

SYNTHOS S.A.

FINANCIAL PART OF THE REPORT
for the 3 months ended
31 March 2016

The background is a solid blue color. There are several white, curved lines that intersect and sweep across the page, creating a sense of motion and design. One line starts from the left and curves upwards towards the right. Another line starts from the bottom left and curves upwards towards the right. A third line starts from the top right and curves downwards towards the left. These lines intersect at various points, with a small white dot marking one of the intersection points in the middle-right area of the page.

synthos
chemical innovations

FINANCIAL PART OF THE REPORT

(all figures in millions of zlotys, unless otherwise stated)

I. CONSOLIDATED REPORT

Consolidated statement of comprehensive income for the 3 months period ending on 31 March 2016

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Revenue	1 018	974
Cost of sales	(843)	(837)
Gross profit on sales	175	137
Selling costs	(32)	(33)
Administrative expenses	(48)	(39)
Cost of research and development	(7)	(4)
Other operating (expenses)/income	(17)	3
Operating profit	71	64
Finance income	5	50
Finance costs	(19)	(13)
Profit before tax	57	101
Income tax	(7)	(9)
Net profit	50	92
Other comprehensive income which may be transferred to the income statement		
Foreign exchange differences on translation of foreign entities	1	(20)
Measurement of available-for- sale financial assets	(1)	(6)
Other comprehensive income (net)	-	(26)
Total comprehensive income	50	66
Profit attributable to:		
Equity holders of the parent company	50	92
Non-controlling interests	-	-
Net profit for the period	50	92
Comprehensive income attributable to:		
Equity holders of the parent company	50	66
Non-controlling interests	-	-
Comprehensive income for the period	50	66
Earnings per share attributable to the equity holders of the Company in the period (in PLN per share) basic and diluted	0,04	0,07

Costs by type

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Amortization and depreciation	49	38
Materials and energy used	710	613
External services	74	65
Taxes and fees	9	6
Wages and salaries	45	37
Social insurance and similar charges	12	12
Other costs by type	4	4
Total costs by type	903	775
Changes in inventories of finished goods	(43)	92
Changes in settled costs	(19)	1
Selling costs (negative value)	(32)	(33)
Administrative expenses (negative value)	(48)	(39)
Cost of research and development	(7)	(4)
Cost of sales of finished goods	754	792
Cost of goods for resale and materials sold	89	45
Cost of sales	843	837

Revenues from sales

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Revenues from sales of finished goods	942	914
Revenues from sales of services	12	6
Revenues from sales of goods for resale and materials	64	54
Total sales	1 018	974

Consolidated statement of financial position as at 31 March 2016

	31.03.2016	31.12.2015	31.03.2015	31.12.2014
Non-current assets				
Property, plant and equipment	2 271	2 287	1 952	1 966
Intangible assets	229	237	279	227
Available-for-sale financial assets	4	6	127	133
Deferred tax assets	14	14	25	33
Other non-current assets	2	1	7	6
Total non-current assets	2 520	2 545	2 390	2 365
Current assets				
Inventories	486	467	407	496
Income tax receivables	47	63	52	48
Trade and other receivables	781	666	886	949
Cash and cash equivalents	1 009	1 051	802	784
Total current assets	2 323	2 247	2 147	2 277
Total assets	4 843	4 792	4 537	4 642
Total equity and liabilities				
Equity				
Share capital	40	40	40	40
Revaluation reserve	(1)	-	42	48
Foreign exchange differences on translation of subordinated entities	41	40	(3)	17
Retained earnings	2 263	2 213	2 210	2 118
Equity attributable to equity holders of the parent company	2 343	2 293	2 289	2 223
Non-controlling interests	13	13	13	13
	2 356	2 306	2 302	2 236
Long-term liabilities				
Loans, borrowings and other debt instruments	1 687	1 685	1 435	1 473
Employee benefits payable	4	4	4	4
Deferred income from government subsidies	229	224	150	141
Provisions	30	30	30	30
Deferred income tax liability	55	50	41	43
Other long-term liabilities	30	30	28	29
	2 035	2 023	1 688	1 720
Short-term liabilities				
Loans, borrowings and other debt instruments	4	21	3	19
Income tax liabilities	-	-	1	1
Deferred income from government subsidies	9	9	9	8
Trade and other payables	435	429	527	652
Provisions	4	4	4	4
Derivatives	-	-	3	2
	452	463	547	686
Total liabilities	2 487	2 486	2 235	2 406
Total equity and liabilities	4 843	4 792	4 537	4 642

	31.03.2016	31.12.2015	31.03.2015	31.12.2014
Carrying amount	2 356	2 306	2 302	2 236
Number of shares (in units)	1 323 250 000	1 323 250 000	1 323 250 000	1 323 250 000
Weighted average number of shares	1 323 250 000	1 323 250 000	1 323 250 000	1 323 250 000
Book value per share (in PLN)	1,78	1,74	1,74	1,69
Diluted number of shares (in units)	1 323 250 000	1 323 250 000	1 323 250 000	1 323 250 000
Diluted book value per share (in PLN)	1,78	1,74	1,74	1,69

Consolidated statement of changes in equity for the 3 months ending on 31 March 2016

	Attributable to equity holders of the Company					Total equity
	Share capital	Retained earnings	Foreign exchange differences on translation	Revaluation reserve	Attributable to minority interests	
1 January 2016	40	2 213	40	-	13	2 306
Total comprehensive income	-	50	1	(1)	-	50
31 March 2016	40	2 263	41	(1)	13	2 356

	Attributable to shareholders of the Company					Total equity
	Share capital	Retained earnings	Foreign exchange differences on translation	Revaluation reserve	Attributable to minority interests	
1 January 2015	40	2 118	17	48	13	2 236
Total comprehensive income	-	92	(20)	(6)	-	66
31 March 2015	40	2 210	(3)	42	13	2 302

Consolidated statement of cash flows for the 3 months ending on 31 March 2016

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Profit before tax	57	101
Adjustments:		
Amortization and depreciation	49	38
Foreign exchange (gains)/ losses	-	(18)
(Gains)/losses on investing activities	-	(14)
Interest	14	9
Others	2	(5)
Operating profit before changes in working capital	122	111
(Increase)/decrease in receivables	(85)	61
(Increase)/decrease in inventories	(17)	101
(Increase)/decrease in trade and other payables	(8)	(50)
Cash flows generated in operating activities	12	223
Tax paid	14	(9)
Net cash from operating activities	26	214
Cash flows from investing activities		
Interest received	3	2
Subsidies received	8	11
Proceeds from forward transactions realized	2	15
Purchase of intangible assets and property, plant and equipment	(48)	(178)
Purchase of shares in subsidiaries	-	(1)
Outflows/inflows from the cash pool agreement	(1)	(12)
Net cash from investing activities	(36)	(163)
Cash flows from financing activities		
Outflows in respect of swap transactions	(3)	(1)
Interest paid	(34)	(25)
Net cash from financing activities	(37)	(26)
Net increase/(decrease) in cash and cash equivalents	(47)	25
Change in cash and cash equivalents in the balance sheet, including:	(42)	18
Cash and cash equivalents at the beginning of the year	1 051	784
Effect of changes in foreign exchange differences on cash and cash equivalents	5	(7)
Cash and cash equivalents at the end of the period	1 009	802

II. SEPARATE REPORT

Separate statement of comprehensive income for the 3 months ending on 31 March 2016

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Revenue	35	27
Cost of sales	(29)	(22)
Gross profit on sales	6	5
Administrative expenses	(4)	(3)
Other operating (expenses)/income	(2)	-
Operating profit	0	2
Finance income	21	39
Finance costs	(18)	(20)
Profit before tax	3	21
Corporate income tax	(1)	(4)
Net profit	2	17
Other comprehensive income that may be later reclassified to profit or loss		
Foreign exchange differences on translation of the foreign branch	(1)	0
Measurement of available-for-sale financial assets	(1)	1
Other total (net) income	(2)	1
Total comprehensive income	(0)	18
Basic (PLN)	2	17
Diluted (PLN)	2	17
Earnings per share:		
Basic (PLN)	0,00	0,01
Diluted (PLN)	0,00	0,01

Costs by type

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Amortization and depreciation	4	2
Materials and energy used	1	1
External services	7	7
Taxes and fees	1	0
Wages and salaries	16	10
Social insurance and similar charges	3	3
Other costs by type	2	2
Total costs by type	33	25
Administrative expenses (negative value)	(4)	(3)
Cost of sales	29	22

Revenues from sales

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Revenues from sales of services	35	27
Total revenues from sales	35	27

Separate statement of financial position as at 31 March 2016

	31.03.2016	31.12.2015	31.03.2015	31.12.2014
Assets				
Non-current assets				
Property, plant and equipment	82	79	61	54
Intangible assets	88	94	87	88
Shares in subsidiaries	816	815	742	740
Long-term financial assets	574	574	574	574
Loans granted	537	521	958	1 286
Available-for-sale financial assets	4	6	8	7
Deferred tax assets	11	11	7	11
Total non-current assets	2 112	2 100	2 437	2 760
Current assets				
Loans granted	-	-	15	15
Current financial assets	38	28	38	28
Income tax receivables	3	3	-	0
Trade and other receivables	30	26	99	75
Cash and cash equivalents	484	522	283	40
Total current assets	555	579	435	158
Total assets	2 667	2 679	2 872	2 918
Equity				
Share capital	40	40	40	40
Revaluation reserve	(1)	-	2	1
Foreign exchange differences on translation of the foreign branch	(5)	(4)	(6)	(6)
Retained earnings, including:	1 109	1 107	1 114	1 097
Total equity	1 143	1 143	1 150	1 132
Liabilities				
Liabilities in respect of loans, borrowings and other debt instruments	1 474	1 471	1 431	1 468
Deferred income from government subsidies	30	30	17	12
Total non-current liabilities	1 504	1 501	1 448	1 480
Liabilities in respect of loans, borrowings and other debt instruments	-	18	258	272
Trade and other payables	20	17	16	34
Total current liabilities	20	35	274	306
Total liabilities	1 524	1 536	1 722	1 786
Total equity and liabilities	2 667	2 679	2 872	2 918

Off-balance sheet items in PLN '000 000

	31.03.2016	31.12.2015	31.03.2015	31.12.2014
2. Contingent liabilities	1 707	1 705	1 581	1 642
2.1. To related entities	1 707	1 705	1 581	1 642
- Guarantee for Synthos Finance AB - bonds repayment guarantee *	1 707	1 705	1 431	1 492
- guarantee of loan instalments	-	-	150	150
Total off-balance-sheet items	(1 707)	(1 705)	(1 581)	(1 642)

*Issuers of the guarantee: Synthos SA, SD 7 Sp. z o.o. sp. j., Synthos Kralupy a.s., Synthos PBR s.r.o., Tamerio Invest s.r.o.

	31.03.2016	31.12.2015	31.03.2015	31.12.2014
Carrying amount	1 143	1 143	1 150	1 132
Number of shares (in units)	1 323 250 000	1 323 250 000	1 323 250 000	1 323 250 000
Weighted average number of shares	1 323 250 000	1 323 250 000	1 323 250 000	1 323 250 000
Book value per share (in PLN)	0,86	0,86	0,87	0,86
Diluted number of shares (in units)	1 323 250 000	1 323 250 000	1 323 250 000	1 323 250 000
Diluted book value per share (in PLN)	0,86	0,86	0,87	0,86

Statement of changes in equity for the 3 months ending on 31 March 2016

	Attributable to shareholders of the Company				Total equity
	Share capital	Retained earnings	Foreign exchange differences on translation	Revaluation reserve	
1 January 2016	40	1 107	(4)	-	1 143
Total comprehensive income	-	2	(1)	(1)	(0)
31 March 2016	40	1 109	(5)	(1)	1 143

	Attributable to shareholders of the Company				Total equity
	Share capital	Retained earnings	Foreign exchange differences on translation	Revaluation reserve	
1 January 2015	40	1 097	(6)	1	1 132
Total comprehensive income	-	17	-	1	18
31 March 2015	40	1 114	(6)	2	1 150

Separate statement of cash flows for the 3 months ending on 31 March 2016

	Q1 2016 period from 2016-01-01 to 2016-03-31	Q1 2015 period from 2015-01-01 to 2015-03-31
Profit before tax	3	21
Adjustments		
Amortization and depreciation	4	2
Foreign exchange (gains)/ losses	2	(15)
Interest	(1)	(4)
Others	2	-
<i>Operating profit before changes in working capital</i>	10	4
(Increase)/decrease in receivables	22	(3)
(Increase)/decrease in trade and other payables	(24)	(8)
<i>Cash flows generated from operating activities</i>	8	(7)
Net cash from operating activities	8	(7)
Cash flows from investing activities		
Repayment of loans	4	-
Dividends received	-	290
Interest received	9	14
Subsidies received	-	5
Purchase of intangible assets and property, plant and equipment	(3)	(16)
Purchase of shares in dependent parties	(1)	(1)
Borrowings granted	(19)	(8)
Net cash from investing activities	(10)	284
Cash flows from financing activities		
Interest paid	(35)	(34)
Net cash from financing activities	(35)	(34)
Net increase/(decrease) in cash and cash equivalents	(37)	243
Change in cash and cash equivalents in the balance sheet, including:	(38)	243
Cash and cash equivalents at the beginning of the year	522	40
Effect of changes resulting from foreign exchange differences on cash and cash equivalents	1	-
Cash and cash equivalents at the end of the period	484	283

III. Operating segment reporting

Business segments

	Rubbers		Styrene derivatives		Dispersions, Adhesives and Latexes		Media		Agro		Other		Total	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
Sales revenue														
Sales of goods/finished products (external customers)	495	482	392	354	46	43	47	60	25	27	1	1	1 006	967
Sales of services (external customers)	-	-	-	-	-	-	9	3	-	-	3	4	12	7
Total income	495	482	392	354	46	43	56	63	25	27	4	5	1 018	974
Total costs	451	441	363	358	43	41	44	49	24	22	5	2	930	913
- Including R&D	4	2	2	1	1	1	0	0	0	-	0	0	7	4
Segment result	44	41	29	(4)	3	2	12	14	1	5	-1	3	88	61
Other (expenses)/revenues	(11)	-	(4)	1	-	-	1	2	-	-	(3)	-	(17)	3
Operating profit	33	41	25	(3)	3	2	13	16	1	5	(4)	3	71	64
Finance income													5	50
Finance costs													19	13
Profit before tax	33	41	25	(3)	3	2	13	16	1	5	(4)	3	57	101
Income tax													7	9
Net profit	33	41	25	(3)	3	2	13	16	1	5	(4)	3	50	92
Segment assets	1 798	1 481	947	854	121	102	583	511	134	94	223	182	3 806	3 224
Unallocated assets													1 037	1 313
Total assets	1 798	1 481	947	854	121	102	583	511	134	94	223	182	4 843	4 537
Capital expenditure	7	129	4	8	2	0	22	15	4	9	9	17	48	178
Amortization and depreciation	22	14	13	13	3	2	9	8	1	1	1	-	49	38

Geographical information

	Country		Other countries		Total	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
Revenue (sales to external customers)	470	431	548	543	1 018	974



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ADDITIONAL INFORMATION
01.01.2016– 31.03.2016
QUARTERLY REPORT

**Additional notes of the
SYNTHOS S.A. Group**

**Quarterly report for the period
from 1 January 2016 to 31 March 2016**

MANAGEMENT BOARD OF SYNTHOS S.A.:

- PRESIDENT OF THE MANAGEMENT BOARD

- VICE-PRESIDENT OF THE BOARD

- BOARD MEMBER

- BOARD MEMBER

- BOARD MEMBER

Contents

1.	INTRODUCTION	4
2.	OPERATIONS OF THE SYNTHOS SA GROUP.....	6
3.	THE GROUP'S ASSETS AND FINANCIAL STANDING	10
4.	THE MANAGEMENT	26
5.	MAIN SHAREHOLDERS	27
6.	GROUP STRUCTURE	27
7.	DEFINITIONS.....	31

1. INTRODUCTION

The Group is one of the leading manufacturers of chemical materials in Central and Eastern Europe. Its registered office is in Poland and its main production plants in Poland and in the Czech Republic. In accordance with the data from IHS Chemical, the Group is the leading synthetic rubber manufacturer in Europe and the leading manufacturer of expandable and extruded polystyrene. The Group's integration with suppliers of raw materials ensures a stable source of supplies of such materials as C₄ fractions, butadiene, benzene and ethylene, which are acquired from local cracking installations and place the group among the top corporations in terms of costs in the synthetic rubber industry. The Group has a wide and differentiated customer base from various industries, including, in particular, from the automotive sector, the construction sector and the packaging sector. The Group has maintained a long-term relationship, lasting even up to several decades, with its key customers such as the market leaders Michelin and Goodyear. Throughout the years, thanks to using its own protected technologies, the Group transformed into a modern global manufacturer of synthetic rubber. Since 2004, the Company's shares have been quoted on the Warsaw Stock Exchange. As at 31 March 2016 the Company's market capitalization was PLN 5,081.3 million.

The Group's sales for the three months ended 31 March 2016 amounted to PLN 1,018 million and EBITDA amounted to PLN 120 million. The Group operates in four key segments: rubber ("Synthetic Rubbers Segment"), styrene and styrene derivatives ("Styrene Plastics Segment"), dispersions, adhesives and latex ("Dispersions, Adhesives and Latex Segment") and the manufacture of crop protection chemicals ("AGRO Segment"). The Group also earns revenues on auxiliary activities related to the manufacture and distribution of heat energy from its own heat and power plants, as well as revenues from trading in and distributing electric energy ("Other Activities", including "Utilities", which in the consolidated financial statements are presented as a separate segment). Other Activities also include revenues and costs not attributed to other segments.

1.1 Accounting policies adopted in the preparation of the report

The Synthos S.A. Group applied the International Financial Reporting Standards (IFRS) in the preparation of these condensed consolidated financial statements. Those standards were also applied to comparative data.

Pursuant to the resolution of the General Meeting held on 30.05.2005, the separate financial statements were prepared according to IAS.

1.2 Functional and presentation currency

Our Group uses two functional currencies due to the location of its business operations:

- a) in the Czech companies, the Czech crown is the functional currency;
- b) in the Polish entities, the functional currency is the Polish zloty.

The reporting currency in which these financial statements have been prepared is the Polish zloty (PLN). Assets and liabilities measured in the functional currencies have been translated into PLN at the mid exchange rate of the National Bank of Poland as at the balance sheet date.

Foreign currency transactions are initially recorded as at the transaction date in the functional currency, applying respectively: the mid NBP exchange rate or the mid CNB (Czech National Bank) exchange rate prevailing at the date of the transaction.

The monetary items of assets and liabilities denominated in foreign currencies are translated as at the balance sheet date at the mid exchange rate for a given currency binding at that date. Foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities measured at historical cost and denominated in foreign currencies are translated using the mid exchange rate for the functional currency prevailing at the date of the transaction.

Financial data in CZK were translated according to the following principles:

- particular assets and liabilities – at the rate prevailing as at 31 March 2016 – PLN/CZK o.1578.

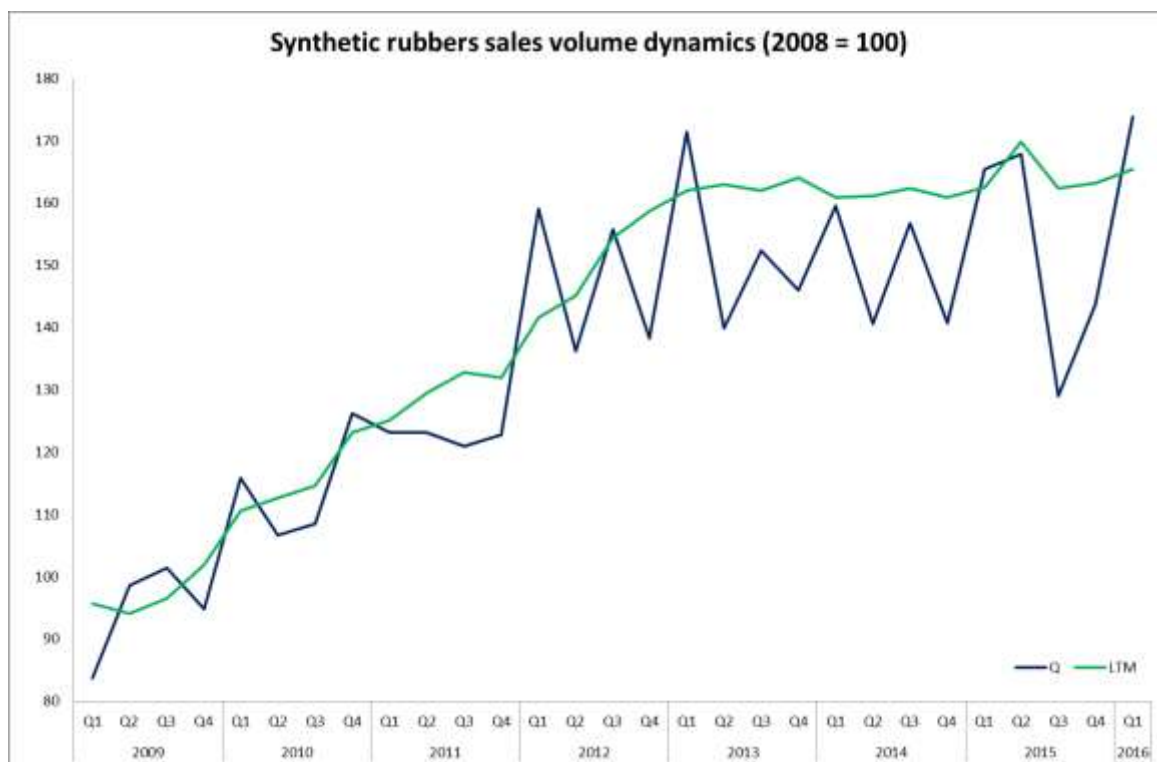
2. OPERATIONS OF THE SYNTHOS SA GROUP

2.1 General information

The Group operates in four key segments: butadiene and rubber (“**Synthetic Rubbers Segment**”), styrene and styrene derivatives (“**Styrene Plastics Segment**”), dispersions, adhesives and latex (“**Dispersions, Adhesives and Latex Segment**”) and the manufacture of crop protection chemicals (“**AGRO Segment**”). The Group also earns revenues on auxiliary activities related to the manufacture and distribution of heat energy from its own heat and power plants, as well as revenues from trading in and distributing electric energy (“**Other Activities**”, including “**Utilities**”, which in the consolidated financial statements are presented as a separate segment). Other Activities also include revenues and costs not attributed to other segments.

Synthetic Rubbers Segment

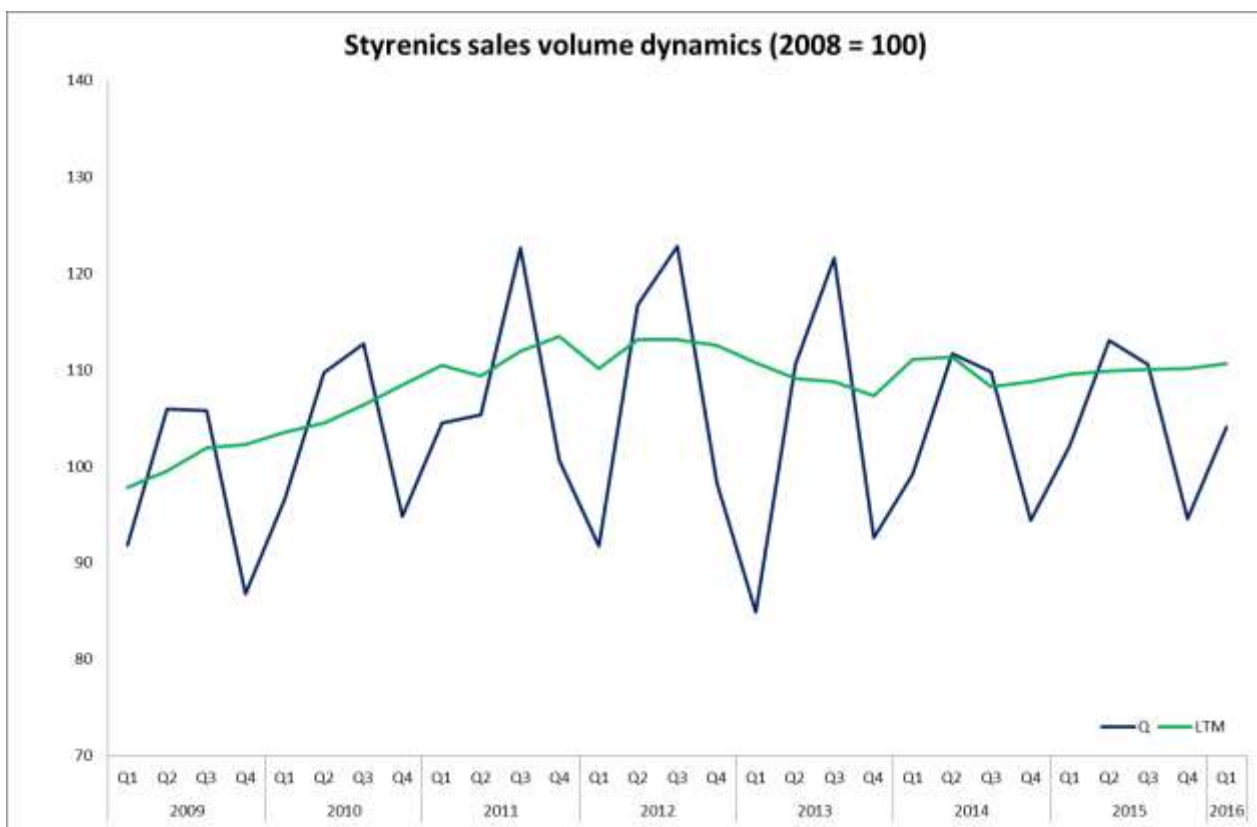
The Synthetic Rubbers Segment is the basic segment of the Group’s operations. The main players on the tyre market, including Michelin, Continental, Goodyear and Pirelli, represent 82% of the sales volume of this segment of the Group’s operations. Other market participants, including manufacturers of technical rubber products, shoe soles, flexible cables and transmission belts, comprise the remaining customers, representing 18% of the sales volume. The Synthetic Rubbers Segment generated sales revenue of PLN 495 million and EBITDA of PLN 55 million for the 3-month period ended 31 March 2016.



Styrene Plastics Segment

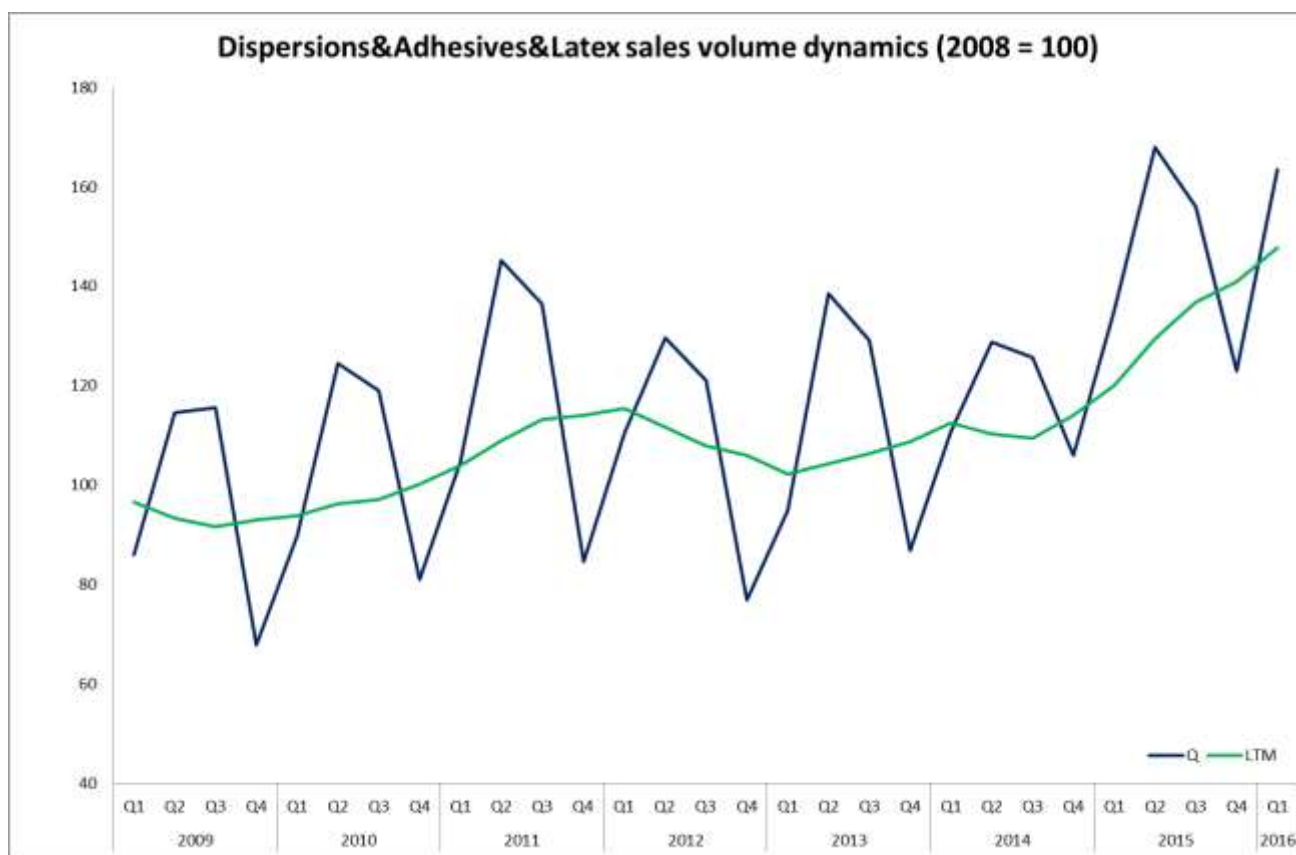
The Styrene Plastics Segment manufactures three basic types of products whose purposes differ. The first is expandable polystyrene (“**EPS**”), used mainly for

manufacturing thermal insulation sheets, which is the core material for thermal insulation in Central Europe. The second type are general purpose polystyrenes (“GPPS”) and high-impact polystyrenes (“HIPS”), used mainly in the foodstuffs packaging industry. Polystyrene is used to manufacture disposable tableware, cups, dairy packaging, trays and cutlery. Polystyrenes are also used in manufacturing shower booths, jewellery boxes, etc. – all products that require stiffness and transparency at the same time. The third group comprises extruded polystyrene (“XPS”) sheets. XPS is used mainly in the construction industry as a material for thermal insulation of buildings, roofs with inverted layers, floor insulation, thermal bridges and slurry walls. The Styrene Plastics Segment generated sales revenue of PLN 392 million and EBITDA of PLN 38 million for the 3-month period ended 31 March 2016.



Dispersions, Adhesives and Latexes Segment

The Dispersions, Adhesives and Latexes Segment produces acryl, styrene-acryl dispersions, polyvinyl acetate dispersions and various types of synthetic latexes: concentrated butadiene-styrene or carboxyl butadiene styrene. The main application of acrylic dispersions, styrene and acrylic and vinyl and acrylic dispersions is the production of high quality paints, acrylic plasters, primers, sealers and many other construction chemicals. Dispersions in the group of vinyl polyacetate dispersions are mainly used in the production of wood adhesives and in the paper industry, in the textiles and in the construction industry. The adhesives manufactured by the Group are used mainly in the wood, furniture and paper industries. The Dispersions, Adhesives and Latexes Segment generated sales revenue of PLN 46 million and EBITDA of PLN 6 million for the 3-month period ended 31 March 2016.



AGRO Segment

The AGRO segment is engaged in the production and sales of plant protection products and biocides. The AGRO segment ensures seedlings protection, protection of crops from damage by pathogenic fungi throughout the vegetation period, protection of plants from pests during their growth and development, protection against weeds, and delivers necessary micro- and macroelements in the form of special fertilizers to plants. The AGRO Segment generated revenues of PLN 25 million and EBITDA of PLN 2 million for the 3-month period ended 31 March 2016.

Utilities Segment

This Segment engages in heat energy generation and distribution, combined heat and electric energy generation and distribution. The Utilities Segment generated revenues of PLN 56 million and EBITDA of PLN 22 million for the 3-month period ended 31 March 2016.

2.2 Recent developments

Continuation of approvals obtaining processes for the specification of SSBR rubbers

In 2015 an installation for the manufacture of modern SSBR rubbers was launched in the plant in Oświęcim. In Q1 2016 the processes of obtaining approvals for specifications of the product from key customers, mainly tyre manufacturers, were continued. Obtaining approval is preceded by a process of regular deliveries.

SSBR rubbers are manufactured in the opened plant, they are used in the production of modern tyres, both summer and winter types, with improved characteristics in respect of their lower rolling resistance and higher wear resistance and adhesion to wet surfaces ("performance tyres"). These features allow fuel saving and increase driving safety and comfort. The market for these tyres will develop faster than the market for traditional tyres, as is also indicated by the energy saving and CO₂ emissions reduction policy pursued in developed countries (including the European Union, Japan, the USA, South Korea), which is reflected in the legislature covering so-called "tyre labelling").

Acquisition of Photo Hitech spółka z ograniczoną odpowiedzialnością shares

In January 2016 Synthos S.A. acquired a block of 44% shares in the Polish start-up company Photo Hitech spółka z ograniczoną odpowiedzialnością with its registered office in Kraków from the foundation Fundacja Uniwersytetu im. Adama Mickiewicza with its registered office in Poznań. The Company conducts research on methods for quick and environmentally-friendly curing of paints, polishes and other polymer surfaces using photoinitiators.

2.3 Events which occurred after the date of the quarterly report, not included in the report, which could have a significant impact on the future financial results of the Synthos S.A. Group

Acquisition of the Styrofoam business (EPS) from the INEOS Group

On 6 May 2016 Synthos S.A. concluded an agreement for the purchase of the EPS (Expandable Polystyrene) business of the INEOS Group from INEOS Industries Holdings Limited, with its registered office in Lyndhurst, UK. The total purchase price was EUR 80 million, in recognition of potential adjustments.

The purpose of the acquisition was to deliver the highest quality EPS and maintain the market position in EPS Styrofoam products which compete with other insulation materials.

The styrene processing capacity of the Synthos Group will exceed 600 thousand tonnes per annum. In the longer time perspective, the acquisition of cost-competitive styrene will be possible in particular as a result of expanding the styrene production capacity, which will lead to high capital expenditure.

The condition precedent for the transaction is obtaining the appropriate consents of the competent anti-trust authorities.

2.4 Litigation

The Group is party to litigation in the normal course of its business. Litigation relates to proceedings initiated by regulatory, tax authorities, suppliers and customers, employee claims, disputes on contracts signed, claims relating to injuries or property losses which may relate to the Group's services relating to projects or construction sites, cases relating to charging tax, environmental claims and others. Many of the Group's contracts include provisions relating to alternative methods of resolving disputes. If the parties to a contract cannot agree, litigation may be necessary to resolve the dispute.

In the three-month period ended 31 March 2016 the Group was not a party to any government, court or arbitration proceedings (including pending proceedings of which the Group is aware), which has or may have a material impact on the Group's financial position and profitability.

3. THE GROUP'S ASSETS AND FINANCIAL STANDING

The following discussion and analysis of the Group's financial standing and results is based on the consolidated financial statements. This chapter should be read with reference to the consolidated financial statements including the additional notes and explanations to the financial statements, and other financial information included in further parts of this Consolidated Quarterly Report.

3.1 Key factors with an impact on the Group's results

Several factors had an impact on the group's results of operations. They comprise: global supply and demand on the end markets on which the Group's customers compete, prices of commodities, overall economic conditions and compliance with environmental laws. The results of operations and the cash flows of the Synthos Group are also subject to structural and operational factors specific for the Group.

Economic environment, demand and cyclicity on the end markets for chemicals

The Group's operations cover the production and sales of chemicals used in a wide range of industries, in particular in the automotive industry, packaging and construction industry. Those industries, and therefore also the demand for the Group's products, are subject to general economic conditions. The Group's operations are also cyclic and, what is even more important, subject to changing supply and demand balance in the chemical industry. The Group's future results of operations will continue to be cyclic and variable.

The increase in the Group's revenues depends on the general situation in Poland and in the wider European and global business environment. In the past, the Group's results of

operations were (and will continue to be) influenced by the key macroeconomic factors such as increase in GDP, inflation, interest rates, foreign exchange rates, unemployment rates, the level of enterprise bankruptcies. The generally, poor economic climate in Europe, including Poland, may impact the Group's markets' growth prospects.

GDP growth prospects in Europe, including Poland, and other macroeconomic factors are characterized by inherent uncertainty and strong dependence on the global economic environment, including the rate of growth of the Chinese economy, which translates to the global, large volume chemical industry.

Automotive and construction industries

The operations of the Synthos Group to a large extent depend on market conditions in industries which use the Group's products as materials and components, including in particular the automotive and construction industries.

In Q1 2016 good market conditions were noted in the automotive industry. Since the end of January 2016 we also saw dynamic growth of oil and oil-derivative material prices and an increase in the prices of natural rubber. These phenomena were accompanied by several negative market factors.

The following had the largest impact on the results of operations:

1. Good conditions on the European automotive market. In Q1 2016 sales of passenger cars in the European Union amounted to 3,819,269. The number of new car registrations increased by 8.2% compared with 2015 (source: European Automobile Manufacturers' Association (ACEA)). The largest increase was noted in Italy (20.8%), France (8.2%), Spain (6.9%), the United Kingdom (5.1%) and Germany (4.5%).
2. Growing demand on the replacement tyre markets in Europe compared with the prior year in the passenger car and agricultural vehicles segments, and a drop in sales in respect of trucks. The increase in passenger car tyre sales in Q1 2016 was 3% (53,285 million tyres were sold) and in truck tyres 5% (2,273 million tyres sold). In respect of tyres for agricultural vehicles, the drop was 7% (source: European Tyre & Rubber Manufacturers Association (ETRMA)).
3. Increased weakening of economic growth in China. In Q1 2016, the annual growth of Gross Domestic Product (GDP) in China slowed down to 6.7% from 6.8% in the previous quarter (source: Chinese National Statistical Authority).

This factor limited the possibilities for generating profits for European manufacturers of synthetic rubbers, including for the Synthos S.A. Group companies.

4. Worse market conditions in the Polish construction industry. The pace of growth of added value in the construction industry in Q1 2016 was only 3.5 percent (source: State and prospects for economic conditions, IBnGR, April 2016).

These conditions had an impact on the results of the "Dispersions, Adhesives and Latexes" segment of the Synthos S.A. Group, whose products are to a large extent earmarked for the construction industry.

5. The prices of GPPS (low- impact polystyrene) and HIPS (high-impact polystyrene) are subject to the growing prices of styrene.
6. The stable prices of butadiene in Europe and growing prices in Asia which ultimately have a positive impact on the margins earned on synthetic rubbers, and in consequence on the financial results of the Synthos S.A. Group
7. The growing prices of natural rubber which have an impact on the prices of the base synthetic rubbers.

Raw material price fluctuations

Costs of raw materials constitute a material component of the Group's operating expenses. For the 3 months ended 31 March 2016 raw materials constituted 65% of the Group's total sales revenue. The Group's key raw materials are butadiene, styrene, ethylbenzene, butyl acrylate, vinyl acetate monomer, ethylene and benzene, as well as the C₄ fraction. Due to the above, the Group's operating expenses are directly influenced by the variable costs of raw materials, which in turn depend on the global supply and demand and on other factors not controlled by the Group. The prices of raw materials purchased by the Group are to some extent correlated to the global oil prices because oil is the input raw material for European cracking plants, which in turn provide the materials to the Group.

Generally, the Group tries to transfer the raw material price increases to its customers. However, due to the price pressure and other forms of competitive and market pressure, the Group may not be capable of transferring such costs in total or at all. Additionally, the fluctuations in those raw material costs make it difficult to manage prices and there may be delays between the increase in raw material prices and the increase in prices for the Group's customers. Although in the longer time perspective changes in raw material prices usually translate to changes in the prices of end products, the prices of the Group's products may not reflect the changes in raw material prices immediately due to the price mechanisms used by the Group or delays in updating the Group's product prices. This has an impact on the Group's ability to transfer the price increases to customers in a timely manner. Therefore fluctuations of raw material prices may have a material impact on the profit before tax, gross margin and the Group's other results of operations.

Additionally, in the Group's non-current contracts for materials, for the purpose of optimizing price fluctuations, the price formulas reflect the current conditions on the raw materials market. The formulas applied reduce the risk of large deviations of the contracted purchase prices from market prices. Reverse integration and acquisition of long-term supply contracts at attractive prices are the key raw material cost control factors.

Changes in prices of raw materials have a direct impact on the level of the Group's working capital. Generally, price increases lead to an increase in the Group's demand for working capital and drops lead to a drop in demand for working capital.

Fluctuations in the Group's margins and supply and demand for its products

On the Group's markets margins are under the strong influence of supply and demand for products and costs of the key raw materials. Some markets, such as plastics markets and synthetic rubber markets, are more mature, so their general increase is usually more correlated to the increase in global GDP. As the demand for product grows and approaches the level of available supply, the functional ratios and the prices and margins usually increase. Supply on the Group's markets is usually cyclic and is generally characterized by periods of limited sales which leads to an increase in operating rates and margins, after which come periods of excessive supply which are usually stimulated by building additional capacity, which leads to a drop in operating rates and margins.

Apart from the cyclicity, the Group's margins are also prone to potential material fluctuations in the short period, related to various factors, such as planned and unplanned business interruptions, political and economic conditions which have an impact on prices and changes in the customers' inventory management policies (such as building or getting rid of inventories in periods of expected price increases).

Current and future regulations relating to environmental protection

The Group is subject to extensive environmental and health and safety at work regulations both at the European and national level. Many regulations are binding which have an impact on the Group's operations and the group incurs and expects to incur further material capital expenditure on compliance with the current and future regulations. The Group may also incur the costs of recovery activities, scrapping and on-going modernization as well as ensuring compliance of its production plants and other real estate. However, the Group is certain that potential costs of recovery activities will not be high and it does not expect them to have an impact on the results of operations.

The REACH regulation imposes significant duties on the Group and on the whole chemical industry in respect of testing, assessing and registering base chemicals and chemical components. The Classification, Labelling and Packaging Regulation ("CLP") imposes significant obligations on the Group with respect to testing, assessing and registering base chemical products which is expensive, time-consuming and lead to an increase in manufacturing costs and a drop in operating margins on the Group's products.

In the next few years the Group expects to be subject to new legal requirements relating to environmental protection following, among other things, from the Industrial Emissions Directive ("IED") and the European Emissions Trading System ("EU ETS"). The Group tries to follow its customers' growing ecological awareness by producing, e.g. NdBR rubbers used to manufacture tyres with higher functional parameters which reduce the use of fuel. Additionally, the Group participates in developing alternative ways of acquiring butadiene from renewable sources. The Group is also considering constructing a municipal waste incinerator which meets Polish national waste management regulations.

Foreign exchange rate fluctuations

The Group engages in business on an international scale as a result of which it is exposed to various foreign exchange risks, in particular with reference to EUR, PLN, USD and CZK. Although the reporting currency is the Polish zloty, in the first quarter ended 31 March 2016, 74.9% of the Group's revenues and 89.2% of its costs related to transactions settled

in currencies other than the PLN. Therefore, the Group is subject to influence of both transactions and the effects of translation and fluctuations of foreign exchange rates. In the last years the foreign currency values denominated in the PLN fluctuated significantly. This situation may repeat itself in the future. Potential depreciation of those currencies vis-à-vis the PLN will lead to a drop in the Polish zloty equivalent of the amounts presenting the results of operations in the consolidated financial statements. Potential appreciation of those currencies will lead to respective increases in the said amounts. Foreign exchange rate fluctuations have an impact on the revenues and on the cost of purchase of raw materials. Although the relative strengthening of the PLN vis-à-vis other currencies may have a negative impact on the profitability of exports and domestic sales of the Group, changes in export revenues and domestic sales caused by foreign exchange rate fluctuations are partly offset with changes in the costs of import of raw materials. One of the consequences of the Group's raw material purchases, sales of products, drawing loans and borrowings, issuing bonds and cash held in foreign currencies is its exposure, both in the past and in the future, to foreign currency rate fluctuations which may have a material impact on the Group's results of operations, balances of assets and liabilities and cash flows denominated in Polish zlotys. Foreign exchange rate fluctuations may also significantly distort the comparability of results of operations for particular periods.

Threats and risks of disruptions related to chemical production

The Group is exposed to typical threats and risks of disruptions related to chemical production and related storing and transporting raw materials, products and waste. Such potential risks and disruptions cover, among other things, explosions and fires, unfavourable weather conditions, natural disasters and failures of mechanical safety devices which secure the processes and limit contamination emissions.

Should any of those disruptions occur, alternative installations with sufficient production capacity may not be available, may cost much more or may require significant time to launch production, which may have an unfavourable impact on the Group's results and operations. Nevertheless, such events do not usually occur and are rare, no more than once or twice a year, and usually do not last long.

3.2 Presentation of financial information

For the purpose of discussing the Group's results of operations, the following are the key items of the statement of comprehensive income: sales revenue, cost of sales, other operating income, general administrative expenses, other operating expenses, finance income, finance cost, income tax and net profit. The discussion below also relates to EBITDA and the Group's results by segments.

Sales revenue

Revenue comprises sales of goods for resale and finished goods, services, materials and revenue from lease of real estate.

Segment results

Segment results cover sales revenue of each segment net of the total cost allocated to the segment. Reconciliation of segment results with profit before tax is presented in the Consolidated Financial Statements.

Cost of sales

Cost of sales covers, among other things, materials and energy used, wages and salaries and costs of goods for resale and materials sold.

Selling costs

Selling costs comprise, among other things, costs of transport, loading and unloading, customs duties, trade charges and insurance of goods.

Administrative expenses

Administrative expenses cover general administrative expenses related to maintaining management and administration, and production overheads relating to maintaining and operating general purpose entities.

Other operating income

Other operating income covers, among other things, proceeds from the sale of fixed assets, release of provisions, compensation from insurance companies and contractual penalties received.

Other operating expenses

Other operating expenses cover, among other things, revaluation of provisions, impairment losses, write-downs, costs of unused capacity.

Finance income

Finance income includes proceeds from the valuation of derivatives, interest at amortized cost using the effective interest rate, net foreign exchange gains on monetary assets, loans, borrowings and other assets and liabilities.

Finance costs

Finance costs cover mainly interest charged using the effective interest rate and net foreign exchange losses on monetary assets, loans, borrowings and other assets and liabilities.

Income tax

Income tax includes current and deferred income tax charge.

Net profit

Net profit covers total revenues net of total costs.

EBITDA

EBITDA is calculated as operating profit plus depreciation and amortization.

3-3 The Group's results

The table below shows the Group's consolidated results of operations in each of the indicated periods.

	Q1 2016 period from 01-01-2016 to 31-03-2016	Q1 2015 period from 01-01-2015 to 31-03-2015
Sales revenue	1 018	974
Cost of sales	(843)	(837)
Gross profit on sales	175	137
Selling costs	(32)	(33)
Administrative expenses	(48)	(39)
Costs of research and development projects	(7)	(4)
Other operating (expenses)/ income	(17)	3
Operating profit	71	64
Finance income	5	50
Finance costs	(19)	(13)
Profit before tax	57	101
Income tax	(7)	(9)
Net profit	50	92

3.4 Three months ended 31 March 2016 compared with three months ended 31 March 2015

Sales revenue

The Group's sales revenue for the three months ended 31 March 2016 amounted to PLN 1,018 million and were PLN 44 million, i.e. 4.5 %, higher than PLN 974 million for the three months ended 31 March 2015.

Segmental analysis for the three months ended 31 March 2016 compared with three months ended 31 March 2015

The results of the segments for the three months ended 31 March 2016 amounted to PLN 88 million and were PLN 27 million, i.e. 44%, higher than PLN 361 million for the first quarter ended 31 March 2015.

The table below shows the Group's historical sales revenue and results by operating segment for the three months ended 31 March 2016 and 2015.

**Three months ended
31 March**

2016 2015
(in PLN million)

Sales revenue		
Synthetic Rubbers Segment	495	482
Styrene Plastics Segment	392	354
Dispersions, Adhesives and Latexes Segment	46	43
AGRO Segment	25	27
Other activities	60	68
Total sales	1018	974
Costs by segment		
Synthetic Rubbers Segment	451	441
Styrene Plastics Segment	363	358
Dispersions, Adhesives and Latexes Segment	43	41
AGRO Segment	24	22
Other activities	49	51
Total costs	930	913
Segment results		
Synthetic Rubbers Segment	44	41
Styrene Plastics Segment	29	(4)
Dispersions, Adhesives and Latexes Segment	3	2
AGRO Segment	1	5
Other activities	11	17
Total segment results	88	61

Synthetic Rubbers Segment

The results of the Synthetic Rubbers Segment for the three months ended 31 March 2016 amounted to PLN 44 million and were PLN 3 million, i.e. 7.3%, higher than PLN 41 million for the three months ended 31 March 2015. The main reason for the change was the fact that conditions on the European automotive market were good. Additionally, the favourable relation of butadiene quotations on the Asian market compared to the European market allowed selling similar volumes of products on the spot markets.

Styrene Plastics Segment

The results of the Styrene Plastics Segment for the three months ended 31 March 2016 amounted to PLN 29 million and were PLN 33 million higher than PLN (4) million for the three months ended 31 March 2015.

The improvement of results on the styrene products was mainly the consequence of the price of GPPS polystyrene (low-impact polystyrene) and HIPS (high-impact polystyrene) which were under the influence of growing styrene prices. Additionally at the turn of 2014 and 2015 there was a sudden slump in the prices of styrene products resulting from the drop in styrene quotations (December 2014 vs January 2015 – a drop of EUR 290 per tonne). In effect, products which remained in storage were sold below production cost.

Dispersions, Adhesives and Latexes Segment

The results of the Dispersions, Adhesives and Latexes Segment for the three months ended 31 March 2016 amounted to PLN 3 million and were PLN 1 million, i.e. 50%, higher than the PLN 1 million for the three months ended 31 March 2015. Better results are the consequence of increasing the scale of production after acquiring the production plant in Sochaczew (dispersions and adhesives) and higher volumes of latex sales.

AGRO Segment

The results of the AGRO Segment for the three months ended 31 March 2016 amounted to PLN 1 million and were PLN 4 million lower than PLN 5 million for the three months ended 31 March 2015.

The higher results achieved in the prior year were the consequence of the absence of costs of production services due to the delays related to acquiring permits and permissions for manufacturing active substances in Jaworzno. Additionally, in the current year costs include operating expenses of Wola Krzysztoporska which was acquired in the second half of 2015.

Other activities

The results of the Other Activities Segment for the three months ended 31 March 2016 amounted to PLN 11 million and were PLN 6 million, i.e. 35.3%, lower than PLN 17 million for the three months ended 31 March 2015.

The majority of these activities constituted the production and sales of energy utilities, i.e. heat and electric energy. The results on these activities for the three months ended 31 March 2016 amounted to PLN 12 million and were PLN 3 million, i.e. 16.7% lower than PLN 14 million for the three months ended 31 March 2015. The drop in results on other activities is the result of limiting sales of electric energy and regulatory services due to the stoppage of the gas turbine.

Cost of sales of finished goods and materials

The cost of sale of the Group's finished goods and materials for the three months ended 31 March 2016 amounted to PLN 843 million and were PLN 6 million, i.e. 1 % higher than PLN 837 million for the three months ended 31 March 2015. This increase resulted mainly from the average market prices of monomers.

Other operating income / (expenses)

The balance of other operating income/(expenses) for the three months ended 31 March 2016 amounted to PLN (17) million and was PLN 20 million lower than PLN 3 million profit for the three month period ended 31 March 2015. Write-downs of inventories of insufficient quality goods in the SSBR rubbers segment of PLN (11) million and the write

down related to an increase in the wear and tear of catalysers in styrene installations in the styrene derivative segment of PLN (4) million had the largest impact on the loss on other activities.

Selling costs

Costs for the three months ended 31 March 2016 amounted to PLN 32 million and were PLN 1 million, i.e. 3%, lower than PLN 33 million for the three months ended 31 March 2015.

General and administrative expenses

General and administrative expenses for the three months ended 31 March 2016 amounted to PLN 48 million, and increased by PLN 9 million, i.e. 23.1%, from PLN 39 million for the three months ended 31 March 2015. The increase in general and administrative expenses resulted mainly from an increase in the number of employees and in wages and salaries.

Finance income

Finance income for the three months ended 31 March 2016 amounted to PLN 5 million and was PLN 45 million, i.e. 90%, lower than PLN 50 million for the three months ended 31 March 2015. Finance income in the first quarter of 2015 resulted mainly from foreign exchange gains on the profit earned on forward currency contracts.

Finance costs

Finance costs for the three months ended 31 March 2016 amounted to PLN 19 million, and increased by PLN 6 million, i.e. 46.2%, from PLN 13 million for the three months ended 31 March 2015. The increase in finance costs resulted mainly from the increase in interest expense and the increase in foreign exchange losses.

Income tax

Income tax for the three months ended 31 March 2016 amounted to PLN 7 million, and dropped by PLN 1 million, i.e. 11.1%, from PLN 9 million for the three months ended 31 March 2015.

Net profit

For the above reasons net profit for the three months ended 31 March 2016 amounted to PLN 50 million, and dropped by PLN 42 million, i.e. 45.7%, from PLN 92 million for the three months ended 31 March 2015.

EBITDA

Group EBITDA for the three months ended 31 March 2016 amounted to PLN 120 million, and increased by PLN 18 million, i.e. 17.6%, from PLN 102 million for the three months ended 31 March 2015. The increase in EBITDA resulted mainly from the results achieved in the styrene plastics segment.

The table below shows the Group's historical EBITDA by segment for the three months ended 31 March 2016 and 2015.

	Three months ended 31 March	
	2016 (in PLN million)	2015
Synthetic Rubbers Segment	55	55
Styrene Plastics Segment	38	10
Dispersions, Adhesives and Latexes Segment	6	4
AGRO Segment	2	6
Other activities	19	27
Total	120	102

3-5 Liquidity and capital resources

In historical terms, the Group's demand for liquidity results mainly from the need to finance capital expenditure and working capital, and service the Group's debt. The main source of the Group's liquidity were funds from operating activities, credit lines, bonds issued, sold assets and EU subsidies to investment projects.

Cash flows

The following table shows the consolidated cash flows of the Group for each of the periods indicated.

	For 3 months ended 31 March	
	2016 (in PLN millions)	2015
Net cash from operating activities	26	214
Net cash from investing activities	-36	-163
Net cash from financing activities	-37	-26

Net cash from operating activities for the 3 months ended 31 March 2016 amounted to PLN 26 million and was PLN 188 million, i.e. 87.9%, lower than in the 3 months ended 31 March 2015 (PLN 214 million). This decrease was mainly due to a lower profit before tax and the change in the balance of inventories and receivables.

Net cash from investing activities

Net cash used in investing activities in the 3 months ended 31 March 2016 amounted to PLN 36 million and was PLN 127 million, i.e. 77.9%, lower than in the 3 months ended 31 March 2015 (PLN 163 million). This decrease was mainly due to the fact that the number of projects carried out in the 1st quarter of 2016 was smaller.

Net cash from financing activities

In the 3 months ended 31 March 2016, net cash outflows on financing activities amounted to PLN 37 million, which represents an increase in expenditure of PLN 11 million, i.e. 42.3%, compared with the outflows of PLN 26 million in the 3 months ended 31 March 2015. This increase was mainly due to an increase in the amount of interest paid.

Demand for working capital

The Group defines working capital as current assets (excluding cash and cash equivalents) less current liabilities (excluding financial liabilities). The Group's demand for net working capital depends mainly on the prices of raw materials and on the management of receivables, liabilities and inventories.

As at 31 March 2016, the net working capital amounted to PLN 866 million, which represented an increase of PLN 65 million compared with the 3 months ended 31 March 2015 (PLN 801 million). This increase was mainly due to a growth in raw material prices compared with the first quarter of 2015.

Off-balance sheet agreements

As at 31 March 2016, the Group had no contingent liabilities to unrelated entities.

Capital expenditure

The Group's capital expenditure for the first quarter ended 31 March 2016 amounted to PLN 48 million.

The following table shows the capital expenditure incurred by the Group in the periods indicated by operating segments.

	For 3 months ended 31 March	
	2016	2015
	<i>(in PLN millions)</i>	
Synthetic rubber segment	7	129
Styrene plastics segment	4	8
Dispersions, adhesives and latexes segment	2	-
AGRO segment	4	9
Other activities	31	32
Total	48	178

The Group is carrying out a capital expenditure programme aimed at the expansion, maintenance and improvement of the Group's production facilities. Significant capital expenditure is required to maintain the current production level of the Group's facilities, comply with the new laws and regulations and maintain the licences and permits for conducting business activities. Moreover, additional capital expenditure is required for the modernization of ageing equipment, increasing the energy efficiency, increasing the production capacity and improving the control over processes.

Forecasts

The Management Board of Synthos S.A. did not publish any forecast of the financial results of the Company and the Synthos S.A. Group for the first quarter of 2016.

Significant changes in the estimates in the 1st quarter of 2016 in the Synthos S.A. Group

The Group did not make any significant changes to its estimates in the reporting period.

3.6 Financing activities**Bonds**

On 30 September 2014, Synthos Finance AB (publ) with its registered office in Stockholm, Sweden (**"the Issuer of Bonds"**), a subsidiary wholly owned by Synthos S.A., issued senior bonds with a total nominal value of EUR 350,000,000 (**"the Original Bonds"**). The Original Bonds bear a fixed interest rate of 4.000% p.a. Interest will be payable on a semi-annual basis (on 30 March and 30 September) from 30 March 2015. The Bonds will mature on 30 September 2021. The Original Bonds were issued for a price amounting to 100% of the principal amount, i.e. for a total price of EUR 350,000,000. The Original Bonds constitute senior debt and their repayment priority is the same as that of any existing or future senior debt.

The Senior Bonds are unsecured and are 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. (**"the Guarantors"**). The guarantee issued by the Guarantors covers all liabilities of Synthos Finance AB (publ) resulting from the Original Bonds (including the liability in respect of payment of the nominal value of the Original Bonds and interest on the Bonds) and it was granted to all Bond Holders. The Guarantee will expire after expiry of the Bond Holders' claims against Synthos Finance AB (publ). Compensation for grating the guarantee was determined on an arm's length basis.

In connection with the issue of the Original Bonds, the Group is also subject to standard restrictions applicable to high-yield bonds (so-called covenants), which may reduce its ability to finance its future operations and capital needs or to pursue business opportunities and conduct daily business activities. Such restrictions are subject to numerous exceptions and exclusions, therefore, the amount of debt incurred in compliance with these restrictions may be significant, provided that specific conditions are met.

The Original Bonds are listed on the Official Quotations Market of the Irish Stock Exchange and they have been admitted to trading on the Global Exchange Market.

The Agreement on the Terms and Conditions of the Original Bonds Issue, the Original Bonds and the Guarantees are governed by the laws of the State of New York and shall be constructed in accordance with such laws.

At the same time, in order to transfer the funds from the issue of the Original Bonds, on 30 September 2014 the Company's Management Board passed a resolution on the issue

of intra-Group bonds which were taken up by Synthos Finance AB (publ) and which constitute unsecured registered bonds issued pursuant to the Bonds Act of 29 June 1995. The nominal value of the intra-Group bonds amounts to EUR 350,000,000 and is the same as the nominal value of the Bonds. The total issue price of the intra-Group bonds is EUR 344,001,000. The funds raised from the issue of the intra-Group bonds will be used to pay off the Group's current debt, cover the costs of the issue of the Original Bonds and for the general corporate purposes of the Group, including the Company and other Guarantors. The terms of redemption and the terms of payment of interest on the intra-Group bonds are the same as those for the Original Bonds.

Additional Bonds

On 2 April 2015, Synthos Finance AB (publ) with its registered office in Stockholm issued senior notes with a total nominal value of EUR 50,000,000, bearing a fixed interest rate of 4.000% p.a. and maturing on 30 September 2021 ("the **Additional Bonds**"). The Additional Bonds constitute an additional ('tap') issue with respect to the Original Bonds.

As in the case of the Original Bonds, the liabilities of Synthos Finance AB (publ) resulting from the Additional Bonds are secured with a joint and several guarantee granted by the Guarantors.

At the same time, in order to transfer the funds from the issue of 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 50,000,000, bearing interest of 4.7% p.a., due to be repaid by 30 September 2021.

As the Original Bonds, the Additional Bonds are also listed on the Official Quotations Market of the Irish Stock Exchange and they have been admitted to trading on the Global Exchange Market.

Information on dividends paid (or declared)

Not applicable.

3-7 Additional factors, which may affect our results in the following reporting periods:

In our opinion, the following factors may affect our results in the following reporting periods:

- a. Launching the installation for the production of SBR rubber in August 2015.
- b. Acquisition of the EPS (Expandable Polystyrene) business of the INEOS Group.
- c. The situation on the oil market, which affects the situation of the petrochemical industry and companies.
- d. A number of projects completed by the Synthos S.A. Group companies in recent years in order to expand the Group's product offer, and projects executed in the power sector.
- e. Gradual economic recovery in Poland and the other European Union member states, which are the main markets for the Synthos S.A. Group's products, which should be facilitated by the European Central Bank's policy of quantitative easing.

- f. In the case of the Polish economy, maintaining low interest rates by the Monetary Policy Council may be significant. Exceptionally low cost of credit should contribute to further economic recovery in 2016 (including in the construction sector).
- g. Geographical diversification through intensification of sales of the Synthos Group's products on the South American and North American markets. Bringing the Group's existing products to new markets in accordance with its market development strategy should help achieve a growth of sales and profits in the immediate future.
- h. A possible intensification of regional conflicts: the conflict between Ukraine and Russia and the conflict in Syria, which affect the economic situation in Ukraine, Russia, Turkey, and neighbouring countries. International sanctions imposed on Russia and its ongoing retaliatory actions will also have an adverse effect on the economy. Due to the relatively small exposure of the Synthos S.A. Group to Eastern markets, the implications for the Group should not be significant.
- i. Situation on the replacement tyres market. The situation on the European market of replacement tyres should slowly, but continuously improve. In a longer perspective, a real increase in demand for tyres is expected on the Asian markets, such as China and India, and (to a lesser extent) on South American markets (mainly in Brazil). The tyre industry consumes approx. 70% of the global production of SBR.
- j. The situation in the Polish construction sector which has a significant effect on the results of the dispersion and adhesives segments. According to the forecast by the National Institute for Market Economics (IBnGR), in 2016 the added value in the construction sector will amount to 5.6%. In 2016, the situation in this sector will be increasingly positively affected by infrastructural investments (mainly in roads and railways) financed under the present budget perspective of the European Union (source: The condition of and a forecast for the level of economic activity, IBnGR, April 2016).
- k. The gradual development of the product offer and an increase in the scale of the operations should contribute to an improvement in the results in the adhesives segment in the mid-term.
- l. The rate of economic growth in China and USA which determines, among other things, the situation on the global petrochemical market. In the case of the USA, the unknown consequences of withdrawing from the programme of support for economic growth by following a lax monetary policy are a significant element. The central bank of the United States increased the interest rates in December 2015 for the first time in 9 years.
- m. The exchange rates of the Polish zloty and the Czech koruna against the euro and the American dollar.
- n. Long-term effect of the tyre marking regulations resulting in an increase in demand for Nd BR and SSBK rubber used in the manufacture of modern tyres with enhanced properties in the area of abrasion resistance, rolling resistance, and adhesion to wet surfaces.

4. THE MANAGEMENT

4.1 The Supervisory Board

The Company's shares held by the Supervisory Board members as at 31 March 2016 and changes in the shareholding in the period from the submission of the previous quarterly report:

Name	Number of shares held as at 30 September 2015	Changes in the shareholding to 31 March 2016
Jarosław Grodzki		
Chairman of the Supervisory Board	350	no change
Krzysztof Kwapisz		
Deputy Chairman of the Supervisory Board	0	no change
Grzegorz Miroński		
Secretary of the Supervisory Board	0	no change
Wojciech Ciesielski		
Supervisory Board Member	0	no change
Robert Oskard		
Supervisory Board Member	0	no change

4.2 The Management Board

The Company's shares held by the Management Board members as at 31 March 2016 and changes in the shareholding in the period from the submission of the previous quarterly report:

Name	Number of shares held as at 30 September 2015	Changes in the shareholding to 31 March 2016
Tomasz Kalwat		
President of the Board	786,000	no change
Zbigniew Warmuz		
Vice-President of the Board	0	no change
Tomasz Piec		
Board Member	0	no change
Zbigniew Lange		
Board Member	0	no change
Jarosław Rogoża		
Board Member	0	no change

5. MAIN SHAREHOLDERS

As at 31 March 2016, our issued share capital amounted to PLN 39,697,500 and was divided into 1,323,250,000 ordinary bearer shares with the par value of PLN 0.03 each.

We are a public company and our shares are listed on the regulated market of the Warsaw Stock Exchange. Therefore, we do not have detailed information on all our shareholders. We receive information on our significant shareholders only when they comply with their information obligations resulting from the Polish law.

The following table presents the list of shareholders as at 31 March 2016 prepared on the basis of the notifications received from them on holding at least 5% of the votes at the Company's General Shareholders' Meeting.

Shareholder	Number of shares	Interest in share capital (%)	Number of votes at the General Shareholders' Meeting	Percentage of votes at the General Shareholders' Meeting
Michał Sołowow, <i>indirectly through subsidiaries:</i>	826,559,009	62.46%	826,559,009	62.46%
FTF Galleon S.A.	682,918,112	51.61%	682,918,112	51.61%
Ustra S.A.	143,640,897	10.85%	143,640,897	10.85%
Others ⁽¹⁾	496,690,991	37.54%	496,690,991	37.54%
Total	1,323,250,000	100%	1,323,250,000	100%

⁽¹⁾ Except for the shareholders listed in the table above and determined on the basis of the notifications on the shareholdings received at the General Shareholders' Meeting, no shareholder holds more than 5% of the Company's shares.

The Company does not know of any agreements, which could result in future changes in the proportion of shares held by the existing shareholders.

6. GROUP STRUCTURE

6.1 Organization of the Group

The parent company of the Group is Synthos S.A. ("the Company"). The Company's core business operations comprise the management of the Group. The Company's share capital amounts to PLN 39,697,500 (thirty-nine million six hundred and ninety-seven thousand five hundred zlotys) and it comprises:

- (a) 854,250,000 (eight hundred and fifty-four million two hundred and fifty thousand) A-series ordinary bearer shares with PLN 0.03 (three groszy) par value each, with numbers from A 000.000.001 to A 854.250.000;
- (b) 469,000,000 (four hundred and sixty-nine million) B-series ordinary bearer shares with PLN 0.03 (three groszy) par value each, with numbers from B 000.000.001 to B 469.000.000.

The Group's structure contains three main production companies: Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna, Synthos Kralupy a.s. and Synthos PBR s.r.o., whose operations comprise the production of mainly rubbers and styrene plastics.

The branch of Synthos S.A. operates as Synthos SA (organizační složka) with its registered office in Kralupy nad Vltavou, the Czech Republic. It commenced operations on the day of its registration in the Czech Trade Register, i.e. on 22 January 2008.

6.2 Consolidated subsidiaries forming part of the Group:

Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna with its registered office in Oświęcim. The Company is engaged in the production of synthetic rubber and synthetic latex, styrene plastics, vinyl dispersions and acrylic copolymer dispersions, as well as generation and distribution of electricity and heat and water collection and treatment. Its present shareholders are Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością with its registered office in Oświęcim, in which the Company holds 100% of the shares, and Green Pepper SCSp with its registered office in Luxembourg (an indirect subsidiary of the Company). Synthos Dwory 2 spółka z ograniczoną odpowiedzialnością, which is a subsidiary wholly owned by the Company, is authorized to sole representation of the Company.

Synthos Kralupy a.s. with its registered office in Kralupy nad Vltavou, the Czech Republic. The Company's business activities comprise the production of synthetic rubber, polystyrene plastics, ethylbenzene, and butadiene. The Company is the sole shareholder of Synthos Kralupy a.s., representing 100% of its share capital. On 27 April 2016, the Municipal Court in Prague registered a share capital increase to the amount of CZK 7,125,007,000 and the Company acquired all shares in the increased share capital.

Synthos PBR s.r.o. with its registered office in Kralupy nad Vltavou, the Czech Republic. The Company is engaged in the production of synthetic rubber based on the licence granted by the Michelin Group. The Company holds 100% of the shares in the share capital and votes at the General Shareholders' Meeting of that company.

Tamero Invest s.r.o. with its registered office in Kralupy nad Vltavou, the Czech Republic. The Company is engaged in generation and distribution of electricity and heat and water collection and treatment. Synthos Kralupy a.s. holds 100% of the shares in that Company.

Synthos Dwory 4 Sp. z o.o. with its registered office in Oświęcim, an indirect subsidiary of the Company. On 5.11.2015, the District Court for Kraków – Śródmieście in Kraków registered a share capital increase to the amount of PLN 12,225,000.00. At present, the Company's shareholders are Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna, which holds 99.94% of the shares and represents 99.94% of the votes at the General Shareholders' Meeting, and Synthos Dwory 2 Sp. z o.o., which holds 0.06% of the shares and represents 0.06% of the votes at the General Shareholders' Meeting. The Company's operations comprise the generation of electricity.

Synthos Dwory 5 Sp. z o.o. with its registered office in Oświęcim, an indirect subsidiary of the Company. On 3.11.2015, the District Court for Kraków – Śródmieście in Kraków registered a share capital increase to the amount of PLN 6,100,000.00. At present, the Company's shareholders are Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna, which holds 99.94% of the shares and represents 99.94% of the votes at

the General Shareholders' Meeting, and Synthos Dwory 2 Sp. z o.o., which holds 0.06% of the shares and represents 0.06% of the votes at the General Shareholders' Meeting. The Company is engaged, among other things, in the generation of electricity.

Synthos Dwory 8 Sp. z o.o. with its registered office in Oświęcim, an indirect subsidiary of the Company. At present, Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna holds 99.89% of the shares and represents 99.89% of the votes at the General Shareholders' Meeting, and Synthos Dwory 2 Sp. z o.o. holds 0.11% of the shares and represents 0.11% of the votes at the General Shareholders' Meeting of the Company. The Company is engaged, among other things, in the generation of electricity.

Miejsko-Przemysłowa Oczyszczalnia Ścieków Sp. z o.o. with its registered office in Oświęcim. The Company's activities comprise the collection, treatment and disposal of sewage, treatment of waste, providing sanitary services and related services. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna holds 76.79% of the shares in the share capital and votes at the General Shareholders' Meeting of this company. The remaining 23.21% of the shares in the share capital and votes at the General Shareholders' Meeting of this company are held by the Oświęcim Municipality.

FORUM 62 FIZ managed by FORUM TFI S.A. with its registered office in Kraków. The Company holds directly and indirectly all certificates issued by the fund. Out of a total of 1,379,911 certificates, 250 (A series) are held by the Company, and the remaining 1,379,661 (B series) are held by Red Chilli Ltd. (a wholly-owned indirect subsidiary of the Company).

CALGERON INVESTMENT LIMITED with its registered office in Nicosia, Cyprus. Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna holds 100% of the share capital of CALGERON INVESTMENT Ltd., a Synthos S.A. Group company engaged in investment and equity operations.

Red Chilli Ltd. with its registered office in Nicosia, Cyprus. Synthos S.A. used to hold 100% of the shares in the share capital and represent 100% of the votes at the General Shareholders' Meeting of this company; since 21 April 2016, all the shares are held by a subsidiary, Synthos Kralupy a.s. with its registered office in Kralupy. Red Chilli is engaged in investment and equity operations.

Butadien Kralupy, a.s. with its registered office in Kralupy nad Vltavou, the Czech Republic. Synthos Kralupy a.s. holds 49% of the shares in the share capital of this Company. Butadien Kralupy a.s. is engaged in the processing of C4 fraction to extract butadiene and raffinate 1. The Company is consolidated under the IFRS 11 regulations.

Synthos Agro Sp. z o.o. with its registered office in Oświęcim, an indirect subsidiary of the Company. The Company is engaged in trading and marketing activities relating to plant protection products. On 3.10.2015, the District Court for Kraków – Śródmieście in Kraków registered a share capital increase to the amount of PLN 32,250.00. At present, the Company's shareholders are Synthos Dwory 7 spółka z ograniczoną odpowiedzialnością spółka jawna, which holds 99.84% of the shares and represents 99.84% of the votes at the General Shareholders' Meeting, and Synthos Dwory 2 Sp. z o.o., which holds 0.16% of the shares and represents 0.16% of the votes at the General Shareholders' Meeting.

Zakład Doświadczalny "Organika" Sp. z o.o. with its registered office in Nowa Sarzyna – an indirect subsidiary of the Company, in which Synthos Agro Sp. z o.o. currently holds 100% of the shares and votes at the General Shareholders' Meeting. The Company is engaged in the production of pesticides.

Synthos do Brasil Industria e Comercio de Quimicos Limitada, listed in the National Register of Legal Entities of the Federal Republic of Brazil on 21 November 2013 with the reference number 19.297.642/0001-22. The Company's share capital amounts to 3,544,400.00 Brazilian reals and consists of 3,544,400,000 shares. The Company holds 3,542,400 shares in the share capital. Synthos Dwory 2 Sp. z o.o. holds 2,000 shares in the share capital.

Synthos Dwory 2 Sp. z o.o. with its registered office in Oświęcim. The Company currently holds 100% of the shares in the share capital and represents 100% of the votes at the General Shareholders' Meeting of this company.

Synthos Finance AB (publ.) a Swedish special purpose vehicle engaged in equity operations. The Company's share capital amounts to EUR 55,005.61 and is divided into 4951 shares with EUR 11.11 par value each. The Company is the sole owner of all shares.

Green Pepper SCSp with its registered office in Luxembourg, entered in the Luxembourg Trade and Companies Register with the number RCS: B 192143 on 27 November 2014. The Company is indirectly controlled by the Company in 100%. The Company is engaged in investment and equity operations.

Bilberry S.a.r.l. – a Luxembourg company engaged in investment and equity operations. The Company holds 100% of the shares in the share capital and 100% of the votes at the General Shareholders' Meeting of this company.

Oristano Investment Spółka z ograniczoną odpowiedzialnością in liquidation with its registered office in Oświęcim. The Company holds 100% of the shares in the share capital and 100% of the votes at the General Shareholders' Meeting of this company. On 15 October 2014, the General Shareholders' Meeting passed a resolution on winding up the company. Consequently, its liquidation was opened on 15 October 2014. On 14 March 2016, the District Court for Kraków-Śródmieście in Kraków deleted the company from the National Court Register due to the closing of its liquidation.

Synthos US, INC. A wholly-owned direct subsidiary of the Company, registered under the law of the State of Ohio, USA. The Company is engaged in promotional and marketing activities in the United States of America.

6.3 Non-consolidated Group companies

Synthos XEPS s.r.o. in liquidation with its registered office in Kralupy nad Vltavou, the Czech Republic. The Company holds 100% of the shares in the share capital and votes at the General Shareholders' Meeting of this company. The Company's liquidation was opened on 1 December 2015.

Photo Hitech Sp. z o.o. with its registered office in Kraków. The Company holds 440 shares in the share capital and represents 44% of the votes at the General Shareholders' Meeting of this company.

6.4 Effects of changes in our structure

There were no changes in our capital structure in the reporting period other than mentioned elsewhere in this report.

6.5 Information about transactions concluded by Synthos S.A. or its subsidiary with related entities on terms other than arm's-length, if they are material either individually or cumulatively.

There were no such events in the reporting period.

7. DEFINITIONS

"Additional Bonds" mean senior bonds with a total nominal value of EUR 50,000,000 issued by Synthos Finance AB (publ) on 2 April 2015;

"Issuer of Bonds" means Synthos Finance AB (publ) with its registered office in Stockholm, Sweden, which issued the Original Bonds and Additional Bonds;

"EPS" means expanded polystyrene;

"GPPS" means general purpose polystyrene;

"WSE" means the Warsaw Stock Exchange;

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

"HIPS" means high-impact polystyrene;

"PET" means polyethylene terephthalate;

"GDP" means gross domestic product;

"Original Bonds" mean senior bonds with a total nominal value of EUR 350,000,000 issued by Synthos Finance AB (publ) on 30 September 2014;

"Guarantor" or **"Guarantors"** mean 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., which guarantee the Bonds;

"the Company" means Synthos S.A.;

"Consolidated Quarterly Report" means the quarterly report for the period from 1 January to 31 March 2016;

"PPP" means plant protection products;

"EU" means the European Union;

"Agreement on the Terms and Conditions of Bonds Issue" means the agreement regulating the Bonds;

"XPS" means extruded polystyrene.

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