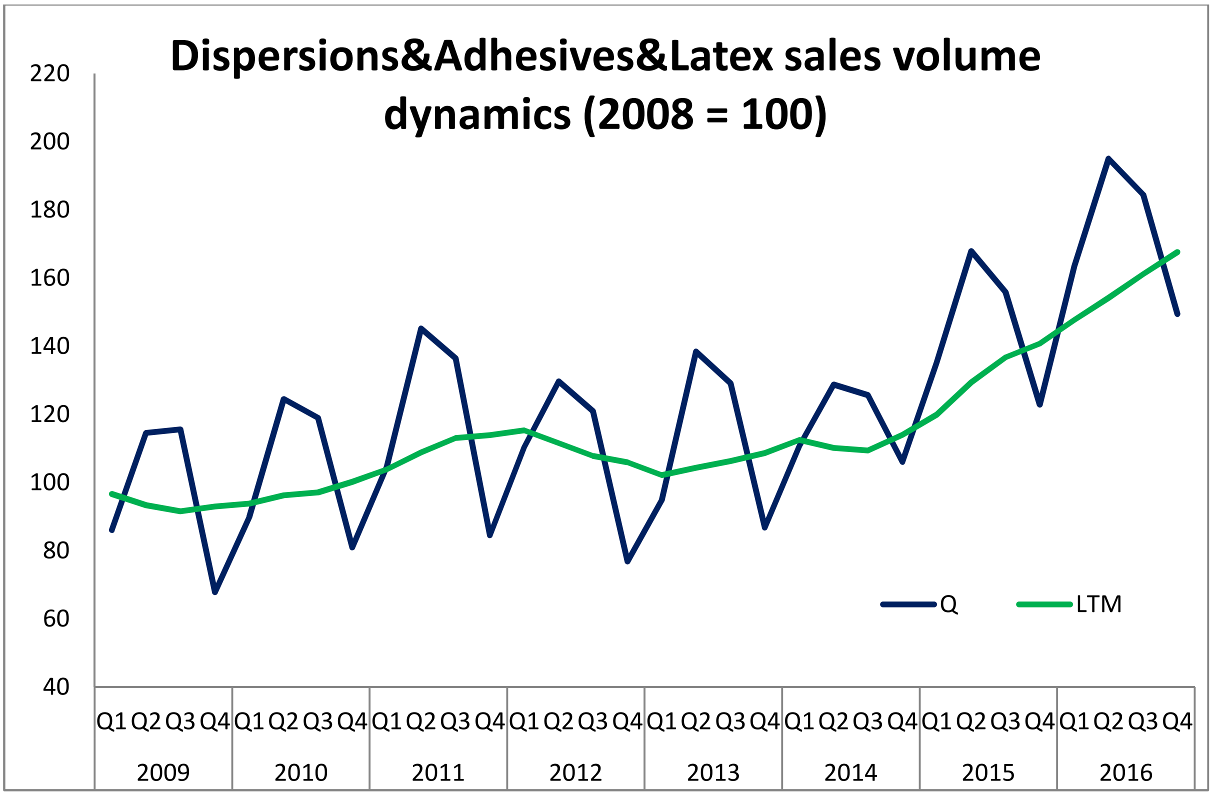
The Styrene Plastics Segment manufactures three main types of products with varying purposes. The first is expandable polystyrene (**EPS**), used mainly to produce thermal insulation boards, a basic material used for thermal insulation in the Central European construction industry. The second type includes general purpose polystyrene (**GPPS**) and high impact polystyrene („**HIPS**"), used mainly in the food packaging industry. Polystyrene is used to manufacture disposable tableware, cups, packaging for dairy products, trays and cutlery. It is also used as the basic material to produce shower cabins, jewelry packaging and in other applications where the final product must be stiff, yet transparent. The third group comprises boards from extruded polystyrene (**XPS**). XPS is mainly used in the construction industry for thermal insulation of buildings, reverse layer roofs, floors, thermal bridges and cavity walls. In the 12 months ending on 31 December 2016, the Styrene Plastics Segment generated sales revenues totaling PLN 2,111 million and EBITDA of PLN 226 million.



Dispersions, Adhesives and Latexes Segment

The Dispersions, Adhesives and Latexes Segment produces three groups of products. The first are acrylic, styrene-acrylic and vinyl dispersions. Their main application is the manufacturing of paints, acrylic plasters, primers, sealants and many other chemicals used in the construction industry, as well as adhesives for wood and the paper industry. The second group consists of adhesives intended mainly for the wood, furniture and paper industries. The third group includes butadiene and styrene latexes used mainly to produce foam products and carpets. In the 12 months ending on 31 December 2016, the Dispersions, Adhesives and

Latexes Segment generated sales revenues totaling PLN 195 million and EBITDA equal to PLN 29 million.



Agro Segment

The segment's domain is to produce and sell plant protection means, seed dressing agents, biocidal products and leaf fertilizers. Products representing each category provide protection to crops from sowing to harvesting, defending the plants against the destructive effects of pathogenic fungi, pests and weeds and providing them with the necessary microelements and macroelements in the form of specialist fertilizers. In addition to the production of pesticides, the Agro Segment also offers services to domestic and foreign customers in the field of formulation and packaging of liquid and slurry plant protection products. In the 12 months ending on 31 December 2016, the Agro Segment generated sales revenues totaling PLN 81 million and EBITDA of PLN 3 million.

Utilities Segment

This segment deals with generation and distribution of heat, generation of electricity in combined heat and power units and distribution of electricity. In the 12 months ending on 31 December 2016, the Utilities Segment generated sales revenues totaling PLN 206 million and EBITDA of PLN 99 million.

3.2 History

Synthos S.A. was founded in 1945 as the Synthetic Fuel Factory in Oświęcim. In the 1950s and 1960s, the construction of a synthetic rubber manufacturing plant was completed, and in June 1959, production of emulsion synthetic rubber started. The factory continued to develop, reaching maximum productivity and high employment levels in the 1970s. In 1996, it was turned into a private company, with 60% of stock transferred to the National Investment Fund.

The company was listed on the WSE in December 2004, and in 2006 the controlling interest held by majority stockholder Michał Sołowow exceeded 50%. In July 2007, the Company purchased 100% of shares of the Czech company Kaucuk a.s., one of the Group's largest competitors in Central and Eastern Europe. In 2007, the Company signed a license agreement with Michelin for neodymium butadiene rubber (NdBR) technology used to produce polybutadiene rubbers, as well as a trade agreement to ensure deliveries of the output.

In June 2010, through a joint venture with Unipetrol, the company opened a butadiene production plant in Kralupy. The company owns 49% of the joint venture and has a share in the operational management of the plant whose manufacturing capacity is 130,000 tons of rubber per year. In the third quarter of 2011, the Kralupy plant started to produce NdBR polybutadiene rubbers. In March 2012, the Group's stock was included in the WIG20 (blue chip) index on the WSE.

In 2014, the Group decided to launch operations in a new segment, namely the manufacture of plant protection means. In 2014 the Company acquired a 100% equity stake in Zakład Doświadczalny „Organika" Spółka z ograniczoną odpowiedzialnością and took over the registration of plant protection products and biocidal products from Zakłady Chemiczne Organika-Azot S.A. The Group's penetration of the market with a new offering of plant protection products will allow it to prepare customers for a product portfolio that is much wider and larger in scale, and which the Group intends to offer once the construction of its own complex of installations to produce active substances and plant protection means is completed.

In August 2015, the Group launched a new production plant in Oświęcim to manufacture modern solution styrene-butadiene rubbers (SSBR). Manufacturing will be based on a license from The Goodyear Tire & Rubber Company.

3.3 Recent events

a) Acquisition of the EPS (Expandable Polystyrene) business from the INEOS Group.

On 6 May 2016, Synthos S.A. entered into an agreement with INEOS Industries Holdings Limited seated in Lyndhurst, United Kingdom, to purchase the INEOS Group's EPS business. The total purchase price for this business was EUR 80 million, subject to possible adjustments following from the agreement.

Under the INEOS Styrenics purchase transaction Synthos S.A. acquired, among others, 3 production facilities, 2 of which are located in northern France (Wingles and Ribécourt) and the third one in the Netherlands (Breda).
In addition, Breda has a modern technological center, comprising a specialized research laboratory and pilot facilities testing innovative products marketed by the company.

The purchase of INEOS Styrenics will enable Synthos S.A. to deliver top quality expandable polystyrene (EPS) and maintain the leading position of styrofoam products among insulation materials.
The Synthos Group's styrene processing capacity exceeds 600 thousand tons per annum. Obtaining competitively priced styrene will be possible in the longer run, in particular by expanding new styrene production capacity and will entail significant capital expenditures.

The Company reported the details of the transaction in Current Report no. 16/2016 dated 6 May 2016.

On 26 August 2016 the Company became aware of fulfillment of the condition precedent defined in the Share Purchase Agreement as on 26 August 2016 the European Commission granted unconditional approval to effect the transaction, i.e. transfer of the shares of INEOS Styrenics European Holding B.V. in performance of the Share Purchase Agreement, which the Company reported in Current Report no. 35/2016 of 26 August 2016.
The Company reported the performance of the transaction in Current Report no. 36/2016 of 31 August 2016.

b) Extension of the license – entering into an agreement with Michelin Group entities

On 26 August 2016, in connection with the license agreement of 05 October 2007, a memorandum of agreement was entered into by and between Compagnie Générale des Etablissements Michelin seated in Clermont-Ferrand, France; Michelin Recherche et Technique S.A. seated in Granges-Paccot, Switzerland, as the licensors, and Synthos S.A., as the licensee.

The executed memorandum of agreement provides for increasing the production capacity of NdBR rubber permitted under the license to 132,000 tons per annum. The fee for extending the license consists of a flat fee and a variable component in the form of royalties depending on the sales volume of the licensed products.

c) Restart of the cracker in Litvinov on 19 October 2016.

On 19 October 2016, Unipetrol a.s. (PKN Orlen S.A.'s subsidiary) announced restart of the cracker in Litvinov, Czech Republic. The cracker in Litvinov supplies Czech entities from the Synthos Group with raw materials for production of ethylbenzene / styrene and butadiene, transported by pipelines. In connection with the failure of the cracker in August 2015 these raw materials had to be supplied by rail transport from other supply sources.

Reinstating product feed from the local cracker in Litvinov will make a positive contribution to stabilizing the production level and improving the margins commanded on styrene plastics and synthetic rubbers in subsequent reporting periods.

3.4 Expected development

Growing shareholder value is the strategic objective of the Company's Management Board. Achieving this objective will be supported by maintaining stable long-term relationships with business partners, improving operating efficiency and expanding and modernizing the product portfolio.

The major investments in the production area envisaged in the Group's strategy pertain to raw material security and expansion of the product offering for customers.

The Group's value growth strategy pursued by the Management Board calls for strengthening the Group's position in key business areas, i.e. production of synthetic rubber, polystyrenes, dispersions and adhesives, and plant protection chemicals. The Company intends to attain this objective through, among other things, production and capital investments (acquisition of other companies conducting similar activity). The Group's strategy assumes maintaining a safe level of debt during the development process.

The Group assumes constant development and optimization of the product portfolio meeting customer expectations. Product development is to rely primarily on own research carried out by the Research and Development Center, whose task is to develop and implement the production of new, innovative products, primarily new types of synthetic rubber. The Group's objective is to steadily improve its quality and cost competitiveness in relation to leading businesses in the chemical industry.

Acquisitions will focus on entities with modern products that expand the Group's existing product portfolio and on market opportunities, i.e. relatively low-priced companies with good market prospects.

3.5 Operating activity

Synthetic Rubber Segment

Highlights

The Synthetic Rubber Segment is the fundamental segment in the Group's business. The segment manufactures synthetic rubber by means of emulsion polymerization of butadiene and styrene (or other chemicals such as acrylonitrile or the appropriate organic acid). In the year ended 31 December 2016, the annual manufacturing capacity as regards synthetic rubber (ESBR, NBR, HSR, NdBR) was approximately 375,000 tons. In 2015, an installation to produce SSBR rubbers was also commissioned with a production capacity of 90,000 tons per year. In the year ending 31 December 2016 the Group's Synthetic Rubber Segment generated sales revenues of PLN 2,146 million and EBITDA of PLN 363 million.

The Group produces four different kinds of synthetic rubber: styrene butadiene rubbers, polybutadiene rubbers, high styrene rubbers and nitrile butadiene rubbers (NBR).

Main products and applications

The Synthetic Rubber Segment includes the following products:

- **Emulsion styrene and butadiene rubbers (EBSR)** are produced in a low-temperature emulsion copolymerization process and coagulated using an acid-synthetic coagulant system. Some types of butadiene and styrene rubbers contain an admixture of aromatic oils. Styrene butadiene rubbers are stabilized using staining or non-staining antioxdants. Styrene butadiene rubbers are used to manufacture tires, tire tubes, transmission belts, footwear, cable insulation, hoses and other technical rubber goods. Non-staining types of rubbers are used to manufacture light colored floor linings, bicycle tires and tubes, footwear, toys, cables, hoses and various other rubber goods in light pastel colors. ESBR is the most commoditized group of synthetic rubbers. Although consumed globally, demand levels are particularly high in North America, Western Europe and Northwest Asia, especially China. The majority of ESBRs is used to produce tires, but demand in other industries is also significant. The styrene butadiene rubbers produced by the Group are sold under the KER® (produced in the production facilities in Poland) and KRALEX® (in the production facilities in the Czech Republic) trademarks.

- **Solution styrene butadiene rubbers (SSBR)** are produced via copolymerization of butadiene and styrene in an organic solvent in the presence of a lithium catalyst. Some of them contain an admixture of naphthenic or aromatic plasticizing oil. The rubbers also vary by parameters such as Mooney's viscosity, styrene content or vinyl structure. They are stabilized with a non-staining antioxidant. A manufacturing installation with a capacity of 90,000 tons per year has been started in August 2015.

The manufacturing capacity can also be used in part to produce butadiene rubbers (LiBR). The main application for SSBR rubber (over 90% of demand) is, as with NdBR, the production of rubber mixes for treads of green high-performance tires with lowered rolling resistance. Rubber types with no oil admixtures can be used for the production of technical rubber goods, including goods in light colors. SSBRs produced in Poland are sold under the SYNTION® trademark.

- **Polybutadiene rubbers (NbDR and LiBR)** are obtained by means of polymerization in a solution based on a neodyme (NdBR) or lithium (LiBR) catalyst. Butadiene rubbers do not contain plasticizers and are stabilized by a non-staining antioxidant. Butadiene rubber has become the second largest type of synthetic rubber Group produces in terms of volume, after ESBR. In the year ended 31 December 2016, the Group's annual production capacity exceeded 80,000 tons. NdBR rubbers are used mainly to produce car tires (especially treads and sidewalls), which account for about 70% of global BR consumption. Additionally, NdBR finds application in the manufacturing of technical goods, such as hoses, belts, soles of footwear, and golf balls. Thanks to its low polydispersity and glass transition temperature, it is preferred for mixes used in manufacturing of low rolling resistance tires, so called "green" tires whose use helps reduce the fuel consumption ratio. Regulations supporting the manufacturing of "green" tires, already in force in Western Europe, have significantly increased demand for NdBR. LiBR is mainly used to modify plastics, such as high impact polystyrene (HIPS). The group sells butadiene rubbers produced in the Czech (NdBR) and Polish (LiBR) plants under the SYNTECA® trademark.

- **High styrene rubbers (HSR)** are suitable for producing floor linings, cables, toys, rubbers for the footwear industry and hard rubber goods. The Group produces a standard grade type of high quality high styrene rubber under the KER® 1904 trademark. The rubber is obtained by mixing latexes: butadiene and styrene latexes and high styrene resin at an appropriate ratio with subsequent coagulation using a synthetic coagulant. The Group also produces the KER® 1909 high styrene rubber which a type of off-grade high styrene rubber The KER® 9000 high styrene resin is obtained via emulsion copolymerization of styrene and butadiene with subsequent coagulation using aluminum sulfate. All three types of products are stabilized using non-staining stabilizers. The high styrene rubbers and resins produced by the Group in Poland are sold under the KER® trademark.

- **Nitrile (acrylonitrile-butadiene)** rubbers are produced by means of cold emulsion copolymerization of butadiene and acrylonitrile and coagulated using an acid-synthetic coagulant system. Stabilized with a non-staining antioxidant. Nitrile rubbers are intended for production of technical goods resistant to the effects of oils and liquid fuels. Nitrile rubbers contain a non-staining stabilizer and thus can be used to produce goods in light colors. Nitrile rubbers produced in Poland are sold under the KER® trademark.

Customers

The Group's major customers are car tire manufacturers as offtakers of roughly 80% of the production volume of the Synthetic Rubber Segment. The Group supplies global tire manufacturers such as Continental, Michelin, Goodyear, Bridgestone and Pirelli, delivering rubber mainly to their European manufacturing plants. The Group also supplies rubber to smaller tire manufacturers such as Nokian Tyres, Trelleborg and Apollo. Other customers include manufacturers of technical rubber goods, transmission belts, floor linings and carpets, soles of footwear and various rubber mixtures. Kralburg (Austria), Metso (Sweden), Fenner Dunlop (The Netherlands), Semperit (Austria), and in Poland: Geyer & Hosaja Mielec, Sempertrans Bełchatów owned by the Semperit Group, Stomil Sanok and Fagumit are examples. In the years ending on 31 December 2016 and 31 December 2015 the Group sold 59.0% and 60.3%, respectively, of the synthetic rubber it produced in Europe, with Asia and the two Americas accounting for the rest.

Raw materials and energy

The principal raw materials used to produce synthetic rubber are butadiene and styrene. Butadiene is produced by processing the C4 fraction in the steam cracking process. The resulting amount of butadiene depends mainly on a cracker's feedstock, which means that the possibility of obtaining butadiene is directly proportional to the mole mass of the feedstock. The group produces butadiene from the C4 fraction in an extraction-distillation process. Most European steam crackers are currently running on heavier types of feedstock, such as naphtha or LPG, that allow to produce a stable supply of butadiene. As shale gas deposit exploration picks up pace, increasing numbers of crackers are being switched to lighter feedstock types, such as ethane, which offer a higher profit margin but also reduce the butadiene yield. This trend to switch is especially apparent in Northern American installations, which experienced a butadiene supply deficit in recent years.

Thanks to strong relationships with its largest suppliers from the petrochemical sector, the Group was able to secure long-term supply agreements for C4 fraction and butadiene. The Group also commenced to develop its own, dedicated technology to produce monomers from renewable feedstock.

In addition, the Group uses ethylene and benzene to manufacture styrene and uses it to produce its own derivatives, such as polystyrene, EPS and synthetic rubber. The Group cuts manufacturing costs thanks to relatively low labor costs, favorable feedstock supply agreements and low energy costs from an in-house combined heat and power plant. Additionally, the Group is the only manufacturer of styrene in Central and Eastern Europe, which gives it a logistical advantage over its competitors operating in Western Europe and Russia. Additionally, styrene as a raw material can be obtained in significant quantities from external sources, both from European and non-European manufacturers. Consequently, the Group can always conclude a long-term styrene supply agreement at a price dependent on the volume of purchases.

Competitors

The Group is Europe's largest manufacturer of high quality commodity grades of emulsion synthetic rubber and the second largest manufacturer of polybutadiene rubbers with neodymium catalyst in terms of production capacity. Most articles produced by the Group have been known on the market for decades, with products sold under the KER® and KRALEX® trademarks present on the market since more than 50 years. They have recently been joined by SYNTECA® and, in 2015, SYNTION®.

The Group's major competitors include: Arlanxeo, a German manufacturer of chemicals offering a wide range of products for the tire industry and industries offering general purpose rubber goods; followed by Versalis, one of the most important European rubber manufacturers; Trinseo, an international manufacturer of plastics, latex and rubber; and Kumho Petrochemical, an international concern producing chemicals, whose basic offering includes synthetic rubber, synthetic resins, specialty chemicals, chemicals for the electronic and energy industries, and chemicals used to produce construction materials and technologically advanced materials.

Styrene Plastics Segment

Highlights

In 2016, the Group was one of the leading manufacturers of polystyrene and expandable polystyrene in Europe. The Group's Styrene Plastics Segment produces four main types of products obtained in styrene polymerization process and used for different areas of application: EPS, GPPS, HIPS and XPS. In the year ended 31 December 2016, the Group's Styrene Plastics Segment generated sales revenues totaling PLN 2,111 million and EBITDA of PLN 226 million.

Main products and applications

EPS is a polymer compound used as feedstock in the production of styrofoam. EPS may contain additives to enhance processing or equip the resulting foam with specific application properties, such as flame retarding agents, lower heat transfer, lower water absorption, external lubes facilitating processing, colorants etc. EPS produced by the Group is sold under the InVento® and InSphere® trademarks.

- Invento® is a self-extinguishing expandable polystyrene with a lowered heat transfer ratio and lowered contents of blowing agents. This material is formed from spherical polystyrene particles. It contains a substance to diminish the flammability of foam and a hydrocarbon foaming agent. During production, the surface of these goods is treated against adhesion and the buildup of static electricity. InVento® 0814FR is intended mainly for producing thermal insulation blocks used to insulate buildings.
- InSphere® types 0513F, 0814F and 1020F are self-extinguishing expandable polystyrenes with a lowered heat transfer ratio. InSphere® type 0513FR-P is a self-extinguishing expandable polystyrene with lowered water absorption and lowered contents of hydrocarbon blowing agent. The material, made up from spherical polystyrene particles, contains a substance that lowers the flammability of foam and a hydrocarbon blowing agent. During production, the material's surface is treated against adhesion and the buildup of static electricity. InSphere® type 0513F is used mainly to produce packaging for shipping glass and electric goods, building bricks, floor and shaped parts and other thermal insulation articles. InSphere® type 0814F is used mainly to produce thermal insulation blocks and packaging InSphere® types 1020F and 1640F are used mainly to produce thermal insulation blocks. InSphere® type 0513FR-P is used mainly to produce perimetric and skirting boards of packaging for shipping glass and electric goods, building bricks, floor and roof shaped parts and other thermal insulation articles.

The Group also manufactures GPPS and HIPS products:

- **SYNTHOS PS GP 137, 152, 535, 154, 525, 171, 585C, 174 and 545** are general purpose polystyrene resins (GPPS) produced to high specifications as regards optical properties, with glossy polish and increased heat resistance. This is a thermoplastic material intended for injection molding, extrusion, thermoforming and blowing extrusion. SYNTHOS PS GP 585A is a general purpose polystyrene resin (GPPS) with excellent optical properties, glossy polish, considerable resistance to high temperatures and mechanical durability. This is a thermoplastic material intended for extrusion, thermoforming and blowing extrusion. SYNTHOS PS GP 585X is a general purpose polystyrene resin (GPPS) that meets stringent requirements of considerable heat resistance and good reological properties. This is a thermoplastic material intended for extrusion, thermoforming and blowing extrusion.

- **SYNTHOS PS HI 336M is a high impact polystyrene (HIPS)** with easy flow, which ensures simple processing. This is a thermoplastic material intended for injection molding. SYNTHOS PS HI 552M is a general purpose high impact polystyrene (HIPS) with balanced reological, mechanical and thermal properties. This is a thermoplastic material intended for injection molding and extrusion. SYNTHOS PS HI 562E and 945E are types of high impact polystyrene with properties suitable for extrusion and thermoforming. SYNTHOS PS HI 662E is a type of high impact polystyrene with matte finish, whose properties allow extrusion and thermoforming.

The Group manufacturers products from extruded polystyrene (XPS):

- **Synthos XPS PRIME** and **Synthos XPS PRIME S** are environmentally-friendly insulation products with a formula based on the Synthos XPS white board.

Customers

In the Styrene Plastics Segment, the Group focuses its activities mainly on servicing the construction industry and manufacturers of packaging from EPS and XPS. Its main customers for EPS products include Arbet (Koszalin), GPS (Poland), Termo Organika (Kraków), Austrotherm (Oświęcim), Bachl (Germany), Lippstaedter (Germany), Saint-Gobain (Germany). GPPS and HIPS products are sold mainly to the packaging industry, primarily to operators in the food sector. Main customers for this product group include Krakchemia (Kraków) and Huhtamaki Foodservice Group (Skierniewice) in Poland, Coveris Group (France), Polycasa (Belgium), Greiner (Austria), DFI (Italy). The Group sells XPS boards using two channels: wholesalers of construction materials and EPS processors that buy raw materials to produce EPS boards and also resell finished XPS insulation boards. Main customers for this product group include Termo Organika (Kraków), Saint-Gobain (Czech Republic), Styroprofile/Styrotrade (Czech Republic), SIG (Kraków).

Raw materials and sources of energy

The Group produces styrene from ethylene and benzene and uses it to manufacture the Group's own derivatives, i.e., polystyrene, expandable polystyrene (EPS) and synthetic rubber. Extruded polystyrene (XPS) is produced on the basis of own raw materials, such as GPPS. The Group also purchases a certain volume of styrene on the market. As a result of large purchases, the Group is able to negotiate favorable formula-based prices.

Competitors

In 2016, in connection with the acquisition of the EPS business from INEOS, the Group became the largest manufacturer of EPS in Europe, and the largest manufacturer of XPS in Central and Eastern Europe.

The main competitors of the Group are INEOS, BASF and SUNPOR. INEOS and BASF are the world's largest chemical concerns in terms of profits and Europe's largest EPS producers, focusing on producing goods with excellent insulation properties. Both companies are vertically integrated and have a large product portfolio.

Dispersions, Adhesives and Latexes Segment

Highlights

The Group's Dispersions, Adhesives and Latexes Segment produces acrylic dispersions, styrene and acrylic dispersions and vinyl dispersions; wood and paper adhesives, and two different types of synthetic latex: concentrated styrene butadiene and styrene butadiene carboxylic latex. The main application of dispersions is the production of high quality paints, acrylic plasters, primers, leveling compounds and many other chemicals used in the construction industry. Polyvinyl acetate dispersions are used in the manufacture of wood adhesives and in the paper, textile and construction industries. Adhesives are used mainly in the wood, furniture and paper industries. Latexes are used mainly to produce elastic latex foam and latex mattresses, gelled or non-gelled foam carpet backings, adhesive floor coverings and other carpet backing, to impregnate fabrics and to produce bitumen emulsions. In the year ended 31 December 2016, the Dispersions, Adhesives and Latexes Segment generated sales revenues totaling PLN 195 million and EBITDA of PLN 29 million.

Main products and applications

The current portfolio of the Dispersions, Adhesives and Latexes Segment includes products registered under the following trademarks: Osakryl®, Synexil®, Woodmax®, Papermax®.

- **Osakryl®** is a registered trademark for a range of water-based acrylic, styrene-acrylic and vinyl-acrylic copolymer dispersions obtained by emulsion polymerization. These dispersions act as a binding agent in chemicals used in the construction industry.
- **Synexil®** is a registered trademark for a range of vinyl, acrylic, styrene-acrylic and vinyl-acrylic dispersions obtained by emulsion polymerization. These dispersions act as a binding agent in chemicals used in the construction industry and adhesives used in a variety of applications (mainly wood, wood-based materials, paper, cardboard, etc.).
- **Woodmax®** is a registered trademark for ready-made dispersion adhesives for use in the woodworking and furniture industries.
- **Papermax®** is a registered trademark for ready-made dispersion adhesives for use in the paper and packaging industries.
- Concentrated styrene butadiene latexes and carboxylated styrene butadiene latexes are the main raw material used in the production of foam products and an adhesive agent in bituminous/polymer emulsions.

Customers

The main customers for dispersions are the leading manufacturers of liquid chemicals for the construction industry, including Śnieżka, Kabe, PPG and Atlas. The main export markets include Ukraine, Belarus, Czech Republic, Greece, Italy, Spain, Romania and the Baltic countries.

Woodmax® adhesives are sold primarily to manufacturers of furniture (predominantly IKEA) and wood joinery (Stolbud, Porta, DRE). Papermax® adhesives are intended for the paper industry and sold to manufacturers of packaging, tubes, corners, cardboard pallets and other paper articles.

Latexes are sold mainly to customers that manufacture floor coverings and carpets, foam products (latex sponges and mattresses) and bitumen emulsions for the construction industry. The main customers of the Group are Artilat (Belgium), the Beaulieu Group (Belgium) and Brintons Agnella (Poland).

Raw materials and energy

The main monomers used to produce dispersions, adhesives and latexes are vinyl acetate, acrylate esters, styrene, butadiene and others. The Group purchases these raw materials under both long-term and short-term agreements.

Competitors

The Group's leading competitors in this segment are large international chemical concerns, such as BASF, DOW, EOC, Synthomer, Henkel and Jowat with large and diversified product portfolios.

AGRO Segment

Highlights

The line of business of Synthos AGRO is to produce and sell plant protection means, seed dressing agents, biocidal products and leaf fertilizers.

The plant protection products segment accounts for 63% of Synthos Agro's revenues. Its product range consists of 18 products with fungicidal products for orchard plants forming the most extensive product group. Synthos Agro holds a 16% market share in this product group. In the year ended 31 December 2016, the Agro Segment generated sales revenues totaling PLN 81 million and EBITDA of PLN 3 million.

Main products and applications:

Fungicides

This group consists of products for preventive application prior to the appearance of fungi diseases in orchard plant crops, especially against apple scab, the fiercest disease threatening healthy yields:

- Miedzian 50 WP, Miedzian Extra 350 SC - market leaders in the product group based on copper compounds

- Kaptan Zawiesinowy 50 WP

- Kaptan Plus 71.5 WP

- Sadoplon 75 WP

Seed dressings

Seed dressing agents are generally applied fungicides to dress seeds before sowing. Dressing is the first protective measure and at the same time the main and least expensive method of combating pathogens in the soil that are transmitted with seeds. Dressing affords protection to seeds when they are sprouting while also ensuring plant health in the earliest stages of their growth and development. The following represent this group:

- Zaprawa Nasienna T 75 DS./WS [Seed Dressing Agent T 75 DS./WS] - to dress wheat, rapeseed and vegetables to the greatest extent available on the market

- Funaben Plus 02 WS- to dress wheat and barley seeds

Herbicides

This group includes herbicides intended for use in agricultural and horticultural crops:

- Orkan 350 SL – for use against horsetail and other deep-rooted weeds in orchards

- Premier range: Premier 350 SL, Premier 500 SL, Premier 750 SL and Premier D 750 SL – for use by farmers in weed control of winter and spring cereals.

Biocidal products

This category of products targets the mass market and are dedicated to private users. This category has an extensive range of products, chiefly aerosols to apply against bothersome insects such as flies, wasps, locusts, ants and mosquitoes, and other forms, such as poisons and granules for rodent control. Muchozol and Mrówkozol are the best known brands.

Customers

The buyers of Synthos Agro's products are entities operating on the market of professional purchasers and private (non-professional) users who purchase these products to protect their crops. Product distribution is handled by a nationwide network of wholesalers offering agrochemical and horticultural products with whom Synthos Agro has signed long-term distribution agreements. The Company's installations and extensive capital expenditure efforts aimed at the construction of a new state-of-the-art formulation and packaging center make Synthos Agro a solid and reliable partner in developing a range of products for a number of domestic and foreign customers.

Competition

Synthos Agro operates in a highly competitive market environment. The major competitors operating on the market are well-known global concerns with an abundant product range such as BASF, Bayer, DuPont, Syngenta, Adama, Arysta.

Other Operations

The Group pursues operational activities related to the generation and distribution of thermal energy, the generation of electricity and the sale and distribution of electricity. The Group's combined heat and power plants are located in the industrial facilities in Oświęcim (Poland) and Kralupy (Czech Republic). At Oświęcim, the main fuel used by the Group is black coal from local mines. In addition, the Group derives some of its energy from "coal bed methane," that is fuel gas extracted in some underground mines for the purpose of subsequent coal extraction. In the Czech Republic, the Group's main energy sources are natural gas and, to a certain extent, fuel oil.

Moreover, Other Operations include all other lines of business in which the Group is involved to a limited and auxiliary extent and which are not assigned to any of the above segments, including sales and distribution of auxiliary utilities, laboratory services and lease of industrial buildings and warehouse facilities. Other Operations include also all costs not allocated to the above segments.

For the year ended 31 December 2016, the area of Other Operations (including the Utilities Segment referred to in the consolidated financial statements) generated sales revenues of PLN 222 million and EBITDA of PLN 41 million.

3.6 Sales and marketing

The Group sells synthetic rubber predominantly to global producers of tires such as Michelin, Pirelli, Goodyear, Bridgestone and Continental, many of which are well known market leaders. The Group's production facilities are strategically located near these key customers in Central Europe, with easy access to tire plants as well as to areas of growing demand.

The Group's marketing team consists of three persons cooperating with Category Managers paced directly in the segments. The marketing strategy is initiated by the Group's global marketing team, with specific market activities further developed and implemented by each segment. In particular, the Group's global marketing team is responsible for general market analyses, advertisement and promotion, while marketing teams in particular segments tailor and implement this marketing strategy within their domains by conducting market analyses, monitoring customer satisfaction, analyzing competition and promoting the Group's products in new markets outside Europe.

3.7 Raw materials

The Group's main raw materials are butadiene, C4 fraction, ethylene, benzene, ethylbenzene and styrene, of which butadiene and styrene are the most significant for its business. In the year ended 31 December 2016, butadiene accounted for 20.7%, while the styrene accounted for 34,4% of the Group's total expenses on raw materials. The Group buys butadiene or manufactures it on its own from C4 fraction. Another important raw material for its business is styrene, which the Group produces from ethylene and benzene (through ethylbenzene) at its Czech plant and buys on the market. In Poland, the Group produces styrene from ethylbenzene supplied from its plant in the Czech Republic. In the year ended 31 December 2016, the Group's self-sufficiency in key inputs was as follows: approximately 47% for butadiene, 39% for styrene, 81% for ethylbenzene, and 112% for heat and 166% for electricity.

The Group's main suppliers include European petrochemical producers such as PKN Orlen (combined together with Unipetrol to form a single group), Sabic, MOL and OMV, that deliver raw materials to the Group's production facilities in the Czech Republic and Poland. The Group's regional production facilities are also linked through pipelines with some of its suppliers, including a pipeline with Unipetrol through which the Group obtains C4 fraction, ethylene and benzene for its production facility in the Czech Republic. Moreover, in the year ended 31 December 2016, Butadien Kralupy a.s., the Group's joint venture established in cooperation with Unipetrol, provided the Group with approximately 47% of the Group's annual demand for butadiene.

From August 2015 to October 2016, the Group's activities were impacted by a failure of the cracker at the Unipetrol plant in Litvinov and the subsequent announcement of force majeure circumstances. Restricted supplies of C4 fraction, ethylene, benzene and butadiene had an adverse impact on the Group's cost structure and financial results.

The following is a detailed list of contractual arrangements under which the Group sources its main raw materials:

- Purchases of butadiene, which is used for the production of synthetic rubber and latex, are carried out primarily under long-term contracts with suppliers with stable market positions. These long-term agreements are from three to ten years or are concluded for an indefinite period. Some of them include renewal clauses. Raw material purchases are based on pricing formulas related to market prices of butadiene. In addition to securing raw material supplies through long-term agreements, the Group purchases supplementary amounts of butadiene under short-term contracts.

- Vinyl acetate monomer, which is used for the manufacture of vinyl and vinyl-acrylic dispersions, is purchased under annual as well as short-term agreements concluded with suppliers offering the best commercial terms at a given time.
- Ethylene and benzene used for ethylbenzene production are purchased primarily under long-term agreements concluded with Unipetrol, valid until the end of 2017, with prices based on pricing formulas linked to market prices of ethylene and benzene. Simultaneously, small amounts of benzene have been purchased under short-term agreements.
- Purchases of C4 fraction used in the production of butadiene are made under long-term agreements, with prices based on pricing formulas linked to market prices of naphtha.
- Auxiliary raw materials for all types of chemical production, due to their relatively high level of availability, have been purchased mainly under short-term agreements in order to obtain more favorable commercial terms.

The Group chooses its raw material suppliers from among the most reliable producers and suppliers that are able to offer the most competitive terms. All suppliers of materials to the Group are subject to constant reviews and assessments.

Key sources of energy

The Group's combined heat and power plants are located in the industrial facilities in Oświęcim (Poland) and Kralupy (Czech Republic). At Oświęcim, the main fuel used by the Group is black coal from local mines. In addition, the Group derives some of its energy from mine gas. In the Czech Republic, the Group's main energy sources are natural gas and, to a certain extent, fuel oil. In the year ended 31 December 2016, the costs of hard coal, mine gas and natural gas used for heating accounted for 5% of the Group's cost of sales of products and materials.

3.8 Production facilities

The Group has production facilities in Poland, the Czech Republic, France and The Netherlands to produce synthetic rubber, styrene products, dispersions and adhesives and plant protection products.

The following table provides an overview of the Group's production facilities and the main products manufactured there as at 31 December 2016:

Country	Segment	Main products	Production capacity (kt/y)
Poland	Synthetic rubber	ESBR, NBR. HSR	185
		SSBR	90
	EPS	EPS	105
	XPS*	XPS	165
	PS	HIPS, GPPS	50
	Dispersions and adhesives	Dispersions, adhesives	58
	Latexes	Latex	16
Czech Republic...	Synthetic rubber	ESBR	110

Country	Segment	Main products	Production capacity (kt/y)
	EPS	EPS	105
	XPS*	XPS	165
	PS	HIPS, GPPS	80
France Wingles	EPS	EPS	100
France Ribecourt	ESP	EPS	75
The Netherlands Breda	EPS	EPS	145

*in thousands of m^3

In addition, the Group owns 49% in a joint venture established with Unipetrol, which in the year ended 31 December 2016 provided the Group with 47% of its annual demand for butadiene, the key raw material for the Group's synthetic rubber production at its production facility in the Czech Republic.

3.9 Research and development

The Group considers research and development activities an important tool for competing effectively and commits significant resources to such activities.

The Group's research and development division is located in Poland and the Netherlands, consists of 96 people and focuses mainly on product development in three strategic areas: synthetic rubbers, expandable polystyrene (insulation materials), and dispersions and adhesives. Moreover, research work is conducted on plant protection products and liposomes. The Group owns key intellectual property and know-how in these areas. The Group's R&D division has many ongoing research partnerships with external institutes, ranging from outsourcing of non-core activities to joint research and development efforts. The Group currently maintains a domestic and international relationship network with reputable scientific centers, e.g. the University of New Hampshire (USA), Global Bioenergies (France), the Fraunhofer Polymer Pilot Plant Center (Germany), VSCHT (Czech Republic), the Adam Mickiewicz University Foundation in Poznań, the Institute of Industrial Chemistry and the Institute of Organic Industry in Warsaw. This allows the Group to develop innovative products in a timely and cost-effective manner, taking into account the preferences and specifications of its customers.

Last year, work on several dozen projects continued. Some of the recently introduced new products include: Woodmax OC 14.50, a one-component adhesive of the highest water resistance class; Synexil AF 33, a self-crosslinking acrylic dispersion for wood of a very high hardness and scratch resistance; Premier 300 SL and D 750 SL, herbicides in concentrated form for the preparation of an aqueous solution, to be applied on leaves, intended to control annual dicotyledonous weeds in winter and spring cereals.

3.10 IT system

The Group uses several business support applications. An enterprise resource planning (**ERP**) platform supports most of the Group's basic management and business processes, and assists in the forecasting and budgeting process, in terms of sales, production, purchasing and quality as well as fixed and variable costs and cash flows. Budgeted activities are recorded operationally in different operational modules, which allow the Group to oversee processes and at the same time monitor and block undesirable actions (such as exceeding customer credit limits, late payments or shortages/surplus in inventory levels).

In addition to the Group's ERP system, the Group uses tools for analyzing and reporting data, such as the Business Intelligence system. Additionally, advanced warehouse management, registration of manufactured goods and completion of customer shipments are carried out using a warehouse management system. The Group has not had any significant IT problems in the past.

3.11 Intellectual property

The Group has developed and maintains an extensive portfolio of registered patents and trademarks. Proprietary protection of the Group's processes, apparatuses, and other technology and inventions is of essential importance to its business. In addition to the Group's patents, patent applications, trademarks and know-how, the Group is party to certain licensing arrangements and other agreements authorizing the Group to use trade secrets, know-how and related technology or operate within the scope of certain patents owned by other entities. Because of the breadth and nature of the Group's intellectual property rights and the Group's business, the Group is not wholly dependent on any single intellectual property right.

The Group is not aware of any threatened, proposed or actual proceedings that have been or will be brought against the Group for infringement of third party rights or any infringement of the Group's rights by third parties that if successfully prosecuted would have a material adverse effect upon the Group's business, results of operations, financial condition or prospects.

3.12 Environmental, health and safety matters

Environmental Performance

Like other chemical manufacturers, the Group's operations are subject to a broad array of environmental laws and regulations. The Group's manufacturing processes use numerous chemicals, gases and other hazardous substances. The Group strives to minimize the impact of its operations on the environment through an efficient use of raw materials and energy, management of waste and the development and application of solutions aimed at reducing air, water and soil emissions and improving the security of the Group's technological installations.

The Group is also subject to increasingly stringent environmental, health and safety (**EHS**) laws and regulations, including those governing air emissions; water supply, water use and discharge of sewage into water; construction and operation of facilities; use, management, storage and disposal of waste and other hazardous materials; health and safety of the Group's employees; investigation and restoration of contaminated soil; the impact of the Group's products on health; and general occupational health and safety issues. The Group is required to obtain and periodically renew permits or licenses for industrial operations that result in discharge into the soil, air or water as well as in the use and handling of waste and other hazardous materials. Such permits and licenses establish limitations and standards with respect to the Group's operations that require compliance. The Group complies with the highest standards of care and employs suitable numbers of personnel to ensure adequate management of waste. The Group's facilities are regularly audited and inspected by governmental bodies in both Poland and the Czech Republic.

Apart from other EHS laws and regulations, the Group expects that its business will over the next few years be affected by new legal requirements under the IED, the EU ETS, the environmental liability directive (**ELD**) and the REACH Regulation, all of which impose significant obligations on the Group's business with respect to the testing, evaluation, assessment and registration of basic chemicals and chemical intermediates. The IED and EU ETS directives aim at reducing the emission of pollutants and greenhouse gases into the air.

In particular, the IED has introduced, effective from 1 January 2016, tighter emissions standards for SO_2, NOx and dust from existing heat and power plants such as the Group's.

The Group anticipates that environmental spending in the near future will be directed to eco-innovative solutions. The Group estimates that it will spend approximately PLN 20 million in 2017.

Occupational health and safety

The Group's main environmental initiative relates to its energy sources, such as constructing an installation for desulfurization and NOx removal. In addition, the Group's new coal boilers in Poland and the Czech Republic will comply with all European and Polish environmental requirements. Moreover, the Group is committed to manufacturing safe products and achieving an incident-free workplace. To protect its employees, the Group has established health and safety policies, programs and processes at all its sites.

Safety of Group employees is one of its priorities. The Group constantly monitors work conditions, making improvements as necessary. The Group's employees play a key role in this process by providing suggestions for improvement during risk assessments, which are reported under the Group's special KAIZEN management system. During the last five years, the Group has not noted any fatal accidents or accidents causing serious injury.

3.13 Employees

As at 31 December 2016, the Group employed 2,643 staff, mainly in Poland (1,598 persons). The other staff were employed in the Czech Republic, France and the Netherlands.

As a result of the technical nature of the Group's business, the Group maintains a highly qualified and skilled workforce and emphasizes the importance of regular training and development of employees through participation in training programs. The Group also promotes employee development using a system of annual and quarterly bonuses.

The Group believes that its labor relations are good. The Group's terms of employment are subject to negotiations with trade unions each year. The negotiations usually start in the third quarter of the year and conclude with the signing of an agreement which outlines new terms forming part of the Group's internal labor regulations. In Poland, the Group is also subject to certain Polish wage regulations, and employees of all companies are subject to comparable remuneration terms set forth in the Remuneration Regulations. In the Czech Republic, the Netherlands and France, the Group operates under collective bargaining agreements. The Group generally aims to systemize and standardize its wages, while preserving certain minor distinctions. The percentage of employee unionization is 53% in Poland and 29% in the Czech Republic. In the last five years, the Group has not been involved in any disputes with trade unions.

There are no employee share schemes in the Group.

3.14 Insurance

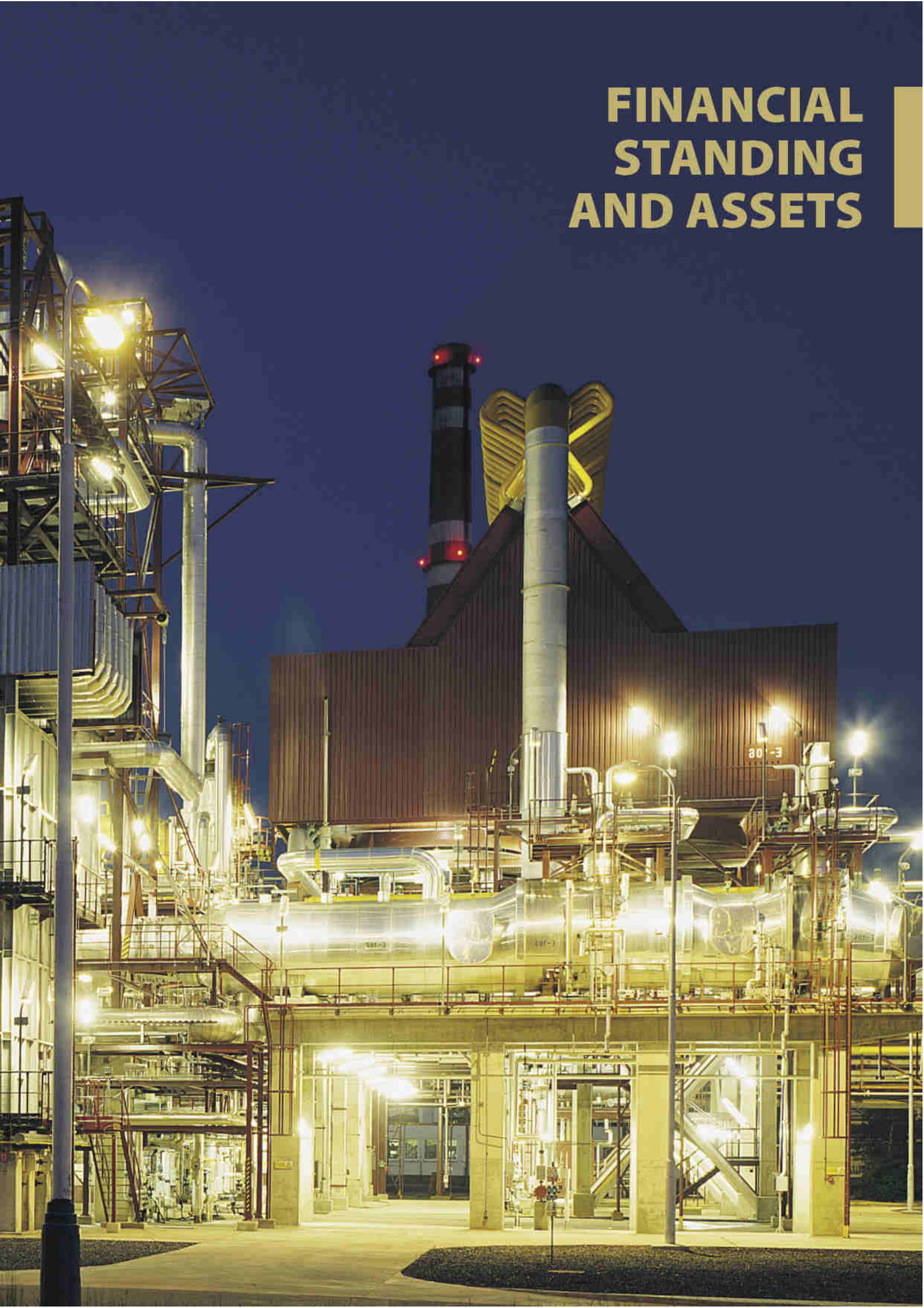
The Group believes that the types and amounts of insurance coverage the Group currently maintains are in line with customary practices in its segment of the chemicals industry and sufficient for the conduct of the Group's business. More specifically, the Group has insurance policies with a number of international and local insurance companies covering certain operating risks, including damage of specific property, operational and product liability, cargo in transit insurance (for selected companies), rolling stock and vehicles insurance (in selected locations) and receivables insurance (for selected receivables).

3.15 Court proceedings

The Group is involved in a number of court proceedings in connection with the ordinary course of its business. These include actions initiated by regulatory authorities, tax authorities, suppliers and customers, claims advanced by employees, contractual disputes, claims for personal injury or property damage that may occur in connection with the Group's services related to projects or construction sites, tax assessments issues, environmental claims and other matters. Many of the Group's agreements contain provisions relating to alternative dispute resolution proceedings that allow to settle any contractual disputes. If the parties to the agreement are unable to reach an agreement, it may be necessary to initiate court proceedings to resolve the dispute.

Apart from the matters disclosed in this document, in 2016 the Group was not involved in any governmental, legal or arbitration proceedings (including any pending or threatened proceedings of which the Group is aware), which in the recent past have had, or in the future may have, a significant impact on the Group's financial standing and profitability.

FINANCIAL STANDING AND ASSETS



4. FINANCIAL STANDING AND ASSETS

4.1 Description of the structure of assets and liabilities and equity of the consolidated financial statements, including in view of liquidity of the Synthos S.A. Group

The structure of assets and liabilities attests to the Group's stable financial standing. Return on equity (ROE) has reached a high level of 13,6%. Liquidity ratios are kept at levels significantly exceeding the values generally recognized as safe. The Group recorded an increase in sales revenues and improved its operating result, which resulted in a higher EBITDA to equity ratio.
The General debt ratio went up from 52% to 67% at yearend 2016, which is still considered a safe value.

The Consolidated Net Leverage Ratio calculated as at 31 December 2016 signifying the ratio of 1) financial debt less cash and cash equivalents to 2) the adjusted operating result plus depreciation computed in accordance with the terms and conditions of the financial documentation related to the Bond issue and the Revolving Credit Facility was **1.95**.

The Fixed Charge Coverage Ratio, calculated for the year as the ratio of (1) adjusted operating result plus depreciation and (2) the amount of interest on financial debt, was **7.92**.

During the financial year the Group did not change its capital management and liquidity policies.

SELECTED POSITIONS OF THE STATEMENT OF FINANCIAL POSITION	31 Dec. 2016	31 December 2015	structure 2016	structure 2015	2016/2015 growth
Non-current assets, of which:	**2,799**	**2,545**	**50%**	**53%**	**110%**
Property, plant and equipment	2,472	2,287	44%	48%	108%
Long-term investments	6	6	0%	0%	100%
Current assets, of which:	**2,837**	**2,247**	**50%**	**47%**	**126%**
Inventories	551	467	10%	10%	118%
Trade and other receivables	1,085	666	19%	14%	163%
Cash and cash equivalents	1,152	1,051	20%	22%	110%
Equity, of which:	**1,883**	**2,306**	**33%**	**48%**	**82%**
Share capital	40	40	1%	1%	100%
Non-current liabilities	**3,000**	**2,023**	**53%**	**42%**	**148%**
Liabilities on loans, borrowings and other debt instruments	**2,548**	**1,685**	**45%**	**35%**	**151%**
Other non-current liabilities, financial leases	**31**	**30**	**1%**	**1%**	**103%**
Current liabilities	**753**	**463**	**13%**	**10%**	**163%**
Liabilities on loans, borrowings and other debt instruments	**22**	**21**	**0%**	**0%**	**105%**

STATEMENT OF COMPREHENSIVE INCOME	from 1 January 2016 to 31 December 2016	from 1 January 2015 to 31 December 2015
Net revenues on sales of products, goods and materials	4,755	4,058
Costs of services sold	(3,862)	(3,301)
Gross profit (loss) on sales	**893**	**757**
Profit (loss) on operating activities	**451**	**450**
Financial income	38	31
Financial expenses	(154)	(56)
Profit (loss) before tax	**335**	**467**
Income tax	(79)	(41)
Net profit (loss)	**256**	**426**

	2016	2015
LIQUIDITY RATIOS		
Working capital	954	754
Current ratio	3.77	4.85
Quick ratio	3.04	3.84
PROFITABILITY RATIOS		
Return on equity (ROE)	13.60%	18.47%
Return on assets (ROA)	4.54%	8.89%
Net return on sales (ROS)	5.38%	10.50%
EBITDA / equity	35.16%	26.76%
DEBT RATIOS		
General debt ratio	67%	52%
Debt to equity ratio	199%	108%

4.2 Key drivers of operating performance

The Group's operating performance is affected by a number of factors; many of them influence the chemical industry as a whole. They include: global supply and demand on the end markets on which the Group's clients compete, raw material prices, general economic conditions and ensuring compliance with environmental regulations. The Group's operating performance and cash flows are also subject to structural and operational factors specific to the Company, such as a broad product offering or geographic diversification through intensification of the sales of the Synthos Group products in North and South American markets.

Economic environment, demand and cycles on end markets for chemicals

The Group's operations comprise production and sales of chemicals used in a broad range of industries, including in particular in the automotive, packaging and construction industries. These branches and consequently also demand for the Group's products, are affected by the general business conditions. The Group's operations are also cyclical and, what is even more important, the variation in the balance between supply and demand in the chemical industry. The Group's future operating results may still be subject to such cycles and variation.

Increase of the Group's revenues depends on the overall situation in Poland and on a broader European and global business environment.

In the past, the results of the Group's activity were affected (and it is expected that the Group's financial performance will continue to be affected) by the key macroeconomic factors, such as GDP growth, inflation, interest rates, exchange rates and unemployment rates.

Automotive and construction industry

The Synthos S.A. Group's operations are largely dependent on market conditions in the industries which use the raw materials and indirect products of the Group, including in particular the automotive and the construction industry.

In 2016, good business conditions persisted in the European automotive industry. Throughout the year, the European Union's passenger car sales were 14,641,356 cars. The number of new cars registered rose by 6.8% over 2015 (source: European Automobile Manufacturers' Association (ACEA)). The largest growth was recorded by Italy (15.8%) and Spain (10.9%). In France, growth was 5.1%, in Germany it was 4.5% and the United Kingdom it was 2.3%.

In 2016, 206.7 million so-called consumer replacement tires (tires for passenger cars, SUVs and trucks with a weight of up to 3.5 tons) were sold in the European Union, i.e. 1.9% more than in 2015.

The tire industry consumes approx. 70% of the global production of SBR rubbers.

In the long run, a real increase in demand for tires is expected on Asian markets, such as China and India and, to a lesser extent, on South-American markets (mainly Brazil). In addition, the Group's operating results are subject to long-term effect of the tire labelling regulations, which boosted demand for NdBR and SSBR rubber used in the manufacture of modern summer tires and winter tires with improved performance in terms of their resistance to wear and tear, rolling resistance and traction on a wet surface.

The next important factor supporting the performance of the rubber industry in the years to come will be the increasing use of the production capacity of the SSBR rubber installation commissioned in 2015.

2016 was characterized by bad market conditions in the Polish construction industry. In the period from January to December 2016, construction and assembly output was 14.1% lower than a year earlier when growth of 2.8% was recorded (based on data from the Central Statistical Office, January 2017).

This situation affected the performance of the Dispersions, Adhesives and Latexes Segment of the Synthos S.A. Group, since a large portion of its products is used by the construction industry.

In 2017, the economic situation in the domestic construction industry is expected to improve. Moreover, the improved results in the adhesives area should be favorably affected in the medium term by the gradual expansion of the product portfolio as well as an increase in the scale of business.

Variation of raw material prices

Prices of raw material are an important component of the Group's operating expenses. In the year ended 31 December 2016, the Group's costs of raw materials purchases accounted for 75.3% of total operating expenses. The Group's key raw materials include: butadiene, styrene, ethylbenzene, butyl acrylate, vinyl acetate monomer, ethylene, benzene and C4 fraction. Accordingly, the Group's operating expenses may be directly influenced by the volatility of the costs of raw materials, which are affected by global demand and supply and other factors beyond the Group's control. The prices for the Group's raw materials are to some extent correlated with global crude oil prices, since oil is the initial raw material of the European crackers, which in turn supply the raw materials to the Group. In Europe, the prices of raw materials purchased by the Group are only to a slight extent dependent on gas prices.

Generally, the Group attempts to transfer the increases in raw material prices to its customers. However, in connection with the price pressures and other forms of competitive and market pressures, the Group may be unable to transfer all or any such costs. Moreover, the volatility of the costs of such raw materials makes it difficult to manage prices and there may be a delay between the hike of raw material prices and the rise of prices for the Group's clients. Even though the changes in raw material prices usually drive the changes of product prices in the long term, the prices for the Group's products may not immediately reflect the changes in raw material prices because of the pricing mechanisms employed by the Group or delays in updating the prices for Group's products. This affects the Group's capacity to transfer price hikes to its customers on a timely basis. Accordingly, variation of raw material prices may have a significant impact on profit before tax, gross margin or other operating results of the Group.

Moreover, in order to optimize such price variations in long-term contracts to supply raw materials, the price formulas in such contracts signed by the Group reflect the current situation on the raw materials market. The formulas used in the contracts reduce the risk of high deviations between contracted purchase prices and market prices. Backward integration and obtaining long-term supply contracts at attractive prices are the key factors that allow the Group to control its raw material costs.

Any changes in raw material prices have a direct impact on the level of the Group's working capital. Generally, rising prices lead to increased working capital requirement by the Group; falling prices result in lower demand for working capital.

Variation of margins and supply of and demand for Group's products

Margins on the Group's markets are strongly affected by industrial capacity utilization, which in turn is affected by the supply and demand of products and the costs of the major commodities. Certain markets, such as plastics and synthetic rubber markets, are more mature and therefore their overall growth is usually more correlated with movements in global GDP. As demand for products increases and comes nearer to the level of available supply, capacity utilization increases along with prices and margins. Supply on the Group's markets are usually cyclical and features periods of limited sales, which drive up operating rates and margins, which is followed by the periods of oversupply, usually stimulated by the development of additional production capacities, which in turn cause a reduction in operating rates and margins.

In addition to cyclicality, the Group's margins are also susceptible to potential significant short-term volatility caused by various factors, such as scheduled and unscheduled stoppages, political and economic conditions affecting prices and changes in inventory management policies by clients (such as building inventories or reducing inventories in the periods of expected price hikes).

Current and future environmental regulations

The Group is subject to extensive environmental and occupational health and safety regulation at both national and European level. There are numerous laws that affect the Group's operations and the Group incurs and expects to continue to incur significant capital expenditures to ensure compliance with the current and future laws and regulations. The Group may also incur the costs of remediation measures, liquidation and ongoing upgrades and the costs of compliance with the requirements in connection with its production facilities and other real properties. Nevertheless, the Group is convinced that the potential costs of corrective measures will not be high and does not expect them to affect the results of its operation.

The REACH regulation imposed significant obligations on the Group and the entire chemical industry in respect to testing, evaluation and registration of key chemicals and semi-finished chemical products. The Classification, Labelling and Packaging Regulation ("**CLP**") imposes on the group significant obligations in respect to testing, evaluation and registration of key chemical products, which are expensive, time-consuming, drive up the Group's production costs and erode operating margins earned on the Group's products.

The Group expects that within the next few years it will be additionally affected by new environmental requirements arising, among others from the Industrial Emissions Directive ("**IED**") and the EU Emissions Trading System ("**EU ETS**"). The Group is striving to follow the increasing environmental awareness of its customers by producing NdBR rubbers used to manufacture tires with improved operational parameters that reduce fuel consumption. Moreover, the Group participates in the development of alternative paths of obtaining butadiene from renewable sources. The Group is also considering building a municipal waste incineration plant that would comply with the Polish national waste management regulations.

Exchange rate fluctuations

The Group operates internationally and consequently it is exposed to various currency risks, in particular in respect to EUR, PLN, USD and CZK. The presentation currency used in the financial statements is Polish zloty, however in 2016, 76% of the Group's revenues and 90% of its costs were linked to transactions settled in currencies other than Polish zloty. Accordingly, the Group is affected by transactions in foreign currencies and the effects of currency conversion and FX rate fluctuations. In the recent years, the value of these currencies vs. Polish zloty has fluctuated significantly. This situation may recur in the future. The possible depreciation of these currencies vs. Polish zloty will reduce the PLN equivalent of these amounts, which present the operating performance in the consolidated financial statements. A possible appreciation of these currencies will increase these amounts accordingly. FX rate fluctuations affect the amount of sales revenues and the cost of raw material purchases. Appreciation of the Polish zloty against other currencies may have a negative effect on the profitability of the Group's export and domestic sales, however such changes in export and domestic sales revenues caused by FX rate fluctuations are partially offset by changes in the costs of importing raw materials. One of the consequences of the fact that the Group purchases raw materials, sells products, incurs loans and borrowings and holds cash in foreign currencies, is that the Group has been and will be exposed to FX rate changes, which may materially influence the its operating results, assets and liabilities and cash flows expressed in Polish zlotys. FX rate volatility may also interfere significantly with the comparability of operating results in individual periods.

Threats and risks of disruption related to chemical production

The Group is exposed to typical threats and risks of disruption related to chemical production and the related storage and transportation of raw materials, products and waste. Such potential risks and disruptions include, among others, explosion, fire, adverse weather conditions and natural disasters, as well as failures of mechanical devices ensuring safety of the process and reducing the emission of pollutants.

If any disruption occurs, alternative plants with adequate capacity may not be available, may cost much more or may require ample time to launch production, which may adversely affect the Group's operations and financial results. Even though such events are nothing out of ordinary, they occur rarely, no more frequently than once or twice a year and usually are short-lasting.

On 13 August 2015, as a result of a failure of the ethylene installation, a fire broke out in the Chempark Zaluži chemical facilities in Litvinow in the Czech Republic owned by the Unipetrol Group (which is part of the PKN Orlen Group).

Synthos Group sources raw materials from the cracking installation at facilities owned by Grupa Unipetrol and is connected to these facilities by a pipeline used to feed C4 fraction, ethylene and benzene to Synthos' production facilities in the Czech Republic. The failure and fire put a temporary halt to supplies of raw materials. Consequently, once reserves of materials have been exhausted, the Synthos Group turned to alternative supply sources. The supplies of this raw material from the steam cracking installation following its repair in late October 2016 were restored.

4.3 Presentation of financial information

For the purpose of this discussion of the results of the Group's activity, the key items of the statement of comprehensive income are: sales revenues, costs of sales, selling expenses, other operating income, general and administrative expenses, other operating expenses, financial income, financial expenses, income tax and net profit. This discussion refers also to EBITDA and the Group's performance by operating segment

Sales revenues

Sales revenues include revenues on sales of merchandise and finished products, provision of services, materials and rental income related to investment property.

Segment results

Segment results include sales revenues of each segment reduced by the total cost allocated to such segment. Reconciliation of segment results with profit before tax is presented in the Consolidated Financial Statements.

Costs of sales

Costs of sales include, among others, consumption of materials and energy, salaries and cost of purchase of goods and materials sold.

Selling expenses

Selling expenses include, among others, costs of transportation, loading and unloading, customs duties, trading fees and insurance of goods.

General and administrative expenses

General and administrative expenses include general expenses associated with the operation of the management board and general production expenses associated with the maintenance and operation of general purpose units.

Other operating income

Other operating income include, among others, revenues associated with the sale of fixed assets, reversal of provisions, impairment losses, indemnities from insurance companies and contractual penalties.

Other operating expenses

Other operating expenses include, among others, restatement of provisions, impairment losses, charges and costs of unused production capacity.

Financial income

Financial income includes revenues on the valuation of derivatives, interest according to the amortized cost using the effective interest rate, FX gains net of FX losses on account of cash assets, loans and borrowings and other assets and liabilities.

Financial expenses

Financial expenses include interest paid calculated using the effective interest rate, FX differences net of positive FX differences on account of cash assets, loans and borrowings and other assets and liabilities.

Income tax

Income tax includes the cost of current and deferred income tax.

Net profit

Net profit is calculated as total income less total expenses.

EBITDA

EBITDA is calculated as operating profit plus depreciation of property, plant and equipment and amortization of intangible assets.

4.4 Result on the Group's activity

The table below presents the consolidated result on the Group's activity in each of the stated periods.

	from 1 January 2016 to 31 December 2016	from 1 January 2015 to 31 December 2015
Sales revenues	4,755	4,058
Cost of sales	(3,862)	(3,301)
Gross profit	**893**	**757**
Selling expenses	(152)	(126)
General expenses	(203)	(164)
Cost of research and development work	(30)	(16)
Other operating (expenses)/income	(57)	(1)
Operating profit	**451**	**450**
Financial income	38	31
Financial expenses	(154)	(56)
Profit on the sale of financial assets available for sale	-	42
Profit before tax	**335**	**467**
Income tax	(79)	(41)
Net profit	**256**	**426**
Components of other comprehensive income that may be reclassified to the net result in a future period:		
FX differences from converting foreign operations	45	23
Measurement of financial assets available for sale	-	(48)
Valuation of pension plans	(23)	-
Net other comprehensive income	**22**	**(25)**
Total comprehensive income	**278**	**401**
Profit attributable to:		
Parent Company shareholders	256	426
Net profit for the financial year	**256**	**426**
Comprehensive income attributable to:		
Parent Company shareholders	278	401
Total income for the period	**278**	**401**

4.5 Year ended 31 December 2016 compared to the year ended 31 December 2015

Sales revenues

Total sales revenues in the year ended 31 December 2016 were PLN 4,755 million and were PLN 697 million or 17.2% higher than PLN 4,058 million in the year ended 31 December 2015.

The table below presents the Group's historical sales revenues for the years ended 31 December 2016 and 2015.

	from 1 January 2016 to 31 December 2016	from 1 January 2015 to 31 December 2015
Revenues on sales of products	4,421	3,782
Revenues on sales of services	51	37
Revenues on sales of goods and materials	282	238
Rental income from investment properties	1	1
	4,755	**4,058**

Segment analysis for the year ended 31 December 2016 compared to the year ended 31 December 2015

The segment result in the year ended 31 December 2016 was PLN 508 million, making it PLN 57 million or 12.6% higher than PLN 451 million in the year ended 31 December 2015.

The table below presents the Group's historical sales revenues and results for the years ended 31 December 2016 and 2015, by operating segment.

	from 1 January 2016 to 31 December 2016	from 1 January 2015 to 31 December 2015
Sales revenues		
Synthetic Rubber Segment	2,146	1,870
Styrene Plastics Segment	2,111	1,697
Dispersions, Adhesives and Latexes Segment	195	184
AGRO Segment	81	76
Other operations	222	231
Total sales revenue	**4,755**	**4,058**
Costs by segment		
Synthetic Rubber Segment	(1,852)	(1,650)
Styrene Plastics Segment	(1,955)	(1,549)
Dispersions, Adhesives and Latexes Segment	(177)	(169)
AGRO Segment	(83)	(69)
Other operations	(180)	(170)
Total costs	**(4,247)**	**(3,607)**
Segment results		
Synthetic Rubber Segment	294	220
Styrene Plastics Segment	156	148
Dispersions, Adhesives and Latexes Segment	18	15
AGRO Segment	(2)	7
Other operations	42	61
Total segment results	**508**	**451**

Synthetic Rubber Segment

The result of the Synthetic Rubber Segment in the year ended 31 December 2016 was PLN 294 million and was PLN 74 million or 33.6% higher than PLN 220 million in the year ended 31 December 2015.

The increase in the Segment's result is a consequence of greater sales volumes of products and improved unit margins in the ESBR and NdBR rubbers.

Styrene Plastics Segment

The result of the styrene plastics segment in the year ended 31 December 2016 was PLN 156 million and was PLN 8 million or 5.4% higher than PLN 148 million in the year ended 31 December 2015.

This increase stems from a greater quantity of products sold, especially EPS and XPS, at margin levels comparable to or lower than those of the previous period.

Dispersions, Adhesives and Latexes Segment

The result of the Dispersions, Adhesives and Latexes Segment in the year ended 31 December 2016 was PLN 18 million and was PLN 3 million or 20.0% higher than PLN 15 million in the year ended 31 December 2015.

The increase in the Segment's result is a consequence of greater sales volumes and improved unit margins.

Agro Segment

The result of the Agro Segment in the year ended 31 December 2016 was PLN -2 million and was PLN 9 million or 128,6% lower than PLN 7 million in the year ended 31 December 2015.

This decline resulted predominantly from lower margins caused by the competitors' aggressive pricing policy and higher costs of research and development work associated with new product registrations.

Other Operations

The result of the Other Operations Segment, covering utilities and products not classified into any of the above segments, in the year ended 31 December 2016 was PLN 42 million and was PLN 19 million or 31.2% lower than PLN 61 million in the year ended 31 December 2015.

This change was driven predominantly by a weaker performance of the energy business due to a lower sales volume of utilities.

Costs of sales

Costs of sales in the year ended 31 December 2016 were PLN 3,862 million and were PLN 561 million or 17.0% higher than PLN 3,301 million in the year ended 31 December 2015.

This change was driven by an increase in the volume of sales recorded in 2016, including improved sales of EPS, largely related to the acquisition of the EPS business from the INEOS Group in the second half of the year.

Selling expenses

Selling expenses in the year ended 31 December 2016 were PLN 152 million, up by PLN 26 million or 20.6% from PLN 126 million in the year ended 31 December 2015.

The increase in selling expenses is correlated with increased levels of product sales volumes.

General and administrative expenses

General and administrative expenses in the year ended 31 December 2016 were PLN 203 million, up by PLN 39 million or 24.8% from PLN 164 million in the year ended 31 December 2015. The increase in the general and administrative expenses resulted mostly from the acquisition of new entities.

Other operating income

Other operating income in the year ended 31 December 2016 were PLN 73 million, up by PLN 51 million or 231.8% from PLN 22 million in the year ended 31 December 2015. The main items which drove the increase in other operating income in 2016 were a reversal of a provision for finished goods in the SSBR rubbers group of PLN 20 million and recognition of a settlement of grands received on amount of PLN 18 million.

Other operating expenses

Other operating expenses in the year ended 31 December 2016 were PLN 130 million, up by PLN 107 million or 465.2% from PLN 23 million in the year ended 31 December 2015. The increase in other operating expenses was driven mainly by creation of an additional provision for liquidation of inactive industrial facilities in the amount of PLN 46 million. Moreover, another element influencing the increase was development work revaluation write-offs of PLN 38 million. The main factor behind the write-off was the efficiency ratio of these projects which turned out to be lower than expected.

Financial income

Financial income in the year ended 31 December 2016 was PLN 38 million and was PLN 7 million or 22.6% higher than PLN 31 million in the year ended 31 December 2015. This increase was driven mainly by gains on financial derivatives.

Financial expenses

Financial expenses in the year ended 31 December 2016 were PLN 154 million, up by PLN 98 million or 175.0% from PLN 56 million in the year ended 31 December 2015. The increase in financial expenses was mainly due to negative FX differences.

Income tax

Income tax in the year ended 31 December 2016 was PLN 79 million, up by PLN 38 million or 92.7% from PLN 41 million in the year ended 31 December 2015.

The Group's effective tax rate in the years ended 31 December 2016 and 2015 was 24% and 9%, respectively. In 2016, the Group recognized an additional tax liability in its corporate income tax for 2010-2015 in the amount of PLN 63 million. The related proceedings are currently at the stage of appeals filed with the Tax Chamber in Kraków and complaints filed with the Voivodship Administrative Court in Kraków.

Net profit

For the above reasons, net profit for the year ended 31 December 2016 was PLN 256 million, down by PLN 170 million or 39.9%% from PLN 426 million in the year ended 31 December 2015.

EBITDA

In the year ended 31 December 2016 the Group's EBITDA was PLN 662 million, up by PLN 45 million or 7.3% from PLN 617 million in the year ended 31 December 2015. The growth in EBITDA ensued chiefly from better performance in the synthetic rubber and styrene plastics segment.

The table below provides the Group's historic EBITDA by segment for the years ended 31 December 2016 and 2015.

	from 1 January 2016 to 31 December 2016	from 1 January 2015 to 31 December 2015
Synthetic Rubber Segment	363	276
Styrene Plastics Segment	226	207
Dispersions, Adhesives and Latexes Segment	29	25
AGRO Segment	3	10
Other operations	41	99
Total	**662**	**617**

4.6 Liquidity and capital resources

Historically, the Group's liquidity needs have resulted mainly from the need to finance capital expenditures, working capital, dividend payments and service the Group's debt. The Group's main source of liquidity consists of operating cash, credit lines, disposal of assets and EU subsidies for capital expenditures.

Cash flows

The table below presents the Group's consolidated cash flows for each of the stated periods.

	from 1 January 2016 to 31 December 2016	from 1 January 2015 to 31 December 2015
Net cash on operating activity	482	732
Net cash on investing activity	(414)	(284)
Net cash on financing activity	8	(183)

Net cash on operating activity

In the year ended 31 December 2016, net cash on operating activity was PLN 482 million, down by PLN 250 million or 34.2% from PLN 732 million in the year ended 31 December 2015. This decline was driven mainly by higher demand for working capital which resulted from higher prices for the main products in the latter half of the year and ramping up the magnitude of the EPS segment as a result of acquiring the EPS business from the INEOS Group.

Net cash on investing activity

Net cash used in investing activity in the year ended 31 December 2016 was PLN 414 million, up by PLN 130 million or 45.8% from PLN 284 million in the year ended 31 December 2015. The movement in cash used in investing activity resulted primarily from the acquisition of the EPS business from the Ineos Group.

Net cash on financing activity

In the year ended 31 December 2016, net cash on financing activity was PLN 8 million, up by PLN 191 million or 104.4% from PLN -183 million in the year ended 31 December 2015. The main reason for the change was an increase in net financial debt by PLN 784 million and the payment of an interim dividend of approx. PLN 701 million in 2016.

Working capital requirement

The Group defines working capital as current assets less cash less short-term liabilities, excluding financial liabilities. The Group's net working capital requirement depends mainly on the prices of raw materials, the sale prices of products and on the management of receivables, liabilities and inventories.

As at 31 December 2016, net working capital was PLN 954 million, up PLN 200 million from PLN 754 million at yearend 2015. This growth was driven by higher prices for the main products in the latter half of the year and ramping up the magnitude of the EPS segment as a result of acquiring the EPS business from the INEOS Group.

Off-balance sheet arrangements

As at 31 December 2016, the Group had no contingent liabilities towards unaffiliated entities.

Capital expenditures

The Group's capital expenditures for the year ended December 31, 2016, including expenditures on fixed capital formations and the acquisition of EPS business from the INEOS Group, totaled PLN 478 million.

The table below presents the Group's capital expenditures incurred on fixed capital formations, in the specified periods, by operating segment.

	from 1 January 2016 to 31 December 2016	from 1 January 2015 to 31 December 2015
Synthetic Rubber Segment	25	369
Styrene Plastics Segment	43	33
Dispersions, Adhesives and Latexes Segment	9	33
AGRO Segment	3	14
Other operations	106	128
Total	**186**	**577**

The Group implements an extensive capital expenditure program focused on the construction, maintenance and improvement of its production facilities. Considerable capital expenditures are needed to maintain the current production level in the Group's plants, to satisfy the requirements of new regulations and to maintain a license for business activity. Additional capital expenditures are also required for the modernization of the ageing or outdated equipment, to increase energy efficiency, increase production capacity and improve control over processes.

The Group's significant investment projects include in particular: (i) construction of a product formulation plant in the Agro segment; (ii) construction of an installation to produce InVento X in the styrene material segment; and (iii) increase of the production capacity of neodymium butadiene rubber (NdBR). All the capital expenditure amounts stated above are estimates and may change or be modified at any moment.

The Group intends to execute its investment plans, which include organic growth and acquisitions.

4.7 Major equity investments

As at the date of this report, the Group had the following equity investments.

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

Statement of shares held in 2015	**Number of shares**	**Value in PLN million**
- Global BioEnergies	59,625	6

Total	59,625	6

The fair value of financial instruments available for sale has been determined using stock quotations.

4.8 Off-balance sheet items

Limitations of property rights to assets	31 Dec. 2016 [PLN million]
Liability on account of collateral established on property, plant and equipment items	0
Assignment of receivables	377
Assignment of inventories	119

4.9 Financial activity

On 30 September 2014, Synthos Finance AB (publ) with registered seat in Stockholm, Sweden ("**Bond Issuer**"), a subsidiary fully owned by Synthos S.A., issued senior notes with a total nominal value of EUR 350,000,000 ("**Initial Bonds**"). The Initial Bonds bear a fixed interest rate of 4.000% p.a., with interest payable every half a year (on 30 March and 30 September of each year) starting on 30 March 2015 and their maturity date is 30 September 2021. The Initial Bonds were issued for a price equal to 100% of their principal, for a total price of EUR 350,000,000. The Initial Bonds are unsubordinated and rank equally in right of payment to any existing and future unsecured unsubordinated debt.

The Initial Bonds are unsecured and guaranteed jointly and severally by Synthos S.A., Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna, SYNTHOS Kralupy a.s., TAMERO INVEST s.r.o. and SYNTHOS PBR s.r.o. ("**Guarantors**"). The guarantee extended by the Guarantors covers all the obligations of Synthos Finance AB (publ) under the Initial Bonds (including the obligation to repay the face value of the Initial Bonds and interest on the Bonds) and has been extended to all Bondholders. The guarantee will expire after the expiration of the Bondholders' claims against Synthos Finance AB (publ). The fee charged for the extension of the guarantee was awarded on an arm's length basis.

In connection with the Initial Bond issue, the group is also subject to covenants which are typical for high-yield bonds, which may impair its ability to finance future activity and capital needs and to take advantage of business opportunities and conduct current operations. These covenants are subject to numerous exceptions and exclusions and therefore if certain terms and conditions are met, the debt amount incurred in compliance with those covenants may be considerable.

The Initial Bonds are listed on the Official Listing Market of the Irish Stock Exchange and have been admitted into trading on the Global Exchange Market.

The Initial Bond Issue Agreement, the Initial Bonds and Guarantees are governed by New York state law and will be construed accordingly.

At the same time, in order to transfer the proceeds from the Initial Bond issue, the Company's Management Board adopted a resolution on 30 September 2014 on the issue of intra-group bonds, which were subscribed by Synthos Finance AB (publ) and which are unsecured registered bonds issued under the Act on Bonds of 29 June 1995. The par value of the intra-group bonds is EUR 350,000,000 and corresponds to the par value of the Bonds. The total issue price of the intra-group bonds is EUR 344,001,000. The proceeds from the intra-group bond issue have been designated for repayment of the Group's debt, payment of Initial Bond issue costs and for general corporate purposes of the Group. The maturity date of the date of payment of interest on the intra-corporate bonds correspond to those applicable to the Bonds.

Additional Bonds

On 2 April 2015, Synthos Finance AB (publ) with registered seat in Stockholm, Sweden, a subsidiary fully owned by Synthos S.A., issued senior note bonds with a total par value of EUR 50,000,000, fixed interest of 4.000% per annum and maturity on 30 September 2021 ("**Additional Bonds**"). The Additional Bonds are an additional issue ("tap issue") for the Initial Bonds.

As in the case of the Initial Bond issue, the obligations of Synthos Finance AB (publ) under the Additional Bonds were secured by a guarantee extended, jointly and severally, by the Guarantors.

At the same time, in order to transfer the proceeds from the Additional Bonds, on 2 April 2015, Synthos Finance AB (publ) granted an intra-group loan to Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością sp. j., an indirect subsidiary of Synthos S.A. in the amount of EUR 50 million and with an interest rate of 4.7% p.a. maturing on 30 September 2021.

As in the case of the Initial Bonds, the Additional Bonds were listed on the official listing market of the Irish Stock Exchange and were admitted into trading on the Global Exchange Market.

Loans granted

In the reporting period, on 10 February 2016 Synthos S.A. signed a loan agreement with Green Papper SCSp with a possible debt amount up to EUR 50 thousand with an option of drawing tranches in foreign currencies: PLN, EUR, USD, GBP, CZK. The loan repayment date was set at 31 December 2020 and the interest rate was set as a fixed rate of 4.89% per annum. During the reporting period, a loan of EUR 30 thousand was drawn down and repaid.

On 21 July 2016 FORUM 62 Fundusz Inwestycyjny Zamknięty [Closed-end Investment Fund] (lender) signed a loan agreement with Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna for PLN 245 million. The loan repayment date was set at 31 December 2018 and the interest rate was set as a fixed rate of 4.7% per annum. The entire loan amount of PLN 245 million was disbursed. The entire amount was repaid in the reporting period.

On 26 August 2016 FORUM 62 Fundusz Inwestycyjny Zamknięty [Closed-end Investment Fund] signed a loan agreement with a subsidiary, i.e. Synthos Styrenics Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością spółka komandytowa with a possible debt amount up to PLN 120 million. The entire amount was disbursed. The loan repayment date was set at 31 August 2017 and the interest rate was set as a fixed rate of 4.7% per annum. The drawn down loan was repaid in its entirety during the reporting period.

On 24 August 2016, Synthos Kralupy a. s. signed a loan agreement with Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna with the possible debt amount up to PLN 150 million with the option of drawing tranches in foreign currencies - PLN, EUR, USD, GBP, CZK. The loan repayment date was set at 30 September 2016 and the interest rate was set as fixed at 4.89% per annum. The loan amount of PLN 100 million was disbursed and repaid during the reporting period.

On 24 November 2016, Synthos PBR s.r.o. signed a loan agreement with Styrenics Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością spółka komandytowa with the possible debt amount up to EUR 30 million with the option of drawing tranches in foreign currencies - PLN, EUR, USD, GBP, CZK. The loan repayment date was set at 30 December 2020 and the interest rate was set as a fixed rate of 4.89% per annum. The loan amount of EUR 20 million was disbursed during the reporting period.

On 24 November 2016, Synthos PBR s.r.o. signed a loan agreement with Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna with the possible debt amount up to EUR 20 million with the option of drawing tranches in foreign currencies - PLN, EUR, USD, GBP, CZK. The loan repayment date was set at 30 December 2020 and the interest rate was set as a fixed rate of 4.89% per annum. The loan amount of EUR 15 million was drawn down during the reporting period.

On 24 November 2016, Synthos Kralupy a. s. signed a loan agreement with Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna with the possible debt amount up to EUR 50 million with the option of drawing tranches in foreign currencies - PLN, EUR, USD, GBP, CZK. The loan repayment date was set at 30 November 2020 and the interest rate was set as a fixed rate of 4.89% per annum. The loan amount of EUR 40 million was drawn down during the reporting period.

Explanation of differences between the financial results of the Synthos S.A. Group reported in the annual report and the previously published forecasts of the results for the given year.

Forecasts were not prepared or published.

Evaluation of financial resources management

In 2016, the Group generated operating cash flow of PLN 481 thousand. These funds were earmarked predominantly to finance investments and acquisition targets. In 2016, to secure financial resources for the execution of investment programs and its day-to-day activity, the Group additionally entered into a Revolving Credit Facility up to EUR 220 million, with usage at yearend 2016 being EUR 180 million. In addition, the financial resources of the consolidated Group entities allow for full payment of incurred liabilities. Financial liquidity does not create any threats to the business activity conducted by the Company and its subsidiaries.

4.10 Auditors and internal control and risk management systems in reference to preparing financial statements and consolidated financial statements

Auditor

On 28 July 2016, the Company's Supervisory Board selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. as the entity authorized to audit the Company's financial statements for 2016 and the Group's consolidated financial statements for 2016, and to review the Group's interim consolidated financial statements for H1 2016. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw, at Rondo ONZ 1, 00-124 Warsaw, is entered on the list of entities authorized to audit financial statements (kept by the National Chamber of Statutory Auditors) under the number 130. In the past the issuer has not availed itself of the services of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. The Supervisory Board selected the entity authorized to audit the Company's financial statements based on Article 15.1.b of Synthos S.A.'s Articles of Association, in accordance with the binding regulations and professional standards.

Further to the resolution of 28 June 2016, on 20 October 2016, the Supervisory Board of Synthos S.A. selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw as the entity authorized to audit and review the standalone financial statements of Synthos S.A. and the consolidated financial statements of the Synthos S.A. Group in 2016, 2017 and 2018.

The Supervisory Board selected the entity authorized to audit the standalone financial statements of Synthos S.A. and the consolidated financial statements of the Synthos S.A. Group in 2016, 2017 and 2018 in accordance with the provisions of the Issuer's Articles of Association and in accordance with the binding regulations and professional standards.

On 8 August 2016, the Company entered into a one-year agreement to review and audit its financial statements and consolidated financial statements for 2016 with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw. On 21 October 2016, the Parties executed an annex to the agreement to expand the scope of services to include audits and reviews of the standalone financial statements of Synthos S.A. and other entities belonging to the Synthos Group (based on agreements between these entities and entities belonging to the EY Group) and the consolidated financial statements of the Synthos S.A. Group in 2016, 2017 and 2018.

The auditor's total fee for auditing the annual financial statements and the consolidated financial statements for 2016 and reviewing the condensed financial statements of the Company and the Synthos Group for the first 6 months of 2016 was PLN 110 thousand. The auditor's (and its affiliates) total fee for other assurance services, including reviews of the financial statements of the Company and its affiliates (in all locations) was PLN 1372 thousand. The auditor's fee for other services was PLN 30 thousand.

For the previous year (2015) auditors fee for audit of annual financial statement and revision of shortened financial statements of the Company and its affiliates was PLN 500 thousand.

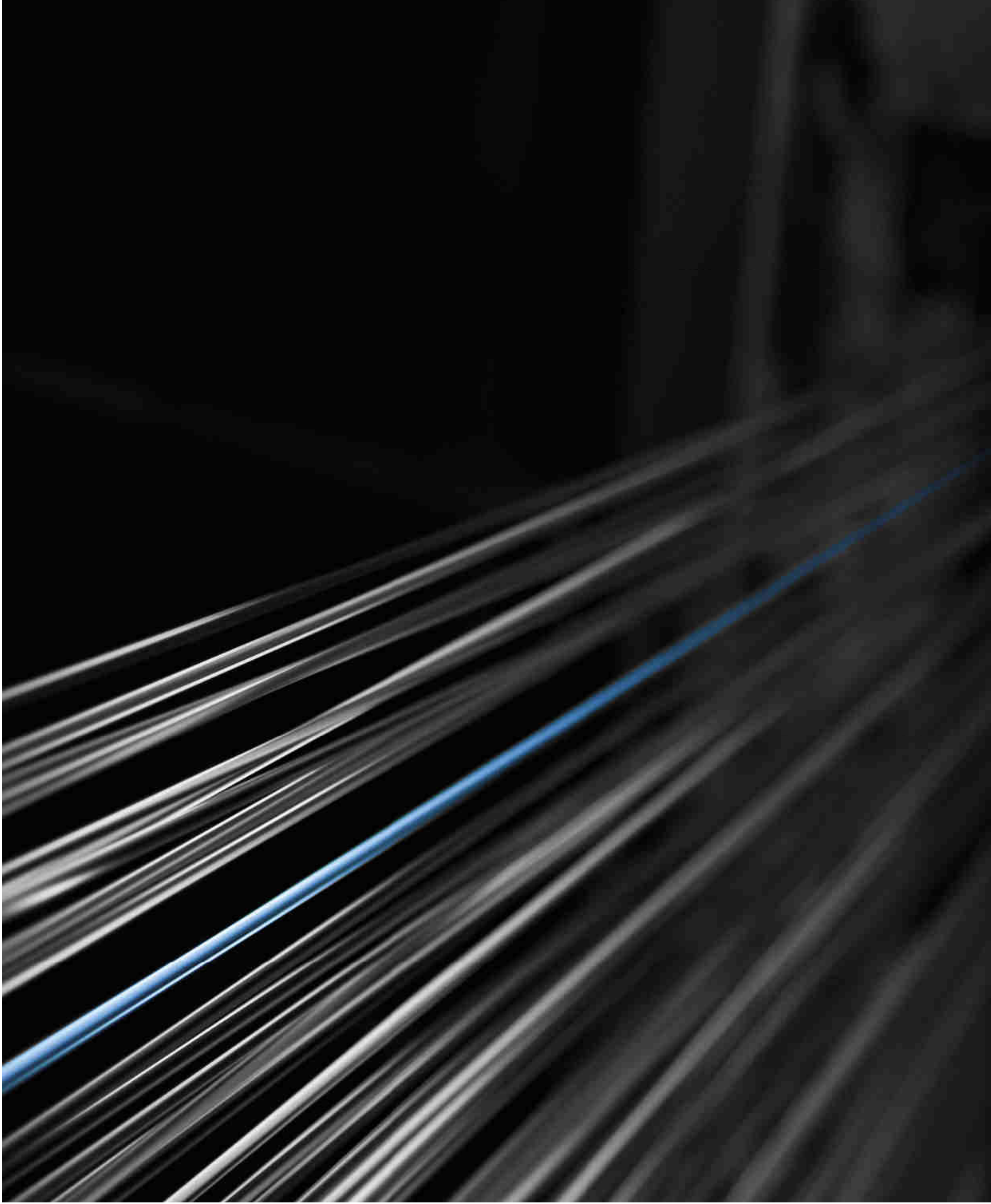
Internal control and risk management system

Internal control and risk management in reference to preparing financial statements are provided on the basis of an internal regulation on financial policies. At the same time, interim reports are prepared on the basis of legal regulations prevailing in this respect (Minister of Finance regulation). The financial data constituting the basis for the financial statements and periodic reports come from the financial and operational reporting used by the Company. Substantive and organizational supervision over preparation of the financial statements is exercised by Financial Director.

The financial statements prepared are verified by the Management Board. One of the most important elements in the process of drawing up the Company's and the Group's financial statements is verification of the financial statements by an independent auditor. The independent auditor is selected by the Supervisory Board. After the auditor completes the audit of the financial statements, they are sent to the Company's Supervisory Board members and the Supervisory Board assesses the Company's and the Group's financial statements.

Additionally, the Company manages the risk associated with preparation of the financial statements through monitoring on an ongoing basis of the changes required by external regulations relating to reporting requirements and preparation for their introduction.

MANAGERIAL STAFF



5. MANAGERIAL STAFF

In accordance with Polish company law, the Company implements its decision-making processes through the Shareholder Meeting, the Supervisory Board and the Management Board. The powers of these corporate authorities and the relations between them are governed by the applicable provisions of the Commercial Companies Code and the provisions of the Company's Articles of Association and internal bylaws, including the Management Board Bylaws and the Supervisory Board Bylaws.

5.1 Supervisory Board

On 4 April 2016 the Company received a declaration from Mr. Krzysztof Kwapisz, the Issuer's Supervisory Board Deputy Chairman on tendering his resignation from the Supervisory Board with effect as of the date of holding the next Shareholder Meeting. This resignation was justified by health reasons. The Company reported the above in Current Report No. 8/2016 of 05 April 2016.

On 25 May 2016 the Ordinary Shareholder Meeting of Synthos S.A. appointed Mariusz Gromek to the Supervisory Board of Synthos S.A. in its 8th term of office, which was publicized under Current Report no. 20/2016 of 25 May 2016.

On 1 June 2016 the Supervisory Board adopted a resolution according to which Synthos S.A. Supervisory Board Member, Mr. Robert Oskard was entrusted with serving in the capacity of Supervisory Board Deputy Chairman as of 1 June 2016. The Company reported this event in Current Report no. 26/2016 of 2 June 2016.

As at the date of publication of this report, the following persons were members of the Supervisory Board:

Name	Age	Position
Jarosław Grodzki	49	Chairman
Robert Oskard	54	Deputy Chairman
Grzegorz Miroński	48	Secretary
Wojciech Ciesielski	53	Member
Mariusz Gromek	56	Member

The following is a summary of professional experience of the Supervisory Board members:

Jarosław Grodzki graduated from the Department of Finance and Statistics at the Warsaw School of Economics (SGH). In 1994, he completed his studies in the Postgraduate Tax College at the Warsaw School of Economics. From 1992 to December 1997, he worked for Bank Handlowy w Warszawie S.A. He participated in the organization of the Capital Operations Center of Bank Handlowy w Warszawie S.A. and then joined Bank Handlowy's Department of Securities Issues, starting as a section manager and ending as Department Head. In 1996, he was appointed to the position of Director of the Financial Consulting Department. In the first half of 1998, he was an Advisor to the President of the Management Board of Hydrocentrum S.A. In the same year, he joined Echo Investment S.A., initially as Director of the Sales Division, then as Vice President of the Management Board and in 2007-2008 as President of the Management Board of Echo Investment S.A Since 2009 he has held a position of a person discharging managerial responsibilities in a group of companies that remain under control of Mr. Michał Sołowow, currently, among others, he is the President of the Management Board in: FTF Columbus S.A., Ustra S.A., FTF Galleon S.A. and the Member of Supervisory Board in, among others, Sklepy Komfort S.A., North Food S.A. Since 2011 he has been the Chairman of the Supervisory Board of Synthos S.A., since 2015 he has held a position of the Member of the Supervisory Board of Rovese S.A.

Grzegorz Miroński is a lawyer. In 1992, he graduated from the Faculty of Law and Administration at the Jagiellonian University in Kraków. Since 1997, he has been providing legal services to a number of businesses, including several companies listed on the Warsaw Stock Exchange. In 1997, he commenced his regular cooperation with Echo Investment S.A. where he advised on the largest investments and a number of transactions related to the company's financing as well as on the conduct of day-to-day operations. Moreover, Mr. Miroński assisted Cersanit S.A., Barlinek S.A., Media Projekt Sp. z o.o. on various investment and financial projects. Mr. Miroński runs a law firm and is a member of the supervisory boards of the following companies: FTF Columbus S.A, FTF Galeon S.A., Ustra S.A., Barlinek S.A, Sklepy Komfort S.A., North Food S.A. Mr. Miroński is also a current member of the Supervisory Board of Synthos S.A. and previously was a member of the Synthos S.A. Supervisory Board of the 5th term of office until 10 October 2007.

Wojciech Ciesielski is a lawyer. He graduated from the Faculty of Law and Administration at the Jagiellonian University in Kraków. From 1987 to 1990, he was a court legal trainee at the District Court in Kielce. In 1990, he earned a judicial qualification. Since 1991, he has served as head of the legal team, commercial proxy, member of various management boards and member of various supervisory boards in the group of Michał Sołowow's companies. From 2002 to 2004, he was a member of the Supervisory Board of 'Orbis'. From 2005 to 2011, he was a member of the Supervisory Board of Synthos S.A. From 2003 to 2015, he was a member of the Supervisory Board of Echo Investment S.A., from 2015 to 2017 he was a member of the Supervisory Board of Rovese S.A.

Robert Oskard graduated from the Faculty of Technical Physics and Applied Mathematics at the Warsaw University of Technology. In 1987-1990, he worked for Fabryka Łożysk Tocznych Iskra where he was involved in designing and programming IT systems. In 1990-1992, he worked for the Voivodship Office in Kielce as a Voivodship IT Specialist. In 1992-2000, he worked for Exbud S.A., among others, as Director of the Department of Planning and Economic Analysis, Director of the Development Department, Director of the Department of Management Systems. In 2000-2002, he served as Director of Strategic Projects in Echo Investment S.A. Mr. Oskard served as Chairman or Member of more than ten supervisory boards, including in several public companies. Currently, he is a member of the management board of: FTF Columbus S.A., Ustra S.A., FTF Galleon S.A, and a member of supervisory boards, among others, of the following companies: Barlinek S.A., Rovese S.A., Synthos S.A., Sklepy Komfort S.A.

Mariusz Gromek studied at SGPiS (presently the Warsaw School of Economics) in the Foreign Trade Faculty. In 1990-1991 he worked for EXBUD2 Sp. z o.o., among others, as Proxy of the Management Board of EXBUD S.A. responsible for Restructuring, then in 1992 for TERIKO Sp. z o.o. in Kielce as a co-shareholder and Sales Director. In 1992-1993 he ran his own business as a sole proprietorship. In 1993-1994 he worked for MITEX-TRADE Sp. z o.o. as Director of Wholesale Sales and then as Sales Director. In 1994 he started to work for P.L.I. S.A. as Director of the Supermarket Chain, then as Sales Director. From 1995 he acted in the capacity of Vice-President of the Management Board, while in 1997-1999 in the capacity of President of the Management Board of P.L.I. S.A. (later its name was NOMI S.A.). In 2000-2002 he acted in the capacity of President of the Management Board of Cersanit S.A. He was a Supervisory Board Member of Cersanit S.A. in 2003-2006and the Supervisory Board

Member of Barlinek S.A. in 2003-2016. Mr. Mariusz Gromek presently sits in the Supervisory Board of Oncoarendi Therapeutics sp. z o.o.

Activities of the Supervisory Board

The Supervisory Board oversees the Company's business in accordance with the provisions of the Commercial Companies Code and other applicable regulations. The Supervisory Board is also authorized to execute agreements on behalf of the Company with Management Board members and represent the Company in disputes with Management Board members. The Supervisory Board may authorize, by way of a resolution, one or more of its members to perform such legal actions.

Pursuant to Article 14 of the Company's Articles of Association, the Supervisory Board consists of at least five members. The composition of the Supervisory Board is each time determined by the Shareholder Meeting. Supervisory Board members are appointed for a 3-year joint term of office, which does not preclude the right to recall any Supervisory Board member prior to that. Pursuant to Article 385 of the Commercial Companies Code, the Shareholder Meeting appoints and dismisses the Supervisory Board. The Articles of Association do not provide for any other method of appointing or dismissing any Supervisory Board members. In accordance with the provisions of the Articles of Association, the Supervisory Board elects from among its members the Chairperson and one or two Deputy Chairpersons and the Secretary. In order to properly perform its duties, the Supervisory Board may appoint special teams and experts from outside the Supervisory Board to prepare opinions or expert reports on an as-needed basis. The Supervisory Board performs its tasks and exercises its powers collectively at Supervisory Board meetings by voting in writing and by exercising the oversight and control functions in the following forms: (i) the right to request the Management Board and the Company's employees to present any and all documents, reports or explanations concerning the Company's business, and (ii) the right to review the Company's asset position.

The Supervisory Board holds its meetings as needed but not less frequently than once per quarter. Supervisory Board meetings are convened by the Supervisory Board Chairperson or, if this person is not able to do that for objective reasons, by one of the Deputy Chairpersons, and if that possibility does not exist, by any Supervisory Board member. Supervisory Board meetings are convened at the initiative of the Supervisory Board Chairperson's initiative or in response to a written motion submitted by the Management Board or a Supervisory Board member. The Supervisory Board prepares and submits to the Shareholder Meeting a report on the results of audits of the Company's financial statements and the Management Board's motion on the distribution of profit/coverage of loss together with the report of the Supervisory Board's activity.

Supervisory Board Committees

No committees operate in the Supervisory Board. All issues are examined collectively by the Supervisory Board and all decisions are made in the same manner. Members of the Supervisory Board have the knowledge and competence appropriate for the discharge of their functions. The Supervisory Board acts as an audit committee.

Remunerations, bonuses and other benefits

The Supervisory Board Chairperson and Supervisory Board Members have severance payments guaranteed in their contracts. The severance payments are expressed as a multiple of their remuneration or as an amount expressed in thousands of Polish zloty.

Remunerations of Supervisory Board Members	2016	2015
Jarosław Grodzki	85	88
Krzysztof Kwapisz (until May 25,2016)	29	61
Grzegorz Miroński	49	48
Robert Oskard	55	49
Mariusz Gromek (since May 25, 2016)	25	-
Wojciech Ciesielski	48	21
Mariusz Waniołka	-	35

Shares and ownership interests in the Company's related entities

The Company's Supervisory Board members do not hold any ownership interests or shares in the Company's subsidiaries or affiliates.

Shares in the Company held by Supervisory Board members as at 31 December 2016 and as at the date of preparation of this report

Name	Number of shares held as at 31 December 2016	Number of shares held as at the date of this report	Par value of shares held [PLN]
Jarosław Grodzki Supervisory Board Chairman	350	350	10.5
Robert Oskard Supervisory Board Deputy Chairman	0	0	0
Grzegorz Miroński Supervisory Board Secretary	0	0	0
Wojciech Ciesielski Supervisory Board Member	0	0	0
Mariusz Gromek Supervisory Board Member	0	0	0

5.2 Management Board

On 01 June 2016 the Synthos S.A. Supervisory Board adopted a resolution according to which Synthos S.A. Management Board Member, Mr. Tomasz Piec was entrusted with serving in the capacity of Vice-President of the Management Board of SYNTHOS S.A. as of 1 June 2016. The Company reported this event in Current Report no. 26/2016 of 2 June 2016.

On 27 December 2016 the Company received a declaration from Mr. Tomasz Kalwat, the President of the Issuer's Management Board on tendering his resignation from membership in the Management Board as of 31 December 2016, which the Company reported in Current Report no. 47/2016 of 28 December 2016.

On 9 January 2017 the SYNTHOS S.A. Supervisory Board adopted a resolution to entrust Mr. Zbigniew Warmuz with the capacity of President of the Management Board of Synthos S.A. To that date Mr. Zbigniew Warmuz had acted in the capacity of Vice-President of the Management Board. The above was reported in Current Report No. 1/2017 of 9 January 2017.

As at the date of publication of this report, the following persons were members of the Management Board:

Name	Age	Position
Zbigniew Warmuz	52	President of the Management Board
Tomasz Piec	48	Vice-President of the Management Board
Zbigniew Lange	46	Management Board Member
Jarosław Rogoża	43	Management Board Member

The following is a summary of professional experience of the Management Board members:

Zbigniew Warmuz graduated from the Silesian University of Technology majoring in business management. In 2004, he graduated from the University of Economics in Katowice. In 1984-2006, he worked for POCH S.A., initially as a machine operator and then as a foreman in the Organic Production Department. In 1999, he became a Product Manager for a group of products for the heavy industry and electroplating plants. Until 2002, he worked in the position of Head of the Sales and Marketing Department, and then became the Chief Engineer and Director of Production. He also served as the company's commercial proxy. Since 2007, he has been employed in the Synthos Group. Zbigniew Warmuz served as Vice-President of the Company's Management Board from 13 January 2014, while as of 9 January 2017 he is acting in the capacity of President of the Company's Management Board.

Tomasz Piec earned his master's degree in 1994 at the University of Economics in Kraków, majoring in Management and Marketing. In 1992, he graduated in business management from the University of Copenhagen. In 1990, he completed his studies at the d'Orsay Academy of Cuisine and Wine. From 1993, he worked for Elektor Sp. z o.o. with its registered office in Kraków. In 1994, he was appointed to the position of Regional Director of the Remy Cointreau Group Poland. From 1995 to 2001, he served as Regional Director of Colgate Palmolive Polska and, from 2001 to 2003, as Head of Sales of Colgate Palmolive Adria a.s. in the Balkans. From 2003, he worked for Tchibo Polska as its Sales Director. In 2004-2007, he was a member of the Management Board of Sigma-Kalon Deco Polska Sp. z o.o. In 2007, he was appointed to the Management Board of Sigma-Kalon Deco Eastern a.s. in Prague. Since 2008, he has worked for the Synthos S.A. Group serving as Sales Director. Up to 31 May 2016 Mr. Tomasz Piec acted as a Member of the Company's Management Board; since 1 June 2016 he has been a Vice-President of the Company's Management Board.

Zbigniew Lange graduated from the Economics Section of the Faculty of Social Sciences at the Catholic University of Lublin. He began his professional career in 1994 as an economics specialist for Lubelskie Zakłady Zielarskie Sp. z o.o. From October 1995 to September 1996, he worked at the Department of Financial Analysis of Przedsiębiorstwo Przemysłu Chłodniczego S.A. in Lublin – from February 1996 as Head of the Financial Analysis Department. In that period, he cooperated with Biuro Konsultingowe TIM Sp. z o.o. in Lublin in developing investment projects and preparing financial analyses. In 1996-1997, he served as the Head of the Financial Department of the Lublin Branch of Pepsico Trading Sp. z o.o. From October 1997 to May 1998, he provided management services to Cersanit-Krasnystaw S.A. with its registered office in Krasnystaw as the company's Finance Director. In June 1998, he became a member of the Management Board of Cersanit S.A. in charge of financial matters in the company and in the Cersanit S.A. Group. From December 2002 to December 2004, he served as President of the Management Board of Cersanit S.A. Subsequently, he worked as Finance Director at Polmos Lublin S.A. and Medi-Sept Sp. z o.o. In February 2007, he was appointed to the position of Finance Director at Opoczno S.A. From 2007 to 2008, he served as President of the Management Board of Opoczno S.A. Since 2008, he has been employed by the Synthos Group where he has been in charge of financial matters.

Jarosław Rogoża graduated from the Poznań University of Technology where in 2001 he earned his Ph.D. in chemical technology. He also completed an Executive MBA program offered by the WSB School of Banking in Poznań and he graduated from the Helsinki School of Economics in 2004. In 2000-2006, he worked for GlaxoSmithKline Pharmaceuticals S.A., initially as a technologist in the manufacturing department and then, from 2002, as the head of research and development projects in the R&D division. In 2006-2009, he served as Director of R&D and SHEQ at PPG Deco Polska Sp. z o.o. where, apart from the research and development division, he was in charge of quality management, environmental protection and occupational health and safety matters. Since September 2009, he has worked for the Synthos S.A. Group in the position of Director of Research and Development. Mr. Rogoża has served as a member of the Company's Management Board since 13 January 2014.

Activities of the Management Board

The Management Board exercises all powers in the field of management in the Company with the exception of the powers reserved by the law or the Company's Articles of Association for the Company's other corporate authorities. The Commercial Companies Code and the Articles of Association define the powers and functions of the Management Board. The functions of the Management Board, matters that may be allocated to members of the Management Board and powers and responsibilities of each member of the Management Board are defined in detail in the Bylaws of the Management Board adopted by the Management Board and approved by the Supervisory Board. The Company's staff report to the Management Board. The Management Board executes and terminates employment contracts and sets the amounts of remuneration in such contracts in accordance with the standards defined by the Management Board and prescribed by the applicable regulations.

In accordance with the provisions of the Articles of Association, the Management Board consists of one or more members. Management Board members are appointed for a joint term of office, which lasts 3 years. The Supervisory Board appoints, recalls or suspends the Management Board or its various members. It is entitled to elect the President of the Management Board and Vice-Presidents of the Management Board. The Supervisory Board may recall Management Board members, in particular in response to a written motion from shareholders representing at least 1/3 of the share capital or if the Ordinary Shareholder Meeting adopts a resolution not to grant a discharge to the Management Board on the performance of its duties in a completed financial year. The Supervisory Board specifies the number of Management Board members. The Supervisory Board may dismiss a Management Board member or the entire Management Board before the elapse of the Management Board's term of office. The mandates of Management Board members expire on the date of holding a Shareholder Meeting whose subject matter is to approve the financial statements for the most recent full financial year of the Management Board's term of office.

In accordance with the Bylaws, the Management Board makes decisions at its meetings in the form of resolutions. The Management Board holds its meetings as needed but not less frequently than once per month. Management Board meetings are convened by the President of the Management Board or any of the other Management Board members who perceives such a need. The President of the Management Board runs the Management Board's work. In the event of an absence of the President of the Management Board for no more than 5 business days, a Vice-President of the Management Board runs the Management Board's work (in the event that the Management Board has at least two Vice-Presidents, the President of the Management Board will designate the Vice-President of the Management Board to fill in for him or her), and in the event of an absence of the President of the Management Board and the Vice-President of the Management Board, the Management Board Member with the longest period of service in the Management Board of Synthos S.A. runs the work. In the event of an absence of the President of the Management Board for more than 5 business days (for any reason whatsoever), the Synthos S.A. Supervisory Board will designate the Management Board Member to fill in for the President of the Management Board during this absence. The provisions of these Bylaws regarding the President of the Management Board are applicable to the Management Board Member filling in for the President of the Management Board according to the Supervisory Board resolution referred to above. The Management Board may adopt resolutions only if at least half of its members are present at the meeting and if all the Management Board members have been properly notified of the convocation of the meeting.

Management Board resolutions are adopted by an absolute majority of the votes cast. In the event of a tie vote, the vote cast by the President of the Management Board will prevail. The consent of all Management Board members is required for the appointment of a commercial proxy. Any Management Board member may revoke a commercial proxy.

Compensation, bonuses and other benefits

Remuneration of Company's Management Board (paid in PLN thousand)	**2016**	**2015**
Tomasz Kalwat	6,316	1,800
Zbigniew Lange	915	724
Tomasz Piec	1,306	1,158
Jarosław Rogoża	937	640
Zbigniew Warmuz	1,740	912

Estimation of premium due to the Company's Management Board for 2016	**PLN thousand**
Zbigniew Lange	240
Tomasz Piec	500
Jarosław Rogoża	302
Zbigniew Warmuz	699

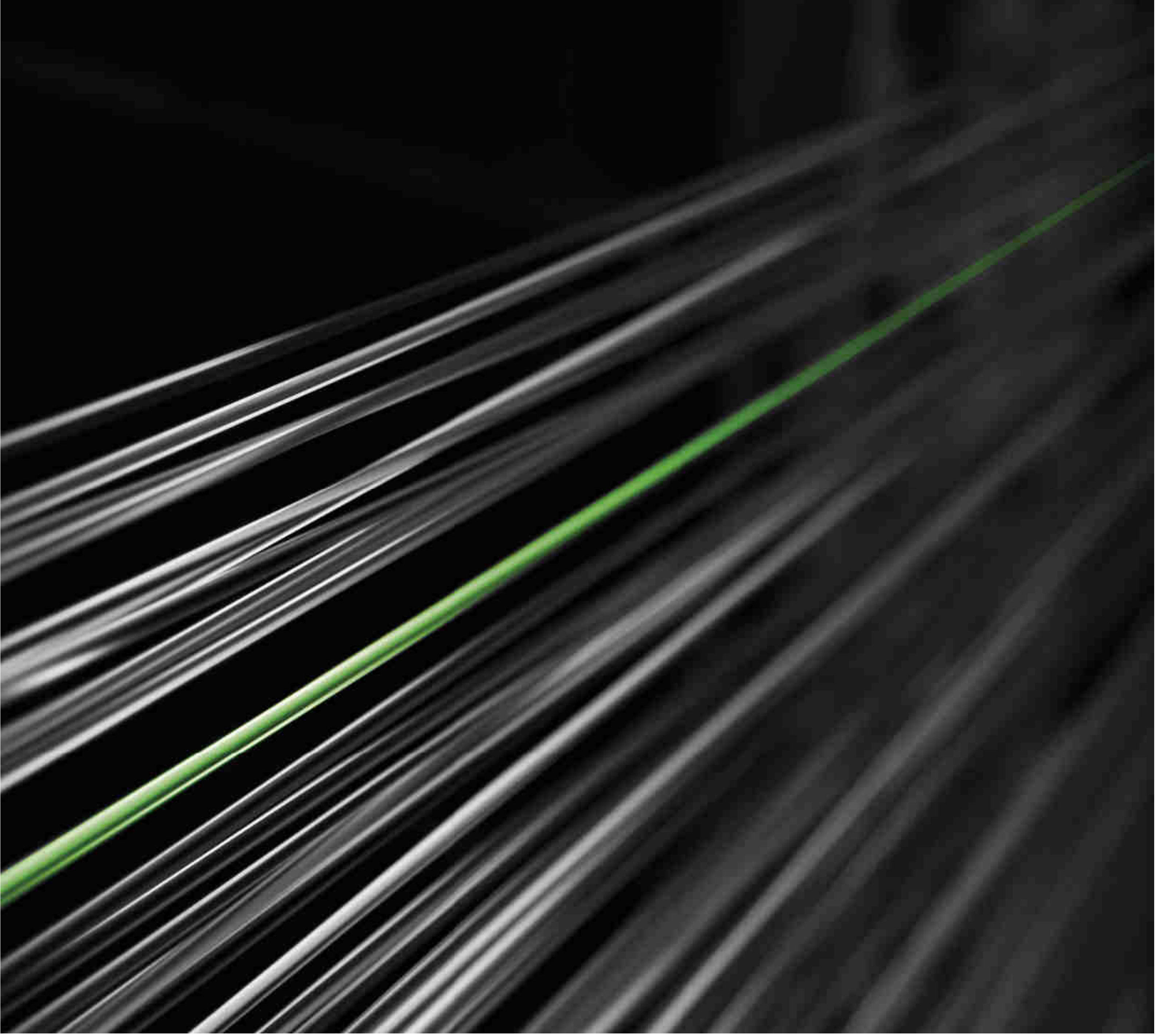
Shares and ownership interests in the Company's subsidiaries

The Company's Management Board members do not hold any ownership interests or shares in the Company's subsidiaries or affiliates.

Shares in the Company held by Management Board members as at 31 December 2016 and as at the date of preparation of this report

Name	**Number of shares held as at 31 December 2016**	**Number of shares held as at the date of this report**	**Par value of shares held [PLN]**
Tomasz Kalwat President of the Management Board until 31 December 2016	173,191	-	5,195.73
Zbigniew Warmuz President of the Management Board since 9 January 2017	0	0	0
Tomasz Piec Vice-President of the Management Board............	0	0	0
Zbigniew Lange Management Board Member..............................	0	0	0
Jarosław Rogoża Management Board Member..............................	0	0	0

MAIN SHAREHOLDERS



6. MAJOR SHAREHOLDERS

As at 31 December 2016, the outstanding share capital is PLN 39,697,500 and is divided into 1,323,250,000 ordinary bearer shares with a par value of PLN 0.03 each.

Synthos S.A. is a public company whose shares are listed on the regulated market of the Warsaw Stock Exchange. Accordingly, it does not possess detailed information regarding all its shareholders. The Company obtains information about significant shareholders only if they comply with their reporting duties arising from the provisions of Polish law.

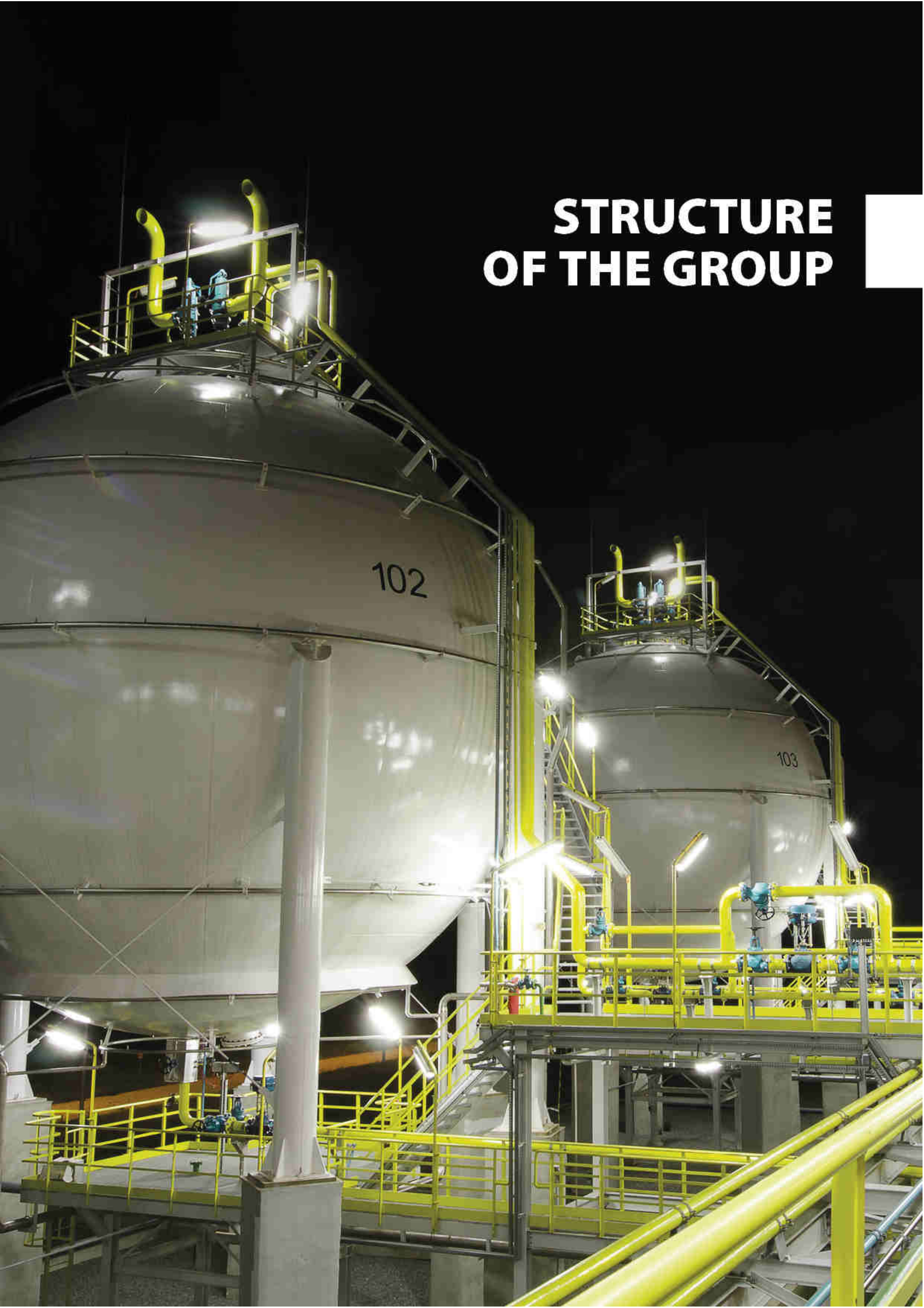
The following table contains a list of shareholders as at 31 December 2016 prepared based on notifications received from them of holding at least 5% of the votes at the Company's Shareholder Meeting.

Shareholder	Number of shares	Percentage of share capital (%)	Number of votes at the shareholder meeting	Percentage of voting rights at the shareholder meeting
Michał Sołowow, *indirectly via subsidiaries*:.................	826,559,009	62.46%	826,559,009	62.46%
a) FTF Galleon S.A.	682,918,112	51.61%	682,918,112	51.61%
b) Ustra S.A.	143,640,897	10.85%	143,640,897	10.85%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK S.A.	66,803,137	5.05%	66,803,137	5.05%
Others(1)	429,887,854	32.49%	429,887,854	32.49%
Total	**1,323,250,000**	**100%**	**1,323,250,000**	**100%**

(1) According to the Company's knowledge, other than the shareholders listed in the table above and based on the notifications of shareholdings received at the Shareholder Meeting, no shareholder holds more than 5% of the Company's equity.

The Company is not aware of agreements as a result of which changes may transpire in the future in the proportions of shareholdings held by the current shareholders.

STRUCTURE OF THE GROUP



7. STRUCTURE OF THE GROUP

7.1 Organization of the Group

The Group's highest-level parent company is Synthos S.A. (hereinafter also referred to as the "Company"). The Company's main line of business is to manage the Group. The Company's share capital is PLN 39,697,500 (thirty-nine million six hundred ninety-seven thousand five hundred Polish zloty) and is divided into:

(a) 854,250,000 (eight hundred fifty-four million two hundred fifty thousand) A series ordinary bearer shares with a par value of PLN 0.03 (3/100 Polish zloty) each, numbered from A 000.000.001 to A 854.250.000,

(b) 469,000,000 (four hundred sixty-nine million) B series ordinary bearer shares with a par value of PLN 0.03 (3/100 Polish zloty) each, numbered from A 000.000.001 to B 469.000.000.

In the Group's structure, the following are the three main production companies: Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna, Synthos Kralupy a.s. and Synthos PBR s.r.o. involved predominantly in the production of rubbers and styrene plastics.

In the reporting period, the Company did not purchase any treasury stock.

7.2 Group subsidiaries subject to consolidation (in 2016):

Branch of Synthos S.A. doing business as Synthos SA (organizačni složka) with its registered office in Kralupy nad Vltavou, Czech Republic, which commenced operations on the date of its registration in the Czech Commercial Register, i.e. on 22 January 2008.

Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna with its registered office in Oświęcim. The company produces synthetic rubbers and synthetic latexes, styrene plastics, vinyl dispersions and acrylic copolymer dispersions; it also generates and distributes electricity, generates and distributes heat and draws and treats water. The company's shareholders are Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością with its registered office in Oświęcim in which the Company holds a 100% stake and the Company. The shareholder authorized to exclusive representation of this entity is Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością, a wholly-owned subsidiary of the Company.

Synthos Kralupy a.s. with its registered office in Kralupy nad Vltavou, the Czech Republic. The company's line of business is the production of synthetic rubber, styrene plastics, ethylbenzene and butadiene. Synthos Kralupy a.s. is wholly owned by the Company, the sole holder of 100% of its share capital.

Synthos PBR s.r.o. with its registered office in Kralupy nad Vltavou, the Czech Republic. The company's line of business is the production of synthetic rubbers under a license granted by the Michelin Group. The Company holds 100% of the share capital and votes at the Shareholder Meeting of this subsidiary.

Tamero Invest s.r.o. with its registered office in Kralupy nad Vltavou, the Czech Republic. This company's line of business is the generation and distribution of electricity, the production and distribution of heat and the uptake and treatment of water. Synthos Kralupy a.s. is the sole holder of 100% of its share capital.

Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością SD4 spółka komandytowa (formerly: Synthos Dwory 4 Sp. z o.o.) with its registered office in Oświęcim, established by way of transformation of Synthos Dwory 4 spółka z ograniczoną odpowiedzialnością. Its transformation was registered on 29 June 2016. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna is the limited partner in the company while Synthos Dwory 2 sp. z o.o. is the general partner. The company's line of business is the generation of electricity.

Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością SD5 spółka komandytowa (formerly: Synthos Dwory 5 Sp. z o.o.) with its registered office in Oświęcim, established by way of transformation of Synthos Dwory 5 spółka z ograniczoną odpowiedzialnością. The transformation was entered in the register of commercial undertakings on 18 August 2016. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna is the limited partner in this company and Synthos Dwory 2 sp. z o.o. is the general partner. The Company's line of business includes, without limitation, the generation of electricity.

Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością SD8 spółka komandytowa (formerly: Synthos Dwory 8 Sp. z o.o.) with its registered office in Oświęcim, established by way of transformation of Synthos Dwory 8 spółka z ograniczoną odpowiedzialnością. The transformation was entered in the register of commercial undertakings on 22 July 2016. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna is a limited partner in the company and Synthos Dwory 2 sp. z o.o. is the general partner. The Company's line of business includes, without limitation, the generation of electricity.

Miejsko-Przemysłowa Oczyszczalnia Ścieków Sp. z o.o. with its registered office in Oświęcim. The company's line of business is the collection, treatment and disposal of sewage, the neutralization of waste and the provision of sanitary and related services. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna holds a 76.79% stake in the company's share capital and in the votes at its Shareholder Meeting. The remaining 23.21% of the share capital and votes at the Shareholder Meeting are held by the Urban Municipality of Oświęcim.

FORUM 62 FIZ managed by FORUM TFI S.A. with its registered office in Kraków. The Company is a direct holder of all (250) certificates issued by the fund.

CALGERON INVESTMENT LIMITED with its registered office in Nicosia, Cyprus. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna holds a 100% stake in the share capital of CALGERON INVESTMENT Ltd., a company involved in the Group's capital investment operations. On November 23rd, 2016 the company was liquidated and deleted from the registry of companies.

Red Chilli Ltd. with its registered office in Nicosia, Cyprus. The Synthos S.A. subsidiary known as Synthos Kralupy holds all the shares in this company. The company is involved in capital investment operations.

Butadien Kralupy a.s. with its registered office in Kralupy nad Vltavou, the Czech Republic. Synthos Kralupy a.s. is the holder of 49% of its share capital. The line of business of Butadien Kralupy a.s. is the processing of C4 fraction aimed at obtaining butadiene and raffinate 1. The company is consolidated in accordance with the regulations of IFRS 11.

Synthos Agro Sp. z o.o. with its registered office in Oświęcim, an indirect subsidiary of the Company. The company is involved in the sales and marketing of plant protection products. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna holds a 99% stake in the company's share capital representing 99% of the votes at its shareholder meeting. The Company holds 1% of its share capital representing 1% of votes at the shareholder meeting.

Synthos do Brasil Industria e Comercio de Quimicos Limitada, entered in the National Register of Legal Persons of the Federal Republic of Brazil on 21 November 2013 under file number 19.297.642/0001-22. On 11 August 2014, the company's share capital was increased to the current BRL 3,544,400.00 and is divided into 3,544,400,000 shares. The Company holds 3,542,400 shares in its share capital. Synthos Dwory 2 Sp. z o.o. holds 2,000 shares in its share capital.

Synthos Dwory 2 Sp. z o.o. with its registered office in Oświęcim. Presently, the Company holds 100% of its share capital and represents 100% of the votes at this company's Shareholder Meeting.

Synthos Finance AB (publ.) with its registered office in Stockholm. The company's share capital is EUR 55,005.61 and is divided into 4,951 shares with a par value of EUR 11.11 each. The Company is its sole shareholder. It is involved in the Group's capital investment operations.

Green Pepper SCSp with its registered office in Luxembourg, entered in the Luxembourg Commercial and Company Register under RCS file number B 192143 on 27 November 2014. It was wholly controlled by the Company indirectly. In the Group, it conducted capital investment operations. The Company was wound up on 15 November 2016.

Bilberry Sàrl with its registered office in Luxembourg, entered in the Luxembourg Commercial and Company Register under RCS file number Sàrl on 20 November 2015. It is wholly controlled by the Company indirectly. It is involved in the Group's capital investment operations.

Oristano Investment Spółka z ograniczoną odpowiedzialnością in liquidation with its registered office in Oświęcim. The Company holds 100% of its share capital and represents 100% of votes at the Shareholder Meeting. On 15 October 2014, the Shareholder Meeting adopted a resolution to dissolve the company. Accordingly, the company's liquidation was opened on 15 October 2014. On 14 March 2016 the company was struck from the National Court Register.

Synthos US, INC, a wholly-owned direct subsidiary of Synthos S.A., registered in accordance with the laws of the state of Ohio, U.S.A. The company is involved in promotional and marketing operations in the United States.

Synthos Styrenics Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Oświęcim. On 16 June 2016, it was registered by the District Court for Kraków-Śródmieście in the National Court Register under the number 0000623523. The Company is a limited partner in the company and Synthos Dwory 2 sp. z o.o. is the general partner.

Synthos Holding Netherlands B.V. with its registered office in Breda, the Netherlands, registered in the Dutch Commercial Register under the number 34223812. The company is involved in the Group's capital investment operations and is wholly owned by the Company.

Synthos Styrenics Services B.V. with its registered office in Breda, the Netherlands, registered on 02 September 2016 under the number 20099736. The company is an indirect subsidiary of the Company. Its lines of business include the provision of sales-related services, accounting and bookkeeping services and services in scientific research and technology development.

Synthos Breda B.V. with its registered office in Breda, the Netherlands, registered in the Dutch Commercial Register under the number 20049639. The company is an indirect subsidiary of the Company. The company's line of business includes, without limitation, the production of plastics.

Synthos Wingles SAS (formerly: INEOS Styrenics Wingles SAS) with its registered office in Wingles, France, registered in the Commerce and Company Register under the number 428 658 272 RCS Arras. The company is an indirect subsidiary of the Company.

Synthos Ribécourt SAS (formerly: INEOS Styrenics Ribécourt SAS) with its registered office in Ribécourt-Dreslincourt, France, registered in the Commerce and Company Register under the number 389 519 919 RCS Compiégne. The company is an indirect subsidiary of the Company.

Synthos Holding France SAS (formerly: INEOS Styrenics Holding France SAS) with its registered office in Ribécourt-Dreslincourt, France, registered in the Commerce and Company Register under the number 392 208 674 RCS Compiégne. The company is involved in the Group's capital investment operations and is indirectly wholly owned by the Company.

Synthos Kimyasal Urunler Limited Sirketi (formerly: INEOS Styrenics Kimyasal Urunler Limited Sirketi) with its registered office in Istanbul, Turkey, registered in the register of companies under the number 432319. The company is involved in sales operations and is indirectly wholly owned by the Company.

7.3 Group member companies not subject to consolidation (in 2016):

Synthos XEPS s.r.o. in liquidation with its registered office in Kralupy nad Vltavou, the Czech Republic. The Company holds 100% of its share capital and votes at the shareholder meeting. The company's liquidation was opened on 1 December 2015, which was completed by striking it from the Czech register of undertakings on 2 November 2016.

Photo Hitech spółka z ograniczoną odpowiedzialnością with its registered office in Kraków. The Company holds 440 shares in the company representing 44% of votes at its shareholder meeting.

7.4 Branches

On 30 November 2007, the Company's Management Board adopted a resolution to form a branch outside the Republic of Poland in the Czech Republic under the name of Synthos S.A. (organizačni složka) with its registered office at 278 52 Kralupy nad Vltavou, O. Wichterleho 810, the Czech Republic. The Branch commenced operations on the date of its registration in the Czech Commercial Register, i.e. on 22 January 2008.

CORPORATE GOVERNANCE

8. CORPORATE GOVERNANCE

8.1 Corporate governance principles

Since 1 January 2016 Synthos S.A. has been subject to the corporate governance rules laid down in the document entitled "Code of Best Practice for WSE Listed Companies" adopted by Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015. The wording of these principles is publicly available on the Internet at www.corp-gov.gpw.pl, which is the official website of the Warsaw Stock Exchange devoted to corporate governance issues for companies listed on the WSE main market and on the NewConnect market.

At the same time, Synthos S.A. explains that it does not apply any other best practices in the field of corporate governance, including principles extending beyond the requirements provided for by Polish law.

8.2 Observance of corporate governance standards

In connection with the entry into force, on 1 January 2016, of the new corporate governance standards laid down in the document entitled "Code of Best Practice for WSE Listed Companies 2016" adopted by the Stock Exchange Supervisory Board's resolution of 13 October 2015, the Company published, on 17 February 2016, a report on the application of these standards and uploaded the pertinent statement on its website. According to this report, the Company declares that the following standards contained in the document entitled "Code of Best Practice for WSE Listed Companies 2016" are not applied.

Information policy and investor communication

I.Z.1.2. composition of the company's management board and supervisory board and professional CVs of the members of these corporate bodies along with information about supervisory board members satisfying the independence criteria, the Company does not apply the foregoing standard. The standard is not applied to information about the Company's supervisory board members satisfying the independence criteria in connection with not applying standard no. II.Z.3.

I.Z.1.3. split of duties and responsibilities among management board members drawn up according to standard II.Z.1, the Company does not apply the foregoing standard. The standard is not applied in connection with not applying standard no. II.Z.1.

I.Z.1.6. calendar of corporate events leading to the acquisition or limitation of shareholder rights, calendar of publishing financial reports and other important events from an investor's point of view – with sufficient lead time allowing investors to make investment decisions,
The Company does not apply the foregoing standard. The standard is not applied - the Company publishes a calendar of publishing financial reports and information concerning any and all important events from an investor's point of view according to the prevailing legal regulations.

I.Z.1.8. tables containing the company's financial highlights for the most recent 5 years of business in a format facilitating data processing by the recipients thereof, the Company does not apply the foregoing standard. The standard is not applied as these data are available in the periodic report for a given reporting period and these reports are available on the Company's website.

I.Z.1.9. information on the planned dividend and the dividend the company has paid during the most recent 5 financial years containing data on the record date, the dividend payment dates and the dividends paid - in total and per share, the Company does not apply the foregoing standard. The standard is not applied as the Company publishes these data according to the prevailing regulations in current reports and this information is also set forth in periodic reports available on the Company's website and according to the Company there is no need to publish additionally separate information on this subject.

I.Z.1.10. financial forecasts - if the company has made a decision to publish them - published over a period of at least the most recent 5 years along with information on the degree of their execution, the Company does not apply the foregoing standard. The standard is not applied as the Company has not made a decision to publish financial forecasts in the future, while these estimated results have thus far been published incidentally and are available in current reports. If the decision is changed, the Company will publish the relevant current reports according to the prevailing regulations.

I.Z.1.11. information on the rule binding in the company concerning the entity authorized to audit financial statements, or of the absence of such a rule, The Company does not apply the foregoing standard. The standard is not applied as the Company's Supervisory Board is the entity authorized to select the statutory auditor authorized to audit the financial statements. Every year it makes this choice according to the prevailing legal regulations giving consideration to its powers, independence and integrity. This information is transmitted to investors in the form of a current report according to the prevailing regulations.

I.Z.1.15. information containing a description of the policy of diversity applied by the company in reference to the company's corporate authorities and its key managers; this description should give consideration to such elements of the policy of diversity as gender, field of education, age, professional experience and specify the objectives of the applied policy of diversity and the method of its execution in a given reporting period; if the company has not drafted and is not pursuing a policy of diversity, it publishes the explanation for this decision on its website. The Company does not apply the foregoing standard. The standard is not applied as the Company has not devised and is not applying a policy of diversity. The fundamental criterion for filling key positions is related to competences and satisfying the requirements for a given position. Elements such as age and gender do not affect the assessment of candidates.

I.Z.1.16. information on the planned transmission of shareholder meetings - no later than 7 days prior to the date of the shareholder meeting, the Company does not apply the foregoing standard. The standard is not applied as standard IV.Z.2 is not applied.

I.Z.1.17. justification for the shareholder meeting's draft resolutions concerning business and important decisions or ones that may evince doubts among shareholders - with sufficient lead time to allow the participants in a shareholder meeting to review them and adopt resolutions with the proper amount of comprehension, the Company does not apply the foregoing standard. The standard is not applied in connection with not applying standard no. IV.Z.9.

I.Z.1.20. a record of the shareholder meeting in audio or video format, The Company does not apply the foregoing standard. The standard is not applied since the Company does not currently plan broadcasts of Shareholder Meetings in real time, nor does it anticipate recording Shareholder Meetings in audio or video format or publishing a record thereof on its website. According to the Company, on account of the current shareholder structure, as well as the provisions of the Articles of Association contemplating the possibility of holding Shareholder Meetings in the Company's registered offices and in any other community in Poland, they provide sufficient safeguards for the interests of all shareholders. Documenting and the course of the Shareholders Meetings held to date ensure the Company's transparency, while the standards in force in the Company for participating in Shareholder Meetings facilitate proper and effective exercise of the rights attached to shares. Moreover, the application of the foregoing standards would also entail the necessity for the Company to incur additional expenses. The content of the resolutions adopted by the Shareholder Meeting is promptly transmitted in the form of current reports.

Management Board and Supervisory Board

II.Z.1. The internal split of responsibilities for the company's various business areas between the management board members should be articulated in an unequivocal and transparent manner and the diagram with this split should be available on the company's website. The Company does not apply the foregoing standard. The standard is not applied since, on account of the nature of the Company's business and magnitude, the entire Management Board is responsible for all the Company's business areas and for performing the duties stemming from legal regulations and the Articles of Association.
II.Z.3. At least two supervisory board members meet the independence criteria referred to in standard II.Z.4. The Company does not apply the foregoing standard. The standard is not applied as the decision to elect Supervisory Board members is one of the powers of the Shareholder Meeting. Shareholders, being guided by the skills of various candidates and trust in them, designate the Supervisory Board composition and considering this, there are no grounds for restriction of the shareholders' freedom in selecting Supervisory Board members. The Company does not apply this standard on account of the doubt concerning the very term "independence" of a supervisory board member, the doubt following from the fact that the "independence" (from the company and/or its shareholders) of a person who is to act and is acting in a given capacity in the Supervisory Board, is - according to the Company - subject to material factual limitation in the process of putting forward candidates, electing and retaining them in its composition and the possibility of recalling someone from the supervisory Board composition.

II.Z.4. Annex II to European Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of public companies and on the committees of the (supervisory) board is applicable to the independence criteria for supervisory board members.
Regardless of the provisions of item 1b) of the document referred to in the preceding sentence, a person who is an employee of the company, a subsidiary or an affiliate, as well as a person related to these entities by a contract of a similar nature cannot be deemed to meet the independence criteria. A relationship with a shareholder precluding the independence of a supervisory board member as construed by this standard is also construed to mean an actual and significant relationship with a shareholder holding at least 5% of the total number of votes in the company. The Company does not apply the foregoing standard. The standard is not applied on account of not applying standard no. II.Z.3.

II.Z.5. Supervisory Board members convey to the other Supervisory Board members and the Company's Management Board a declaration of satisfying the independence criteria specified in standard II.Z.4. The Company does not apply the foregoing standard. The standard is not applied on account of not applying standard no. II.Z.3

II.Z.6. The Supervisory Board assesses whether there are ties or circumstances that may affect the satisfaction of independence criteria by a given supervisory board member. The assessment of satisfying the independence criteria by supervisory board members is presented by the supervisory board according to standard II.Z.10.2. The Company does not apply the foregoing standard. The standard is not applied on account of not applying standard no. II.Z.3

II.Z.7. The provisions of Annex I to the European Commission Recommendation referred to in standard II.Z.4 are applicable to the tasks and functioning of the committees operating in the supervisory board. If the Supervisory Board discharges the audit committee function, then the foregoing standards are applied accordingly. The Company does not apply the foregoing standard. The standard is not applied as no committees operate in the Supervisory Board. The Supervisory Board discharges the audit committee function and this standard is not applied on account of not applying standard no. II.Z.3.

II.Z.8. The audit committee chairman satisfies the independence criteria specified in standard II.Z.4. The Company does not apply the foregoing standard. The standard is not applied on account of not applying standard no. II.Z.3. The Supervisory Board discharges the audit committee function in the Company and its Chairman is concurrently the Audit Committee Chairman.

II.Z.10.1. In addition to the statutory activities, once a year the Supervisory Board prepares and presents to the Ordinary General Meeting of Shareholders the assessment of the company's position giving consideration to the assessment of the systems for internal control, risk management, compliance and internal audit functions; this assessment covers all the material control mechanisms, including especially the ones pertaining to financial reporting and operating activity. The standard will be applied by making the assessment on this subject a part of the Supervisory Board's annual report in the part pertaining to the performance of the Audit Committee's function.

II.Z.10.2. Supervisory Board's activity report encompassing at least information on the following subject matter:

- composition of the supervisory board and its committees,
- satisfaction of independence criteria by supervisory board members,
- number of meetings of the supervisory board and its committees in the reporting period,
- self-assessment of the supervisory board's work;

The Company does not apply the foregoing standard. The standard is not applied in respect to the part concerning the satisfaction by supervisory board members of independence criteria on account of not applying standard no. II.Z.3 and in respect to the part concerning the self-assessment of the supervisory board's work on account of the fact that the Shareholder Meeting assesses the Supervisory Board's work by giving (or not) a discharge on the performance of duties to its various members.
II.Z.10.4. assessment of the reasonableness of the policy pursued by the company referred to in recommendation I.R.2, or information on the absence of such a policy. The Company does not apply the foregoing standard. The standard is not applied on account of this policy referred to in recommendation I.R.2 not being implemented, while the decisions on this subject are made by the Management Board at the individual requests of applicants.

Internal systems and functions

III.Z.1. The company's management board is responsible for implementing and maintaining effective systems of internal control, risk management, compliance and internal audit functions. The Company does not apply the foregoing standard. The standard is not applied on account of the fact that the Management Board is responsible for controlling the Company's operating activity, including the controlling of its internal business processes along with risk management processes. Within the scope of legal regulations, the Supervisory Board also carries out auditing and control functions. However, there are no specialized units in the Company to manage internal control, risk management and compliance processes. These functions are discharged on an ongoing basis in every area of the company's business.

III.Z.2. Without prejudice to standard III.Z.3, the persons responsible for risk management, internal audit and compliance report directly to the CEO or some other management board member, and also have the ability to report directly to the supervisory board or audit committee. The Company does not apply the foregoing standard. The standard is not applied since, as has been indicated in the justification for not applying standard no. III.Z.1, the Company does not have separate units dealing with risk management, internal audit and compliance activities. According to the Company, the current organizational structure in which the directors of the various divisions report to the Company's Management Board provides a sufficient basis for the correct flow of information and supervision over the business of the various areas. The Company does not have procedures forbidding the sending of reports directly to the Supervisory Board.

III.Z.3. The standards of independence specified in generally recognized international standards for the professional practice of internal audit are applicable to the person managing the internal audit function and other persons responsible for the performance of its tasks. The Company does not apply the foregoing standard. The standard is not applied as the Company does not have a separate internal audit unit and there is not a separate position held by a person managing this unit.

III.Z.4. At least once a year, the person responsible for internal audit (if such a function is formed separately in the company) and the management board present their own assessment to the supervisory board of the operating effectiveness of the systems and functions referred to in standard III.Z.1 along with the pertinent report. The Company does not apply the foregoing standard. The standard is not applied as the Company does not have a separate internal audit unit and there is not a separate position held by a person managing this unit; the Supervisory Board discharges the audit committee function.

III.Z.5. The Supervisory Board monitors the effectiveness of the systems and functions referred to in standard III.Z.1 based among others on reports delivered to it from time to time by the persons responsible for these functions and the company's management board; it also conducts an annual assessment of the operating effectiveness of these systems and functions according to standard II.Z.10.1. If an audit committee operates in the company, it monitors the effectiveness of the systems and functions referred to in standard III.Z.1; however, this does not release the supervisory board from conducting its annual assessment of the operating effectiveness of these systems and functions. The Company does not apply the foregoing standard. The standard is not applied as standard no. III.Z.1 is not applied in the Company and there are no specialized units to manage internal control, risk management and compliance processes.

III.Z.6. If the company has not organizationally separated an internal audit function, then the audit committee (or the supervisory board, if it discharges the audit committee function) makes the annual assessment of whether there is a need to define it separately. The Company does not apply the foregoing standard. The standard is not applied since the Company's Management Board makes the decision on the organizational structure and separating specific units. Both the Management Board and the Supervisory Board monitor the Company's operation on an ongoing basis, simultaneously assessing whether there is a need to define separate dedicated internal audit units.

Shareholder meeting and shareholder relations

IV.Z.2. If this is justified on account of the company's shareholder structure, the company provides a generally available broadcast of shareholder meetings in real time. The Company does not apply the foregoing standard. The standard is not applied since, according to the Company, the current shareholder structure does not justify the application of the foregoing standard.

IV.Z.3. The presence of representatives of the media should be allowed at shareholder meetings.
The Company does not apply the foregoing standard. The standard is not applied. Authorized persons and providing support to the Shareholder Meeting participate in the Company's Shareholder Meetings. In the Company's opinion, the prevailing legal regulations sufficiently regulate performance of the reporting duties imposed on public companies as regards openness and transparency of matters being reviewed at the Shareholder Meeting. If representatives of the media pose questions to the Company, the Company provides the pertinent replies within the confines permitted by the prevailing legal regulations.

IV.Z.16. The record date and the dividend payment date should be set so to ensure that the period between them is no longer than 15 business days. Setting a longer period between these dates requires justification. The Company does not apply the foregoing standard. The standard is not applied - Shareholder Meeting sets the record date and the dividend payment date according to its own discretion within the confines defined by the prevailing regulations.

IV.Z.18. A shareholder meeting resolution on division of the par value of shares should not set a new par value of the shares below PLN 0.50, which could result in a very low unit market value of such shares, which could, as a consequence, result in a threat to the correctness and credibility of the company's valuation on the stock exchange. The Company does not apply the foregoing standard. The standard is not applied. Setting the par value of shares is one of the powers of the Shareholder Meeting within the confines defined by the prevailing regulations.

Conflicts of interest and transactions with related parties

V.Z.5. Before a company executes a significant agreement with a shareholder holding at least 5% of the total number of votes in the company or a related entity, its management board shall request the supervisory board's consent for such a transaction. Prior to giving consent the Supervisory Board assesses the impact such a transaction will have on the company's interest. Typical transactions executed on an arm's length basis in the operating business of a company with entities belonging to a company's group are not subject to the foregoing obligation.

If shareholder meeting makes the decision on a company entering into a material agreement with a related entity, prior to making that decision, the company provides all shareholders with access to information needed to assess such a transaction's impact on the company's interest. The Company does not apply the foregoing standard. According to the provisions of the Company's Articles of Association the Supervisory Board assesses transactions in respect of the Company's interests, applying the materiality criterion, regardless of the entity that is a party to the transaction.

V.Z.6. In its internal regulations the Company defines the criteria and circumstances in which a conflict of interests may occur in the company, and the rules of conduct when facing a conflict of interest or the possibility of one occurring. The company's internal regulations give consideration among others to the methods of preventing, identifying and solving conflicts of interest as well as the rules for precluding management board or supervisory board member from participating in the examination of a case entailing or threatening a conflict of interest.
The Company does not apply the foregoing standard. The Company independently creates a conflict resolution policy.
Remunerations

VI.Z.1. Incentive programs should be designed in such a manner as to enable the company, among others, to correlate the level of remuneration of the members of its management board and its key managers with the company's actual, long-term financial standing and long-term growth in shareholder value as well as stability of the company's operations. The Company does not apply the foregoing standard. The Company creates incentive programs independently, basing on freely chosen criteria.
VI.Z.2. In order to correlate the remuneration of management board members and key managers with the company's long-term business and financial objectives, the period between the granting, as part of the incentive program, of options or other instruments associated with the company' shares and their exercisability should not be shorter than 2 years. The Company creates incentive programs independently, basing on freely chosen criteria.
VI.Z.4. In its activity report, the company should present an account of its remuneration policy containing at least:
1) general information on the remuneration system adopted in the company,
2) information on the terms and conditions as well as the amount of remuneration of each management board member, broken down into fixed and variable components of remuneration, indicating key parameters that affect the variable components of remuneration and the rules for making severance payments and other payments due by virtue of termination of the employment relationship, the mandate agreement relationship or other legal relationship of a similar nature – separately for the company and for each member of its group,
3) information on any non-financial components of remuneration granted to each management board member and key manager,
4) indication of significant changes that took place last year in the remuneration policy or information about the absence of such changes,
5) assessment of the implementation of the remuneration policy from the perspective of the achievement of its objectives, in particular the long-term growth in shareholder value and stability of the company's operations.
The Company does not apply the foregoing standard. The standard is not applied. In its annual financial statements, the Company presents information on the remuneration paid to its Management Board members in accordance with the applicable provisions of law.

8.3 Restrictions on the exercise of voting rights or in the transferability of ownership interests in securities issued by the Company

The Company's articles of association do not provide for any restrictions on the exercise of voting rights and do not contain any provisions according to which, with the Company's cooperation, capital rights attached to securities would be detached from the holding of the securities.

In the case of the Company, restrictions on the exercise of voting rights may arise only from the generally applicable provisions of law.

Pursuant to Article 8.2 of the Company's Articles of Association, shares may be disposed of or pledged without any limitations, subject to Article 336 Section 1 of the Commercial Companies Code as regards shares issued in exchange for non-cash contributions.

8.4 Description of amendments to the Articles of Association

The Company's Articles of Association are amended by resolutions of the Shareholder Meeting, in accordance with the provisions of the Commercial Companies Code. Pursuant to Article 19.5 of the Company's Articles of Association, resolutions amending the Articles of Association in a manner resulting in increasing benefits to shareholders or limiting rights granted personally to individual shareholders require consent of all the shareholders concerned.

The establishment of the consolidated version of the Company's Articles of Association belongs to the powers of the Supervisory Board.

On 28 September 2016 the Company learned, according to the Information corresponding to the current excerpt from the Register of Undertakings from the Central Information System of the National Court Register, of the registration on 28 September 2016 of the amendment to the Company's Articles of Association ratified by the Extraordinary Shareholder Meeting of Synthos S.A. on 19 September 2016 under resolution no. 4/2016, which it reported in Current Report no. 39/2016 of 28 September 2016. The Issuer reported the resolutions adopted by the Extraordinary Shareholder Meeting of Synthos S.A. on 19 September 2016 in Current Report no. 37/2016 of 19 September 2016. The scope of amendments made to the Articles of Association of Synthos S.A. involved the addition of section 3 in article 23.

The current wording of the Company's Articles of Association is available on the Company's website.

8.5 Shareholder Meeting

The rights and manner of operation of the Shareholder Meeting are governed by the provisions of the Commercial Companies Code and the Articles of Association, and are as follows:

The Shareholder Meeting is convened by the Company's Management Board. An Ordinary Shareholder Meeting should be convened by the Management Board within 6 months of the end of the financial year.

The Supervisory Board may convene an Ordinary Shareholder Meeting if the Management Board fails to convene it by the prescribed deadline. An Extraordinary Shareholder Meeting may be convened by the Supervisory Board or shareholders representing at least half of the share capital or at least half of the total number of votes if they consider such convocation advisable. The convening entity presents, in the notice of convocation of the Shareholder Meeting, its agenda and draft resolutions for the distinct items of the proposed agenda.

A shareholder or shareholders representing at least one-twentieth of the share capital may request that an Extraordinary Shareholder Meeting be convened and that specific items be placed in the Meeting agenda. Such a request for convening an Extraordinary Shareholder Meeting should be submitted to the Management Board in writing or in electronic form. To request that an Extraordinary Shareholder Meeting be convened, the shareholders submitting the request should attach a justification and draft resolutions for the distinct items of the proposed agenda.

A shareholder or shareholders representing at least one-twentieth of the share capital may request that specific items be placed in the agenda of the nearest Shareholder Meeting. Such a request should be submitted to the Management Board no later than 21 days before the set date of the Meeting. The request should contain a justification and a draft resolution pertaining to the proposed item on the agenda. The request may be submitted in electronic form. The Management Board announces changes in the agenda made at the request of shareholders.

The Shareholder Meeting is held in the Company's registered office or in any other location in the territory of the Republic of Poland indicated in the notice of the Shareholder Meeting.

The Shareholder Meeting may adopt resolutions notwithstanding the number of shareholders in attendance or the shares represented unless the applicable regulations provide otherwise.

Resolutions of the Shareholder Meeting are adopted by an ordinary majority of votes cast unless the Company's Articles of Association or the applicable regulations provide otherwise.

The following matters require the adoption of a resolution by the Shareholder Meeting:

a. review and approval of the Management Board's report on the Company's activity and the financial statements for the previous financial year,

b. distribution of profit or cover of loss,

c. granting a discharge to members of the Company's corporate bodies on the performance of their duties,

d. the Company's execution of a loan or surety agreement or another similar agreement with a member of the Management Board, a member of the Supervisory Board, a commercial proxy or a liquidator or in favor of any such person,

e. the Company's acquisition or disposal of an enterprise or an organized part thereof and establishment of a limited right in rem thereon,

f. decisions on claims to repair damages inflicted during the establishment of a company or in the exercise of its management or supervision,

g. the issue of convertible bonds or bonds with a pre-emptive right,

Resolutions amending the Company's Articles of Association in a manner resulting in increasing benefits to shareholders or limiting rights granted personally to individual shareholders require consent of all the shareholders concerned.

The balloting at a Shareholder Meeting is open. Secret balloting is ordered during elections and when considering motions to recall members of the Company's corporate bodies or liquidators, or to hold them accountable and in personnel-related matters. Secret balloting shall be ordered at the request of even one of the shareholders present or represented at the Shareholder Meeting.

Resolutions on changing the Company's line of business are adopted in open registered balloting.

The Chairperson or Deputy Chairperson of the Supervisory Board opens the Shareholder Meeting and then the Meeting Chairperson is elected from among the persons authorized to vote. If the Chairperson or Deputy Chairperson of the Supervisory Board is absent, the President of the Management Board or another person appointed by the Management Board opens the Shareholder Meeting.

In accordance with the Company's Articles of Association, the Shareholder Meeting may adopt its bylaws. However, the Shareholder Meeting has not exercised this right and has not adopted its bylaws.

9. DEFINITIONS

"**Bond Issuer**" means Synthos Finance AB (publ) with its registered office in Stockholm, Sweden, which issued its bonds on 30 September 2014;

"**EPS**" means expandable polystyrene;

"**GPPS**" means general purpose polystyrene;

"**WSE**" means the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.);

"**Group**" or "**Synthos Group**" means Synthos S.A. and its subsidiaries;

"**HIPS**" means high-impact polystyrene;

"**Bonds**" means the senior notes with a total par value of EUR 350,000,000 issued by Synthos Finance AB (publ) on 30 September 2014;

"**PET**" means polyethylene terephthalate;

"**GDP**" means gross domestic product;

"**Guarantor**" or "**Guarantors**" means Synthos S.A., Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna, SYNTHOS Kralupy a.s., TAMERO INVEST s.r.o. and SYNTHOS PBR s.r.o. as the guarantors of the Bonds;

"**Company**" means Synthos S.A.;

"**Consolidated Annual Report**" means the audited annual report for the period from 1 January 2016 to 31 December 2016;

"**PPPs**" means plant protection products;

"**EU**" means the European Union;

"**Bond Issue Agreement**" means the agreement governing the Bonds;

"**XPS**" means extruded polystyrene.


SYNTHESIS·ORTHOS