UNIPETROL, a.s.

NON-CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION

AS OF 31 DECEMBER 2012

Translated from the Czech original

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of UNIPETROL, a.s.

We have audited the accompanying non–consolidated financial statements of UNIPETROL, a.s., which comprise the non–consolidated statement of financial position as of 31 December 2012, and the non–consolidated statement of profit or loss and other comprehensive income, the non–consolidated statement of changes in equity and the non–consolidated statement of cash flows for the year then ended, and the notes to these non–consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these non–consolidated financial statements.

Statutory Body's Responsibility for the non–consolidated Financial Statements

The statutory body of UNIPETROL, a.s. is responsible for the preparation of non–consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of non–consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non–consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the non–consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non–consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non–consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the non–consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non–consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non–consolidated financial statements give a true and fair view of the non–consolidated financial position of UNIPETROL, a.s. as of 31 December 2012, and of its non–consolidated financial performance and its non–consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague
4 March 2013

	Karel Růžička
KPMG Česká republika Audit, s.r.o.	Partner
Licence number 71	Licence number 1895

UNIPETROL, a.s.

Non-consolidated statement of financial position
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
As at 31 December 2012
(in thousands of Czech crowns)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	10	12,822	15,994
Intangible assets	11	456	522
Investment property	12	1,149,081	1,141,966
Investments in subsidiaries, joint ventures and other financial investments	13	13,812,981	13,813,066
Loans granted	14	334,651	2,382,459
Other non-current assets		186	102
Total non-current assets		**15,310,177**	**17,354,109**
Current assets			
Trade and other receivables	15	188,039	153,684
Loans granted	14	11,973,200	9,507,592
Prepaid expenses		3,655	8,241
Cash and cash equivalents	16	1,294,067	1,358,652
Current tax assets		17,525	17,857
Assets held for sale	17	178,000	--
Total current assets		**13,654,486**	**11,046,026**
Total assets		**28,964,663**	**28,400,135**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	18,133,476	18,133,476
Statutory reserves	19	1,651,472	1,651,471
Other reserves	19	510,080	514,676
Retained earnings	20	5,124,936	4,716,455
Total equity		**25,419,964**	**25,016,078**
Non-current liabilities			
Loans and borrowings	21	--	2,000,000
Deferred tax liability	9	113,326	109,904
Provisions		400	400
Total non-current liabilities		**113,726**	**2,110,304**
Current liabilities			
Trade and other payables and accruals	22	163,073	140,545
Loans and borrowings	21	3,267,900	1,133,208
Total current liabilities		**3,430,973**	**1,273,753**
Total liabilities		**3,544,699**	**3,384,057**
Total equity and liabilities		**28,964,663**	**28,400,135**

The financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 37.

UNIPETROL, a.s.

Non-consolidated statement of profit or loss and other comprehensive income
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
For the year ended 31 December 2012
(in thousands of Czech crowns)

	Note	2012	2011
Revenue	4	147,815	140,030
Cost of sales		(67,710)	(69,874)
Gross profit		**80,105**	**70,156**
Other income		18,787	241,762
Administrative expenses		(174,890)	(168,037)
Other expenses		(3,011)	(149)
Results from operating activities	6	**(79,009)**	**143,732**
Finance income		772,578	1,165,560
Finance costs		(257,695)	(1,515,253)
Net finance income (costs)	8	**514,883**	**(349,693)**
Profit (loss) before income tax		**435,874**	**(205,961)**
Income tax expense	9	(31,902)	(23,964)
Profit (loss) for the year		**403,972**	**(229,925)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Change in fair value of investment property and other income		--	600,477
Income tax on other comprehensive income		--	(114,090)
Items that will be reclassified to profit or loss:			
Foreign currency translation differences - foreign operations	8	(86)	89
Other comprehensive income for the year, net of tax		**(86)**	**486,476**
Total comprehensive income for the year		**403,886**	**256,551**
Basic and diluted earnings per share (in CZK)		**2.23**	**(1.27)**

The financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 37.

UNIPETROL, a.s.

Non-consolidated statement of changes in equity
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
For the year ended 31 December 2012
(in thousands of Czech crowns)

	Share capital	Statutory reserves	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2011	**18,133,476**	**1,625,865**	**20,748**	**7,452**	**4,971,986**	**24,759,527**
Total comprehensive income for the year						
Profit or loss	--	--	--	--	(229,925)	(229,925)
Other comprehensive income	--	--	486 387	89	--	486,476
Total comprehensive income for the year	**--**	**--**	**486,387**	**89**	**(229,925)**	**256,551**
Allocation of profit to reserves	--	25,606	--	--	(25,606)	--
Balance as at 31 December 2011	**18,133,476**	**1,651,471**	**507,135**	**7,541**	**4,716,455**	**25,016,078**
Balance as at 1 January 2012	**18,133,476**	**1,651,471**	**507,135**	**7,541**	**4,716,455**	**25,016,078**
Total comprehensive income for the year						
Profit or loss	--	--	--	--	403,972	403,972
Other comprehensive income	--	1	(4,509)	(87)	4,509	(86)
Total comprehensive income for the year	**--**	**1**	**(4,509)**	**(87)**	**408,481**	**403,886**
Balance as at 31 December 2012	**18,133,476**	**1,651,472**	**502,626**	**7,454**	**5,124,936**	**25,419,964**

The financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 37.

Unipetrol ORLEN GROUP

UNIPETROL, a.s.

Non-consolidated statement of cash flows
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
For the year ended 31 December 2012
(in thousands of Czech crowns)

	Note	2012	2011
Cash flows from operating activities:			
Profit (loss) for the year		**403,972**	**(229,925)**
Adjustments for:			
Depreciation of the property, plant and equipment and amortisation of intangible assets	10, 11	2,497	3,166
Profit or loss from investing activities		(178)	(1,068)
Net foreign exchange losses (gains)		2,975	(2,522)
Interests and dividends, net	8	(354,956)	(903,302)
Impairment losses (gains) on financial investments, loans and receivables		(161 880)	1,248,244
Income tax expense	9	31,902	23,964
Changes in:			
- in trade receivables and other current assets		(29,853)	8,702
- in trade and other payables and accruals		23,096	(34,693)
Income tax paid		(28,148)	--
Net cash from (used in) operating activities		**(110,573)**	**112,566**
Cash flows from investing activities:			
Proceed from disposals of property, plant and equipment and intangible assets		223	1,068
Interest received		366,621	472,037
Dividends received		195,554	725,543
Change in loans granted		(394,983)	(2,957,040)
Acquisition of property, plant and equipment and intangible assets		(6,418)	(579)
Net cash from (used in) investing activities		**160,997**	**(1,758,971)**
Cash flows from financing activities:			
Change in loans and borrowings		265,686	431,846
Payment of finance lease liabilities			
Interest paid		(377,150)	(290,284)
Dividends paid		(570)	(2,116)
Net cash from (used in) financing activities		**(112,034)**	**139,446**
Net change in cash and cash equivalents		**(61,610)**	**(1,506,959)**
Cash and cash equivalents at the beginning of the year		**1,358,652**	**2,863,092**
Effects of exchange rates changes on the balance of cash held in foreign currencies		**(2,975)**	**2,519**
Cash and cash equivalents at the end of the year		**1,294,067**	**1,358,652**

The financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 37.

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Year ended 31 December 2012 (in thousands of CZK)

1. DESCRIPTION OF THE COMPANY

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

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

Principal activities
UNIPETROL, a.s. operates as a holding company that controls a group of companies engaged in the oil refinery, production of petrochemical commodities, semi-finished products for industrial fertilizers, polymer materials, generation of heat and electricity, distribution and gas stations operation.

The Company is involved in providing economic and organizational advisory services, financing, intermediation of services, advisory services relating to chemical industry, internal and external communication advisory services and human resources consultancy.

Ownership structure
The shareholders as at 31 December 2012 are as follows:

POLSKI KONCERN NAFTOWY ORLEN S.A.	63 %
Investment funds and other minority shareholders	37 %

Members of the statutory and supervisory boards as at 31 December 2012 were as follows:

	Position	Name
Board of directors	Chairman	Piotr Chelminski
	Vice-Chairman	Marek Świtajewski
	Vice-Chairman	Piotr Wielowieyski
	Member	Mariusz Kędra
	Member	Martin Durčák
	Member	Artur Paździor
Supervisory board	Chairman	Dariusz Jacek Krawiec
	Vice-Chairman	Ivan Kočárník
	Vice-Chairman	Slawomir Robert Jedrzejczyk
	Member	Piotr Robert Kearney
	Member	Zdeněk Černý
	Member	Krystian Pater
	Member	Rafal Sekula
	Member	Andrzej Jerzy Kozlowski
	Member	Bogdan Dzudzewicz

Changes in the board of directors during the year 2012 were as follows:

Position	Name	Change	Date of change
Member	Ivan Ottis	Expiry of mandate	24 June 2012
Member	Piotr Wielowieyski	Elected for new Term of office as a member	28 March 2012
Vice-Chairman	Piotr Wielowieyski	Elected for new Term of office as a vice-chairman	28 March 2012
Member	Marek Świtajewski	Elected for new Term of office as a member	25 June 2012
Vice-Chairman	Marek Świtajewski	Elected for new Term of office as a vice-chairman	12 September 2012
Chairman	Piotr Chelminski	Elected for new Term of office as a chairman	5 December 2012
Member	Artur Pazdzior	Elected for new Term of office as a member	5 December 2012
Member	Martin Durčák	Elected for new Term of office as a member	5 December 2012

Changes in the supervisory board during the year 2012 were as follows:

Position	Name	Change	Date of change
Member	Ivan Kočárník	Elected for new Term of office as a member	25 June 2012
Vice-Chairman	Ivan Kočárník	Elected as Vice-Chairman by the Supervisory Board	25 June 2012
Member	Bogdan Dzudzewicz	Elected for new Term of office as a member	25 June 2012
Member	Andrzej Kozlowski	Elected for new Term of office as a member	25 June 2012

Year ended 31 December 2012 (in thousands of CZK)

2. SIGNIFICANT INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The following table shows subsidiaries and joint-ventures forming the consolidated group of UNIPETROL, a.s., and the Company's interest in the capital of subsidiaries and joint-ventures held either directly or indirectly by the consolidated subsidiaries as at 31 December 2012.

Name and registered office	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries
Parent company		
UNIPETROL, a.s. Na Pankráci 127, 140 00 Praha 4, Czech Republic		
Subsidiaries		
BENZINA, s.r.o. Na Pankráci 127, 140 00 Praha 4, Czech Republic	100.00 %	--
PARAMO, a.s. Přerovská 560, 530 06 Pardubice, Czech Republic	100.00 %	--
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00 %	--
UNIPETROL SERVICES, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00 %	--
UNIPETROL DOPRAVA, s.r.o. Litvínov – Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12 %	99.88 %
Chemapol (Schweiz) AG in liquidation Leimenstrasse 21, 4003 Basel, Switzerland	--	100.00 %
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B , 63225 Langen/Hessen, Germany	0.10 %	99.90 %
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37 %
UNIPETROL SLOVENSKO s.r.o. Panónská cesta 7, 850 00 Bratislava, Slovak Republic	13.04%	86.96 %
POLYMER INSTITUTE BRNO, spol. s r.o. Tkalcovská 36/2, 656 49 Brno, Czech republic	1.00%	99.00 %
Paramo Oil s.r.o. (dormant entity) Přerovská 560, 530 06 Pardubice, Czech Republic	--	100.00 %
Výzkumný ústav anorganické chemie, a.s. Revoluční 84/č.p. 1521, Ústí nad Labem, Czech Republic	100.00%	--
UNIPETROL RAFINÉRIE, s.r.o. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--
HC VERVA Litvínov, a.s. Litvínov , S.K. Neumanna 1598, Czech Republic	--	70.95%
CHEMOPETROL, a.s. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	--	100.00%
MOGUL SLOVAKIA s.r.o. Hradiště pod Vrátnom, U ihriska 300, Slovak Republic	--	100.00%
UNIPETROL AUSTRIA HmbH in Liquidation Vídeň, Apfelgasse 2, Austria	100.00%	--
Joint-ventures		
ČESKÁ RAFINÉRSKÁ, a.s. Záluží 2, 436 70 Litvínov, Czech Republic	51.22 %	--
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic	51.00 %	--

According to the articles of association of ČESKÁ RAFINÉRSKÁ, a.s. adoption of decisions on all important matters requires 67.5 % or greater majority of all votes.

3. SIGNIFICANT ACCOUNTING POLICIES

A Statement of compliance and accounting policies

The non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations approved by the International Accounting Standards Board (IASB) as adopted for use in the European Union. The non-consolidated financial statements have been prepared as required by law in the Czech Republic. The Company has also prepared the consolidated financial statements in accordance with IFRSs as adopted for use in the European Union.

The non-consolidated financial statements were authorized for issue by the Board of Directors on 4 March 2013.

IFRSs, amendments and interpretations to IFRSs endorsed by European Union, not yet effective

Early adoption of new standards

As at 31 December 2012 the Company had early adopted amendments to *IAS 1 Presentation of Items of Other Comprehensive Income* before the effective date. The Company presented separately the items of other comprehensive income that may be reclassified to profit or loss in the future when specific conditions are met from those that would never be reclassified to profit or loss; and has changed the title of the “Statement of Comprehensive Income” to “Statement of Profit or Loss and Other Comprehensive Income”.

New standards and interpretations not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company but which the Company has not early adopted. The Company intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2012, in accordance with their effective dates. In 2012, the Company did not take the decision for early adoption on a voluntarily basis of amendments and interpretations to the standards, except for adoption of amendments to *IAS 1 Presentation of Items of Other Comprehensive Income*. Those new standards which may be relevant to the Company are set out below.

- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013)

  IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures and SIC-13 Jointly Controlled Entities – Non Monetary Contributions by Venturers.
  IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed in IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:
  - A *joint operation* is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operations will be accounted for on the basis of the Company’s interest in those assets and liabilities.
  - A *joint venture* is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement. Joint ventures will be equity-accounted.
  Application of the standard based on European Union decision should be as from the commencement date of its first financial year starting on or after 1 January 2014.

  The Company expects the new standard when initially applied may have an impact on the non-consolidated financial statements. The possible impact of the standard on non-consolidated financial statements of the Company is being analyzed.

- *IFRS 12 Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013)
  IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.
  Application of the standard based on European Union decision should be as from the commencement date of its first financial year starting on or after 1 January 2014.

  The Company expects that the new standard when initially applied will increase the amount of disclosures in the financial statements.

- *IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013)

  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs.

  The Company does not expect IFRS 13 to have a significant impact on the financial statements, except for more extensive disclosure in the notes to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Amendments to IAS 27 Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014)
  IAS 27 (2011) was modified in relation to issuance of IFRS 10 Consolidated Financial Statement and carries forward the existing accounting and disclosure requirements for separate financial statements. For that reason requirements of IAS 28 (2008) and IAS 31 relating to separate financial statements will be incorporated to IAS 27. The above amendment will have no impact on the financial statements, since it does not results in a change in the Company's accounting policy.

- *IAS 12 Deferred tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013)

  The 2010 amendment introduced an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

  The Company does not expect the amendment when initially applied to have significant impact on the financial statements.

- *Amendments to IAS 19 Employee Benefits* (effective for annual periods beginning on or after 1 January 2013)
  The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income.

  The Company does not expect the amendments to have a significant impact on future financial statements; the Company will present actuarial gain and losses in other comprehensive income instead of profit or loss.

IFRSs, amendments and interpretations waiting for approval of European Union
Those new standards which may be relevant to the Company are set out below.

- *New standard and amendments to IFRS 9 Financial Instruments* (effective for annual periods beginning on or after 1 January 2015)

  The new standard replaces the guidance in *IAS 39, Financial Instruments: Recognition and Measurement*, regarding classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.
  Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value.
  The 2010 amendments to IFRS 9 replace the guidance in *IAS 39 Financial Instruments: Recognition* and Measurement mainly in relation to liabilities "designated as fair value through profit or loss" in case of changes in fair value, attributable to changes in credit risk of that liability. The standard requires changes in fair value to be presented directly in other comprehensive income. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.
  New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortised cost or fair value.
  Additionally amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments.

  The Company does not expect the standard when initially applied to have an impact on measurement of financial instruments. Based on the standard, a classification of financial instruments into respective categories will change.

- *Transition Guidance* (*Amendments to IFRS 10, IFRS 11 and IFRS 12)* (effective for annual periods beginning on or after 1 January 2013)
  The amendments:
  -define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees;
  -limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged;
  -requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required);
  -will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

  The Company expects that amendments to standards will not have an impact on items presented in future financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Improvements to IFRSs 2009-2011*(effective for annual periods beginning on or after 1 January 2013)

  The Improvements contain 7 amendments to 5 standards, with consequential amendments to other standards and interpretations. The main changes relate to:
  - repeated application of IFRS 1- a repeated adopter that elects not to apply IFRS 1 has to apply IFRS retrospectively in accordance with IAS 8, as if it had never stopped applying IFRS;
  - clarification that first-time adopter of IFRS choosing to apply borrowing costs exemptions should not restate the borrowing cost component that was capitalized under previous GAAP and should account for borrowing cost incurred on or after the date of transition (or an earlier date, as permitted by IAS 23) in accordance with IAS 23;
  - clarification that only one comparative period, which is the preceding period, is required to a complete set of financial statements; however if additional comparative information is prepared it should be accompanied by related notes and be in accordance with IFRS;
  - clarification that the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or reclassification has a material effect upon the information in that statement of financial position and except for the disclosures required under IAS 8, other notes related to the opening statement of financial position are no longer required.
  - clarification on the classification and accounting of spare parts, stand-by equipment and servicing equipment;
  - removal of inconsistencies between IAS 32 and IAS 12 in respect of distributions to holders of an equity instrument and transaction costs of an equity transaction, by clarification that IAS 12 applies to the accounting for income taxes relating to those transactions;
  - additional disclosure required of a measure of total assets and liabilities for a particular reportable segment for interim financial reporting.

  The Company expects that amendments to standards will not have a significant impact on future financial statements.

B Basis of preparation

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, financial instruments at fair value through profit or loss and investment property. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.
These non-consolidated financial statements have been prepared on a going concern basis. As at the date of approval of the statements there is no indication that the Company will not be able to continue as a going concern in the foreseeable future.
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
In the matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes 10 - Property, plant and equipment 11 - Intangibles assets and 13 - Investments in subsidiaries, joint-ventures and other financial investments, in relation to impairment and note 9 - Income tax.

The accounting policies set out below have been applied consistently to all periods presented in these non-consolidated financial statements.

C Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D Significant accounting policies

(1) Investments in subsidiaries, jointly controlled entities and associates
Investments in subsidiaries, jointly controlled entities and associates are carried in the statement of financial position at cost less any impairment of the value of individual investments.

(2) Loans provided to subsidiaries and associates
Loans provided to subsidiaries and associates are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss and other comprehensive income over the period of the loan on an effective interest basis.

(3) Foreign currency
Transactions in foreign currency
A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
At the end of the reporting period:
- foreign currency monetary items including units of currency held by the Company as well as receivables and liabilities due in defined or definable units of currency are translated using the closing rate, i.e. spot exchange rate as at the end of the reporting period,
- non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized as financial income or expense in the period in which they arise in the net amount, except for monetary items hedging currency risk, that are accounted for in accordance with cash flows hedge accounting.

(4) Revenue recognition

(i)Revenue from sales
Revenues from sales are recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Company and can be measured reliably. Revenues from sale are recognized when the significant risks and rewards of ownership have been transferred to the buyer and amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at fair value of the consideration received or receivable decreased by the amount of any discounts, value added tax (VAT), excise tax and fuel charges.
Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognised based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Company and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognised up to the cost incurred, but not greater than the cost which are expected to be recovered by the Company.
When the Company acts as an agent for its customers and buys and sells goods for a fixed margin without controlling purchase and selling prices, it does not report the revenue and cost from the sale of goods on a gross basis. It reports a net margin in the statement of profit or loss and other comprehensive income.

(ii) Revenue from licences, royalties and trade mark
Revenue from licences, royalties and trade mark are recognized on an accrual basis in accordance with the substance of the relevant agreements. Prepayments, referring to agreements concluded in the current period by the Company are recognized as deferred income and settled in the periods when economic benefits are realized according to the agreements.

(iii) Rental income
Rental income from investment property is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received.

(5) Costs recognition
The Company recognizes costs in accordance with accrual basis and prudence concept.

(i) Costs of sales - comprise costs of finished goods sold and costs of services sold, including services of support functions and cost of merchandise and raw materials sold.
(ii) Administrative expenses - include expenses relating to management and administration of the Company as a whole.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Other operating income and expenses

Other operating income in particular includes income from liquidation and sale of non-financial non-current assets, surplus of assets, return of court fees, penalties earned, surplus of grants received to revenues over the value of costs, assets received free of charge, reversal of receivable impairment allowances and provisions, compensations earned and revaluation gains, gain on sale of investment property.

Other operating expenses include in particular costs of liquidation and sale of non-financial non-current assets, shortages of assets, court fees, contractual penalties and fines, penalties for non-compliance with environmental protection regulations, impairment allowances (except those that are recognized as financial expenses), compensations paid, write-off of construction in progress which have not produced the desired economic effect, research costs, cost of recovery of receivables and liabilities and revaluation losses, loss on sale of investment property.

(7) Financial income and finance expenses

Financial income includes, in particular, income from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Financial expenses include, in particular, loss on sale of shares and securities and costs associated with such sale, impairment losses relating to financial assets such as shares, securities and interest receivables, foreign exchange losses, interest on bonds and other securities issued, interest on finance lease, commissions on bank loans, borrowings, guarantees, interest costs.

(8) Taxation

Income tax comprises current tax and deferred tax.

Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period. Current tax liabilities represent the amounts payable at the reporting date. If the amount of the current income tax paid exceeds the amount due the excess is recognized as a receivable.

Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for deductible temporary differences, unrealized tax losses and unrealized tax relieves to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Taxable temporary differences are temporary differences that will result in increasing taxable amounts of future periods when the value of the asset or liability at the end of the reporting period is recovered or settled.

Taxable temporary differences arise when the carrying amount of an asset at the end of reporting period is higher than its tax base or when the carrying amount of a liability is lower than its tax base.

Deductible temporary differences are temporary differences that will result in reducing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base.

Deductible and taxable temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income.

The deferred tax assets and liabilities are measured at the end of each reporting period using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.

Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are accounted for as non-current assets or non-current liabilities in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(9) Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

(10) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

The cost of an item of property, plant and equipment includes also estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment and capitalized borrowing costs, i.e. costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions are part of the initial cost.

Depreciation of an item of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value. Appropriateness of the applied depreciation rates is verified periodically (once a year), and respective adjustments are made to the subsequent periods of depreciation. Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their economic useful life.

Depreciation is charged so as to write off the cost or valuation of assets to their residual values, other than land, over their estimated useful lives, using the straight-line method.

The following standard economic useful lives are used for property, plant and equipment:

Machinery and equipment	4-15 years
Vehicles and other	2-4 years

The cost of significant repairs and regular maintenance programs is recognized as property, plant and equipment and depreciated in accordance with their economic useful lives. The costs of current maintenance of property, plant and equipment are recognized as an expense during the period when they are incurred.

Major spare parts and stand-by equipment are capitalized as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing agreement can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment. In both cases spare parts are depreciated over the shorter of the useful life of the spare part and the remaining life of the related item of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in income.

The residual value, estimated useful life and depreciation methods are reassessed annually.

(ii) Leased assets

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease. The property, plant and equipment acquired under finance leases are depreciated over the shorter of lease term or useful life of the asset. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

(iii) Subsequent expenditure

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Gains and losses resulting from changes in fair value of investment property are presented in the statement of profit or loss and other comprehensive income in the period which they arise. An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

(12) Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance. Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the assets will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets are measured at acquisition or construction at cost less amortization and impairment allowances. Intangible assets with a finite useful life are amortized when it is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is periodically reviewed, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods. Intangible assets with an indefinite useful life are not amortized. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.

The following standard economic useful lives are used for intangible assets:

Acquired licenses, patents, and similar intangible assets	4–8 years
Acquired computer software	3-5 years

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit or loss and other comprehensive income as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development.

(ii) Computer software

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company and which will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include employee costs of the software development team and an appropriate portion of relevant overheads. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of five years.

(iii) Other intangible assets

Expenditure to acquire patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives, except for licenses related to the purchase of production technologies, which are amortised over the estimated useful life of the technologies purchased. Expenditure on internally generated goodwill and brands is recognised in the statement of profit or loss and other comprehensive income as an expense as incurred.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(13) Government grants

Government grants are recognised in the statement of financial position as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it. If the grant relates to a given income, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate. The surplus of the received grant over the value of the given cost is presented as other operating income.

If the government grants related to assets, it is presented net with the related asset and is recognized in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Borrowing costs

Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds. The Company capitalises borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, starting from commencement date until the time when the assets are substantially ready for their intended use or sale.

Qualifying assets are the assets that necessarily take a substantial period of time to get ready for their intended use or sale. Borrowing costs which are not connected with qualifying assets are recognized in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

The commencement date for capitalization is the date when all of the following conditions are met: expenditures for the asset are incurred; borrowing costs are incurred; activities necessary to prepare the asset for its intended use or sale are undertaken.

(15) Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that are not yet available for use and intangible assets with indefinite useful lives, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

(i) Calculation of recoverable amount

Financial instruments, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial instruments are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition the estimated future cash flows of the instrument have been impacted.

For equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial instruments the objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- evidence that the borrower will enter bankruptcy or financial re-organisation.

Certain categories of financial instruments, such as trade receivables, are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial instruments measured at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of an impairment loss is recognised as income. An impairment loss recognised in respect of goodwill is not reversed in subsequent periods.

(16) Trade and other receivables

Trade and other receivables are recognized initially at the present value of the expected proceeds and are stated in subsequent periods at amortized cost using the effective interest method less any impairment losses.

(17) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank, bank deposits and short-term highly liquid investments with original maturities of three months and less. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are initially recognised at fair value, plus transaction costs, except for instruments at fair value through profit or loss, which are initially measured at fair value. Non-derivative financial instruments are classified into the following categories: financial assets 'at fair value through profit or loss', 'held-to-maturity', 'available-for-sale' and 'loans and receivables'. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument.

Financial assets at fair value through profit or loss

Financial instruments are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss upon initial recognition.

A financial instrument is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument other than a financial instrument held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both,
- which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described below.

Held-to-maturity

Debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment.

Available-for-sale financial instruments

Equity securities held by the Company that are traded in an active market are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described below. Gains and losses arising from changes in fair value are recognised directly in equity with the exception of impairment losses and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the instrument is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate method.

Derecognition of financial instruments

The Company derecognises a financial instrument when the contractual rights to the cash flows from the asset expire; or it transfers the financial instrument and substantially all the risks and rewards of ownership of the instrument to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred instrument, the Company recognises its retained interest in the instrument and an associated liability for amounts it may have to pay. If the Company retains substantially all

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the risks and rewards of ownership of a transferred financial instrument, the Company continues to recognise the financial instrument and also recognises a collateralised borrowing for the proceeds received.

The Company derecognises a financial asset from the statement of financial position when the contractual rights to the cash flows from the financial asset expire, or it transferred the financial asset to another party.

The Company derecognises a financial liability (or part of financial liability) from its statement of financial position only when it is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expired.

(ii) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedge risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of profit or loss and other comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are reported in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in equity are transferred to profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in equity are transferred from equity and included in the initial measurement of the asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in equity remains in equity until the forecast transaction is recorded in profit or loss. When a forecast transaction is no longer expected to occur; the cumulative gain or loss that was recognised in equity is transferred immediately to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses presented in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

(iii) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial instruments with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial instruments (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is calculated based on quoted prices. Where such prices are not available, the fair value is calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

(19) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured reliably. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognised.

The Company establishes provisions for environmental damage, legal disputes, penalties and estimated expenditures related to the fulfilment of obligations as a result of warranty claims. No provisions are established in respect of environmental damages which occurred prior to establishment of the Company as the Czech government contractually committed to reimburse the Company for clean-up costs.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

In accordance with the Company's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(20) Accruals

Accruals are liabilities due for goods or services received/provided, but not paid or formally agreed with the seller, together with amounts due to employees. Accruals relate among others to: uninvoiced services, unused holidays, investment liabilities.

Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

(21) Trade and other liabilities

Liabilities, including trade liabilities, are stated at amortized cost using the effective interest method. The Company uses simplified methods of liabilities measurement, including trade liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, particularly if the payment term of liabilities is not long. Liabilities, including trade liabilities, in relation to which simplified methods are used, are measured initially and after initial recognition at the amounts due.

(22) Social security and pension schemes

Contributions are made to the Czech government's health retirement and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of security payments is charged to the statement of profit or loss and other comprehensive income in the same period as the related salary cost. The Company has no pension or post-retirement commitments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(23) Long-term service benefits

The Company's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations.

Retirement benefits and jubilee bonuses

Under the Company's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Company does not assign assets which would be used for future retirement or jubilee liabilities. The Company creates a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present value of those liabilities is estimated at the end of each reporting period and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering employee rotation. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognized in the profit and loss.

(24) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale.
Non-current assets are classified as held for sale when the following criteria are met:

- A decision on initiation of the sale was adopted by the Company's management;
- The assets are available for an immediate sale in their present condition;
- An active program to locate a buyer has been initiated;
- The sale transaction is highly probable and can be completed within 12 months following the sale decision.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

(25) Share capital

Ordinary shares are classified as share capital.

(26) Contingent liabilities and receivables

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.
Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.
Contingent receivables are not recognized in the balance sheet; however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

Year ended 31 December 2012 (in thousands of CZK)

4. REVENUE

	2012	2011
Fees for use of land	108,710	106,835
Revenue from services	39,105	33,195
Total revenue	**147,815**	**140,030**

5. BUSINESS SEGMENTS

The Company operates within one segment. It recognises fees for use of land and revenue from providing services to subsidiaries and jointly controlled entities located in the Czech Republic.

6. OPERATING EXPENSES AND INCOMES

Cost of sales

	2012	2011
Cost of services sold	(67,710)	(69,874)
Total	**(67,710)**	**(69,874)**

Cost by nature

	2012	2011
Materials and energy	(2,444)	(2,727)
External services	(96,847)	(119,333)
Personnel costs	(122,485)	(102,478)
Depreciation and amortisation	(2,497)	(3,166)
Taxes and charges	(10,515)	(2,205)
Repairs and maintenance	(1,429)	(1,704)
Insurance	(654)	(1,051)
Other	(8,740)	(5,396)
Total expenses	**(245,611)**	**(238,060)**
Administrative expenses	(174,890)	(168,037)
Other operating expenses	(3,011)	(149)
Cost of sales	**(67,710)**	**(69,874)**

Other operating income

	2012	2011
Gain on sale of non-current non-financial assets	178	1,068
Insurance income	3,191	707
Reversal of receivables impairment allowances	10,675	3,044
Penalties returned	--	236,726
Gain on settlement of receivables acquired at discount	4,547	--
Other	196	217
Total	**18,787**	**241,762**

Other operating expenses

	2012	2011
Donations	(223)	(78)
Write down of receivable	(2,732)	--
Other	(56)	(71)
Total	**(3,011)**	**(149)**

In 2011 the Company received a returned penalty from European Commission as a result of decision of the Court of first instance in Luxembourg relating to unsupported allegation for cartel actions.

Year ended 31 December 2012 (in thousands of CZK)

7. PERSONNEL EXPENSES

The number of employees and managers and their remuneration for 2012 and 2011 are as follows:

2012	**Employees**	**Key Management**	**Audit committee**	**Supervisory board**	**Board of directors**	**Total**
Personnel expenses						
Wages and salaries	39,448	36,995	960	2,949	5,640	**85,992**
Social and health insurance	10,478	6,261	326	388	1,918	**19,371**
Social expense	10,308	6,814	--	--	--	**17,122**
Total	**60,234**	**50,070**	**1,286**	**3,337**	**7,558**	**122,485**
Number of employees average per year FTE*	25.49	9.12				**34.61**
Number of employees as at balance sheet day**	28	10				**38**

2011	**Employees**	**Key Management**	**Audit committee**	**Supervisory board**	**Board of directors**	**Total**
Personnel expenses						
Wages and salaries	39,433	24,876	960	3,034	5,640	**73,943**
Social and health insurance	11,958	2,727	86	187	508	**15,466**
Social expense	9,454	3,615	--	--	--	**13,069**
Total	**60,845**	**31,218**	**1,046**	**3,221**	**6,148**	**102,478**
Number of employees average per year FTE*	21.45	5				**26.45**
Number of employees as at balance sheet day**	29	5				**34**

* FTE – full time equivalent
** Number of employees comprises only active employees

8. FINANCE INCOME AND FINANCE COSTS

	2012	**2011**
Presented in Profit or loss		
Finance income		
Interest income from held to maturity investments	2,792	4,747
Interest income from loans and receivables	405,558	429,768
Reversal of the impairment to financial assets in PARAMO a.s.	161,880	--
Dividend income*	195,554	725,543
Net foreign exchange gain	--	379
Other finance income	6,794	5,123
Total finance income	**772,578**	**1,165,560**
Finance costs		
Interest expense on financial liabilities measured at amortized costs	(246,156)	(256,756)
Impairment to shares of PARAMO a.s.	--	(545,389)
Impairment to loans granted to PARAMO a.s.	--	(705,899)
Net foreign exchange losses	(690)	--
Other finance expenses	(10,849)	(7,209)
Total finance costs	**(257,695)**	**(1,515,253)**
Net finance income (costs) recognized in Profit or loss	**514,883**	**(349,693)**
Net finance income (cost) presented in Other comprehensive income	**(86)**	**89**

* The information about dividends received is included in Note 13

The impairment established in 2011 to financial investments in PARAMO, a.s. in amount of CZK 1,251,288 thousand was partially reversed in 2012 in connection with reclassification of investments to assets held for sale. Detailed information in included in the Note 17.

Year ended 31 December 2012 (in thousands of CZK)

9. INCOME TAX

	2012	2011
Current tax	(28,480)	(27,729)
Deferred tax	(3,422)	3,765
Income tax recognised in profit or loss	**(31,902)**	**(23,964)**
Tax recognised in Other comprehensive income	--	(114,090)
Income tax - total	**(31,902)**	**(138,054)**

Domestic income tax is calculated in accordance with Czech tax regulations at the rate of 19 % in 2012 (2011: 19 %) of the estimated taxable income for the year. The deferred tax has been calculated using tax rate approved for years 2012 and forward i.e. 19 %.

Reconciliation of effective tax rate

		2012		2011
Profit (loss) for the year		403,972		(229,925)
Total income tax expense		(31,902)		(23,964)
Profit (loss) excluding income tax		435,874		(205,961)
Income tax using domestic income tax rate	(19.0) %	(82,816)	(19.0) %	39,133
Effect of tax rates in foreign jurisdictions	(0.0) %	(128)	0.0 %	(58)
Non-deductible expenses	(1.3) %	(5,852)	121.5 %	(250,299)
Tax exempt income	15.5 %	67,925	(88.4) %	182,036
Change in unrecognised temporary differences	(1.3) %	(5,596)	(2.5) %	5,224
Under (over) provided in prior periods	(1.2) %	(5,435)	--	--
Total income tax - revenue / (expense)	**(7.3) %**	**(31,902)**	**11.6 %**	**(23,964)**

Deferred tax assets and liabilities

Deferred income taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred income taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19 % in 2012 and onward).

The movement for the year in the Company's net deferred tax position was follows:

	2012	2011
Balance at beginning of the year	**(109,904)**	**421**
Deferred tax recognised in the Statements of profit or loss and other comprehensive income	(3,422)	3,765
Deferred tax charged to Other comprehensive income	--	(114,090)
Balance at end of the year	**(113,326)**	**(109,904)**

The movement in deferred tax assets and liabilities recognised by the Company during the year is as follows:

Deferred tax assets and liabilities	01/01/2012	Recognised in Profit or loss	31/12/2012
Deferred tax assets			
Personal expenses	4,451	1,074	5,525
Total deferred tax assets	4,451	1,074	5,525
Deferred tax liabilities			
Property, plant and equipment	(265)	--	(265)
Investment property revaluation	(114,090)	(4,496)	(118,586)
Total deferred tax liabilities	(114,355)	(4,496)	(118,851)
Net deferred tax liabilities	**(109,904)**	**(3,422)**	**(113,326)**

Deferred income tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Year ended 31 December 2012 (in thousands of CZK)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Machinery and equipment	Vehicles and other	Total
Cost				
Balance as at 01/01/2011	**389,845**	**3,291**	**18,336**	**411,472**
Additions	--	--	579	579
Disposals	--	--	(3,876)	(3,876)
Reclassifications to Investment property	(379,299)	--	--	(379,299)
Balance as at 31/12/2011	**10,546**	**3,291**	**15,039**	**28,876**
Additions	5	--	1,108	1,113
Reclassification	(1,810)	--	--	(1,810)
Disposals	--	--	(734)	(734)
Balance as at 31/12/2012	**8,741**	**3,291**	**15,413**	**27,445**
Depreciation				
Balance as at 01/01/2011	**--**	**2,714**	**11,543**	**14,257**
Charge for the year	--	144	2,357	2,501
Disposals	--	--	(3,876)	(3,876)
Balance as at 31/12/2011	**--**	**2,858**	**10,024**	**12,882**
Charge for the year	--	137	2,294	2,431
Disposals	--	--	(690)	(690)
Balance as at 31/12/2012	**--**	**2,995**	**11,628**	**14,623**
Carrying amount as at 01/01/2011	**389,845**	**577**	**6,793**	**397,215**
Carrying amount as at 31/12/2011	**10,546**	**433**	**5,015**	**15,994**
Carrying amount as at 31/12/2012	**8,741**	**296**	**3,785**	**12,822**

11. INTANGIBLE ASSETS

	Software	Assets under development	Other intangible assets	Total
Cost				
Balance as at 01/01/2011	**19,570**	**325**	**8,673**	**28,568**
Balance as at 31/12/2011	**19,570**	**325**	**8,673**	**28,568**
Balance as at 31/12/2012	**19,570**	**325**	**8,673**	**28,568**
Amortization				
Balance as at 01/01/2011	**18,803**	**--**	**8,578**	**27,381**
Charge for the year	571	--	94	665
Balance as at 31/12/2011	**19,374**	**--**	**8,672**	**28,046**
Charge for the year	65	--	1	66
Balance as at 31/12/2012	**19,439**	**--**	**8,673**	**28,112**
Carrying amount as at 01/01/2011	**767**	**325**	**95**	**1,187**
Carrying amount as at 31/12/2011	**196**	**325**	**1**	**522**
Carrying amount as at 31/12/2012	**131**	**325**	**--**	**456**

12. INVESTMENT PROPERTY

Investment property as at 31 December 2012 comprised the land owned by the Company and leased to subsidiaries of the Company and third parties. The changes recorded during the year ended 31 December 2012 are presented in the following table:

	2012	2011
Investment property at beginning of the year	**1,141,966**	**162,190**
Reclassification from property plant and equipment	1,810	379,299
Revaluation of Investment property reclassified from property plant and equipment	--	600,477
Purchase	5,305	--
Total balance at end of the year	**1,149,081**	**1,141,966**

Rental income amounted to CZK 108,710 thousand in 2012 (2011: CZK 106,835 thousand). Operating costs relating to Investment property amounted to CZK 3,994 thousand in 2012 (2011: CZK 3,435 thousand).

Year ended 31 December 2012 (in thousands of CZK)

12. INVESTMENT PROPERTY (CONTINUED)

Depending on the characteristics of the investment property, its fair value was estimated based on comparison or revenue approach. The comparison approach was applied assuming, that the value of assessed property was equal to the market price of a similar property. In the revenue approach the calculation was based on the discounted cash flow method, 10-years period forecasts were applied in the analysis.
The discount rate used reflects the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property.

Forecasts of discounted cash flows relating to the valued objects consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for similar objects, in the same location, technical conditions, standard and designed for similar purposes.

13. INVESTMENTS IN SUBSIDIARIES, JOINT – VENTURES AND OTHER FINANCIAL INVESTMENTS

Investments in subsidiaries and joint – ventures as at 31 December 2012 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries						
UNIPETROL RPA, s.r.o.	Litvínov	7,360,335	100.00	--	7,360,335	--
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59,172	100.00	7,860	51,312	--
BENZINA s. r.o.	Praha 4	4,181,070	100.00	1,922,070	2,259,000	--
UNIPETROL SERVICES, s.r.o.	Litvínov	100,280	100.00	--	100,280	33,670
UNIPETROL RAFINÉRIE, s.r.o.	Praha	408	100.00	--	408	--
UNIPETROL AUSTRIA H.m.b.H.	Vídeň	2,901	100.00	--	2,901	--
Joint - ventures						
ČESKÁ RAFINÉRSKÁ, a.s. *)	Litvínov	3,872,299	51.22	--	3,872,299	140,798
Butadien Kralupy, a. s.	Kralupy	162,194	51.00	--	162,194	--
Total		**15,738,659**	**--**	**1,929,930**	**13,808,729**	**174,468**

*) In line with Articles of Association, adoption of decisions on all important matters in ČESKÁ RAFINÉRSKÁ, a.s. requires 67.5% or greater majority of all votes.

The financial investment in PARAMO, a.s. was reclassified to Assets held for sale. Detailed information is included in the Note 17.

Investments in subsidiaries and joint – ventures as at 31 December 2011 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the period
Subsidiaries						
UNIPETROL RPA, s.r.o.	Litvínov	7,360,335	100.00	--	7,360,335	--
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59,172	100.00	7,860	51,312	--
BENZINA s. r.o.	Praha 4	4,181,070	100.00	1,922,070	2,259,000	--
UNIPETROL SERVICES, s.r.o.	Litvínov	100,280	100.00	--	100,280	--
UNIPETROL RAFINÉRIE, s.r.o.	Praha	408	100.00	--	408	--
PARAMO, a.s.	Pardubice	545,389	100.00	545,389	--	--
UNIPETROL AUSTRIA H.m.b.H.	Vídeň	2,901	100.00	--	2,901	--
Joint - ventures						
ČESKÁ RAFINÉRSKÁ, a.s. *)	Litvínov	3,872,299	51.22	--	3,872,299	717,093
Butadien Kralupy, a. s.	Kralupy	162,194	51.00	--	162,194	--
Total		**16,284,048**	**--**	**2,475,319**	**13,808,729**	**717,093**

*) In line with Articles of Association, adoption of decisions on all important matters in ČESKÁ RAFINÉRSKÁ, a.s. requires 67.5% or greater majority of all votes.

As at 31 December 2011 the impairment to financial investment in PARAMO, a.s. in amount of CZK 545,389 thousand was recognised due to a significant decrease of PARAMO's equity.

Year ended 31 December 2012 (in thousands of CZK)

13. INVESTMENTS IN SUBSIDIARIES, JOINT – VENTURES AND OTHER FINANCIAL INVESTMENTS (CONTINUED)

Other investments as at 31 December 2012 were as follows:

Company	Registered office	Cost of investment	Ownership percentage	Carrying amount	Dividend income for the period
ORLEN MALTA HOLDING	La Valetta	522	--	522	--
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.2	--	0.2	--
UNIPETROL DOPRAVA s.r.o.	Litvínov	1,799	0.12	1,799	216
UNIPETROL SLOVENSKO s.r.o.	Bratislava	95	13.04	95	20,278
PETROTRANS, s.r.o.	Praha	781	0.63	781	362
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	954	1.00	954	177
UNIPETROL Deutschland GmbH	Langen/Hessen	101	0.10	101	53
Total		**4,252**		**4,252**	**21,086**

Other investments as at 31 December 2011 were as follows:

Company	Registered office	Cost of investment	Ownership percentage	Carrying amount	Dividend income for the period
ORLEN MALTA HOLDING	La Valetta	522	--	522	--
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.2	--	0.2	--
UNIPETROL DOPRAVA s.r.o.	Litvínov	1,799	0.12	1,799	196
UNIPETROL SLOVENSKO s.r.o.	Bratislava	95	13.04	95	7,792
PETROTRANS, s.r.o.	Praha	781	0.63	781	297
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	954	1.00	954	133
UNIPETROL Deutschland GmbH	Langen/Hessen	101	0.10	101	32
Total		**4,252**		**4,252**	**8,450**

14. LOANS GRANTED

	31/12/2012	31/12/2011
Non – current loans		
Non – current loans	334,651	2,382,459
Total non-current loans	**334,651**	**2,382,459**
Current loans		
Cash pool	888,791	2,211,070
Impairment to cash pool	--	(55,819)
Operating loans	11,084,409	8,002,421
Impairment to operating loans	--	(650,080)
Total current loans to subsidiaries and joint ventures	**11,973,200**	**9,507,592**

Non-current loans to subsidiaries

As at 31 December 2012 the Company had non-current loan in amount of CZK 334,651 thousand granted to its joint venture BUTADIEN KRALUPY a.s. The loan is repayable by regular fixed instalments over next 5 years and interest rates are based on 6M PRIBOR. The fair value of loan approximates its carrying amount.

As at 31 December 2011 the loan granted to BENZINA s.r.o. was presented under non-current loans. As at 31 December 2012 the loan with carrying amount of CZK 2,035,451 thousand was reclassified to current loans.

Current loans to subsidiaries

The Company provided current loans to its subsidiaries: UNIPETROL RPA, s.r.o., BENZINA s.r.o., Butadien Kralupy a.s., PARAMO, a.s and MOGUL SLOVAKIA s.r.o.

The interest rates were based on appropriate inter-bank rates and fair value of loans approximates their carrying amount except for the loan provided to BENZINA s.r.o. in 1998. This loan carries interest of 9.97 % p.a. As at 31 December 2012 the carrying amount of the loan provided to BENZINA s.r.o. was CZK 2,035,451 thousand (31 December 2011: 2,070,104 thousand) and fair value as at 31 December 2012 amounted to CZK 2,208,530 thousand (31 December 2011: 2,354,457 thousand).

The current loans provided to subsidiaries are not collateralised. The current loans to subsidiaries as at 31 December 2012 include the portion of non-current loans due within one year in amount of CZK 2,083,259 thousand (31 December 2011: CZK 351,501 thousand).

The analysis of current loans by currency of denomination is presented in the Note 23.

Year ended 31 December 2012 (in thousands of CZK)

14. LOANS GRANTED (CONTINUED)

In relation to loans granted to PARAMO, a.s. (cash pool and operating loans) the Company recognised in 2011 impairment in total amount of CZK 705,899 thousand due to significant decrease of PARAMO's equity in 2011 and uncertainty about PARAMO's ability to repay these loans in full amount.
As at 31 December 2012 the loans granted to PARAMO, a.s. in gross book value of 706,000 thousand and a related 100 % impairment were reclassified to Assets held for sale. Detailed information is included in the Note 17.
Movement table of operating loans to subsidiaries:

	Non-current loans		Current loans	
	2012	2011	2012	2011
Balance at beginning of the year	**2,382,459**	**2,662,294**	**8,002,421**	**4,936,808**
Loans granted	--	--	6,966,594	10,964,506
Repayments	--	--	(5,932,414)	(8,178,728)
Reclassification to current from non-current loans to subsidiaries	(2,047,808)	(279,835)	2,047,808	279,835
Gross balance at end of the year	**334,651**	**2,382,459**	**11,084,409**	**8,002,421**
Impairment charge	--	--	--	(650,080)
Balance at end of the year	**334,651**	**2,382,459**	**11,084,409**	**7,352,341**

15. TRADE AND OTHER RECEIVABLES

	31/12/2012	31/12/2011
Financial assets		
Trade receivables	183,398	151,054
Other	231	2,630
Total financial assets	**183,629**	**153,684**
Non-financial assets		
Taxes, duties and social insurance receivables	4,410	--
Total non-financial assets	**4,410**	**--**
Net trade and other receivables	**188,039**	**153,684**
Impairment losses	120,730	131,405
Gross trade and other receivables	**308,769**	**285,089**

The management considers that the carrying amount of trade and other receivables approximates their fair value.
The Company exposure to credit and currency risk related to trade and other receivables is disclosed in note 23 and detailed information about receivables from related parties is presented in note 27 – Related parties.

Movement in the impairment loss

	2012	2011
Balance at beginning of the year	**131,405**	**179,750**
Release	(10,675)	(3,044)
Utilisation	--	(45,301)
Balance at end of the year	**120,730**	**131,405**

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The management considers that there is no further credit risk allowance required in excess of the allowance for impairment charges. Recognition and reversal of receivables allowances are presented in other operating activity.

16. CASH AND CASH EQUIVALENTS

	31/12/2012	31/12/2011
Cash in hand	45	52
Cash at bank	1,294,022	1,358,600
Total cash and cash equivalents	**1,294,067**	**1,358,652**

The carrying amount of these assets approximates their fair value.
The analysis of cash and cash equivalents by currency of denomination is presented in note 23.

Year ended 31 December 2012 (in thousands of CZK)

17. ASSETS HELD FOR SALE

Following the intention of UNIPETROL, a.s.'s management to sell 100% shares in PARAMO, a.s., the Company presented as at 31 December 2012 assets held for sale comprising shares of PARAMO, a.s and the receivables from loans granted to PARAMO, a.s. based on the management´s decision to capitalize the loans as described in Note 29.

Efforts to sell the assets held for sale commenced and completion of the sale is expected in 2013. An impairment charge of CZK 1,073,389 thousand was already booked to financial investments and loans granted in 2011. The carrying amount of Assets held for sale as at 31 December 2012 represents its best estimated fair value available to UNIPETROL a.s. management and estimated expenses to be incurred to complete the sale.

As at 31 December 2012, the disposal group of assets comprised the following items:

	Carrying amount
Financial investment	545,389
Loans granted	706,000
Total gross	**1,251,389**
Impairment	(1,073,389)
Net book value	**178,000**

Cumulative income or expense included in other comprehensive income
There are no cumulative expenses or income included in other comprehensive income related to the disposal group.

18. SHARE CAPITAL

The issued capital of the Company as at 31 December 2012 was CZK 18,133,476 thousand (31 December 2011: CZK 18,133,476 thousand). This represents 181,334,764 (2011: 181,334,764) bearer ordinary shares, each with a nominal value of CZK 100. All issued shares have been fully paid and bear equal voting rights. The Company's shares are listed on the Prague stock exchange.

19. RESERVES

Statutory reserve
In accordance with the Czech Commercial Code, joint stock companies are required to establish a reserve fund for possible future losses and other events. Contributions must be a minimum of 20% of the profit for the period in the first year in which profits are generated and 5% of profit each year thereafter until the fund reaches at least 20% of the issued capital. The balance of the Statutory reserve fund amounted as at 31 December 2012 to CZK 1,651,472 thousand (31 December 2011: CZK 1,651,471 thousand).

Fair value reserve
This reserve relates to the difference between fair value and carrying value of investment property, adjusted for deferred tax. As at 31 December 2012 the fair value reserve amounted to CZK 502,626 thousand (31 December 2011: CZK 507,135 thousand).

20. RETAINED EARNINGS, DIVIDENDS AND EARNINGS PER SHARE

The annual shareholders meeting of UNIPETROL, a.s. held on 5 June 2012 decided on the appropriation of loss for the year 2011 amounting to CZK 229,925 thousand. In accordance with Article 26 (1) of the Company's Articles of Association the loss was settled from retained earnings.
The decision regarding appropriation of 2012 profit will be made on the annual meeting of shareholders, which will be held in May / June 2013.

Basic earnings per share

	2012	**2011**
Profit / (loss) for the period attributable to equity holders (in CZK '000)	403,972	(229,925)
Weighted average number of shares	181,334,764	181,334,764
Earnings per share (in CZK)	**2.23**	**(1.27)**

Diluted earnings per share
Diluted earnings per share are the same as basic earnings per share.

Year ended 31 December 2012 (in thousands of CZK)

21. LOANS AND BORROWINGS

	31/12/2012	31/12/2011
Non – current loans and borrowings		
Unsecured bonds issued	--	2,000,000
Total non – current loans and borrowings	**--**	**2,000,000**
Current loans and borrowings		
Unsecured bonds issued	2,034,582	68,655
Unsecured bank loans	17,438	1,953
Cash pool liabilities to subsidiaries	1,215,880	1,062,600
Total current loans and borrowings	**3,267,900**	**1,133,208**

Unsecured bonds issued

In 1998 the Company issued 2,000 bonds at a total nominal value of CZK 2,000,000 thousand. The bonds mature in 15 years from the issue date at their nominal value of CZK 2,000,000 thousand. The interest rate is 0 % p.a. for the first two years and 12.53 % p.a. in subsequent years. The effective interest rate is 9.82 %. Interest is payable on an annual basis. Interest expense is accrued using the effective interest rate method. The aggregate carrying amount of the bonds is CZK 2,034,582 thousand (31 December 2011: CZK 2,068,655 thousand). Using the actual market interest rate, based on the analysis of the current market conditions, the fair value of the aggregate liability arising from the bonds is estimated at CZK 2,213,255 thousand as at 31 December 2012 (31 December 2011: CZK 2,358,684 thousand).

Unsecured bank loans

As at 31 December 2012 the Company had bank loans amounting to CZK 17,438 thousand. Short-term bank loans are subject to variable interest rates and their fair value approximates their carrying amount.
The average effective interest rate as at 31 December 2012 was 1.17 % (31 December 2011: 1.35 %)

The analyses of bank loans (in CZK thousands):

	USD	EUR	CZK	Total
Balance as at beginning of the year	**1,655**	**131**	**167**	**1,953**
Loans taken	28,208	321,812	7,820,130	**8,170,150**
Repayments	(29,401)	(305,021)	(7,820,296)	**(8,154,718)**
Accrued interest	7	1	45	**53**
Balance as at end of the year	**469**	**16,923**	**46**	**17,438**

	USD	EUR	CZK	Total
Balance as at beginning of the year	**1**	**11,300**	**4,666**	**15,967**
Loans taken	31,333	232,471	6,598,304	**6,862,108**
Repayments	(29,687)	(243,770)	(6,602,969)	**(6,876,426)**
Accrued interest	8	130	166	**304**
Balance as at end of the year	**1,655**	**131**	**167**	**1,953**

Cash pool liabilities to subsidiaries and related entities

During the year 2012 the Company had a cash pool agreements with the following banks, subsidiaries and related companies: Banks: CITIBANK a.s., ING Bank N.V., organizační složka, Česká spořitelna, a.s., Credit Agricole, S.A., RBS, N.V. a Nordea Bank Finland Plc
Subsidiaries and related companies: UNIPETROL RPA, s.r.o., BENZINA s.r.o., PARAMO, a.s., UNIPETROL DOPRAVA, s.r.o., POLYMER INSTITUTE BRNO, s.r.o., PETROTRANS, s.r.o., UNIPETROL SERVICES, s.r.o., UNIPETROL SLOVNSKO, s.r.o., BUTADIEN KRALUPY a.s., MOGUL SLOVAKIA, s.r.o. a ORLEN FINANCE AB.
Cash held at bank accounts of above mentioned banks is drawn by the Company and above mentioned subsidiaries. The contract enables to access bank loan from CZK 500,000 thousand to CZK 1,200,000 thousand from each bank. Interest income/expense are calculated from the drawn amount and consequently divided among the parties involved. Cash pool liabilities to subsidiaries were CZK 1,215,880 thousand as at 31 December 2012 (31 December 2011: 1,062,600 thousand) and are subject of interests.

Year ended 31 December 2012 (in thousands of CZK)

22. TRADE AND OTHER PAYABLES AND ACCRUALS

	31/12/2012	31/12/2011
Financial liabilities		
Trade payables	81,160	57,762
Dividends liability	35,141	35,711
Liabilities connected with acquisition of financial investment	10,721	10,994
Other payables	90	134
Total financial liabilities	**127,112**	**104,601**
Non-financial liabilities		
Wages and salaries liabilities	31,264	24,627
Accrued expenses	2,514	2,143
Value added tax liability	--	7,427
Other taxation, duty and social security liabilities	2,103	1,667
Deposits	80	80
Total non-financial liabilities	**35,961**	**35,944**
Total	**163,073**	**140,545**

The management considers that the carrying amount of trade and other payables and accruals approximate their fair value.

23. FINANCIAL INSTRUMENTS

Accounting classification and fair values of financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

31/12/2012	Note	Loans and receivables	Available for sale	Total carrying amount	Fair value
Investments in subsidiaries and joint ventures, other investments	13	--	13,812,981	13,812,981	n/a
Long-term loans granted	14	334,651	--	334,651	334,651
Trade and other receivables	15	183,629	--	183,629	183,629
Short-term loans granted	14	11,973,200	--	11,973,200	12,113,075
Assets held for sale	17	--	178,000	--	178,000
Cash and cash equivalents	16	1,294,067	--	1,294,067	1,294,067
Total financial assets		**13,785,547**	**13,990,981**	**27,776,528**	

31/12/2012	Note	Valued at amortized cost	Total carrying amount	Fair value
Loans and borrowings	21	3,367,900	3,367,900	3,529,135
Trade and other payables and accruals	22	127,112	127,112	127,112
Total financial liabilities		**3,395,012**	**3,395,012**	

31/12/2011	Note	Loans and receivables	Available for sale	Total carrying amount	Fair value
Investments in subsidiaries and joint ventures, other investments	13	--	13,813,066	13,813,066	n/a
Long-term loans granted	14	2,382,459	--	2,382,459	2,672,488
Trade and other receivables	15	153,684	--	153,684	153,684
Short-term loans granted	14	9,507,592	--	9,507,592	9,507,592
Cash and cash equivalents	16	1,358,652	--	1,358,652	1,358,652
Total financial assets		**13,402,387**	**13,813,066**	**27,215,453**	

31/12/2011	Note	Valued at amortized cost	Total carrying amount	Fair value
Loans and borrowings	21	3,133,208	3,133,208	3,423,237
Trade and other payables and accruals	22	104,601	104,601	104,601
Total financial liabilities		**3,237,809**	**3,237,809**	

Year ended 31 December 2012 (in thousands of CZK)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments for which fair value cannot be measured reliably
As at 31 December 2012 and 31 December 2011 the Company held unquoted shares in entities amounting to CZK 13,812,981 thousand and 13,813,066 thousand respectively, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these shares and no comparable transactions in the same type of instruments. Above mentioned shares were recognized as financial assets available for sale and measured at acquisition cost less impairment allowances. As at 31 December 2012 there are no binding decisions relating to means and dates of disposal of those assets.

Fair value hierarchy
The fair value of financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instrument. The fair value of derivative instruments is calculated based on quoted prices. Where such prices are not available, the fair value is calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives.

Loans and receivables
The management considers that the carrying amount of loans and receivables approximates their fair value.

Financial liabilities valued at amortized cost
The management considers that the carrying amount of financial liabilities valued at amortized cost approximates their fair value.

Capital structure management
The Company manages its capital to ensure liquidity while maximizing the return to stakeholders through the optimization of the debt and equity balance.
The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in notes 18, 19 and 20 respectively.

The net debt to equity ratio at the year end was as follows:

	31/12/2012	31/12/2011
Debt (i)	3,267,900	3,133,208
Cash and cash equivalents	(1,294,067)	(1,358,652)
Net debt	**1,973,833**	**1,774,556**
Equity (ii)	**25,419,964**	**25,016,078**
Net debt to equity ratio (in %)	**7.76**	**7.09**

(i) Debt is defined as long-term and short-term borrowings, as detailed in note 21
(ii) Equity includes all capital and reserves of the Company

Risk management objectives
The Company's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the risks outlined below relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other market price risk), credit risk and liquidity risk.

The Company seeks to minimize the effects of these risks by using natural hedging and derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on currency risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess funds. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Credit risk management
The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Loans granted (note 14) and receivables (note 15) principally consist of amounts due from subsidiaries and join ventures. The Company does not require collateral in respect of these financial assets. The Company's management monitors the most significant debtors and assesses their creditworthiness. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of financial position.

Year ended 31 December 2012 (in thousands of CZK)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Based on the analysis of loans and receivables the counterparties were divided into two groups:
- I group – counterparties with good or very good history of cooperation in the current year,
- II group – other counterparties

Non-past due loans and receivables	31/12/2012	31/12/2011
Group I	13,784,543	14,107,282
Group II	--	--
Total non-past due loans and receivables	**13,784,543**	**14,107,282**

Past due, non impaired	Receivables		Loans	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
6-12 months	--	--	--	--
Above 12 months	--	1,004	--	--
Past due, non impaired loans and receivables	**--**	**1,004**	**--**	**--**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is presented under table Accounting classification and fair values.

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was as follows:

	31/12/2012		31/12/2011	
	Secured	Unsecured	Secured	Unsecured
Czech Republic	--	13,754,871	--	13,374,797
European Union	--	30,676	--	27,590
Total	**--**	**13,785,547**	**--**	**13,402,387**

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate liquid funds and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

As at 31 December 2012 and 31 December 2011 the maximum available credit lines from bank loans (including cash pool facilities) amounted to CZK 10,785,000 thousand and CZK 8,935,000 thousand respectively, of which as at 31 December 2012 and 31 December 2011 CZK 9,702,527 thousand and CZK 6,732,415 thousand respectively remained unused.

Liquidity risk tables

The following table details the Company's expected maturity for its non-derivative financial liabilities.

Contractual maturity of non-derivative financial liabilities

	Carrying amount	Less then 6 months	6 months - 1 year	1-5 years	Contractual cash flows
31/12/2012					
Loans and borrowings	3,267,900	1,233,318	2,034,582	--	3,267,900
Trade and other payables and accruals	127,112	127,112	--	--	127,112
Total	**3,395,012**	**1,360,430**	**2,034,582**	**--**	**3,395,012**
31/12/2011					
Loans and borrowings	3,133,208	1,064,553	68,655	2,000,000	3,133,208
Trade and other payables and accruals	104,601	104,601	--	--	104,601
Total	**3,237,809**	**1,169,154**	**68,655**	**2,000,000**	**3,237,809**

Year ended 31 December 2012 (in thousands of CZK)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk management

The carrying amounts of the Company's currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

31/12/2012	CZK	EUR	USD	Other currencies	Total
Investments in subsidiaries, joint ventures and other financial investments	13,809,979	3,002,	--	--	13,812,981
Non-current loans granted	334,651	--	--	--	334,651
Trade and other receivables	181,539	85	2,006	--	183,630
Current loans granted	11,945,241	27,263	696	--	11,973,200
Assets held for sale	178,000	--	--	--	178,000
Cash and cash equivalents	1,214,420	69,131	10,516	--	1,294,067
Trade and other payables and accruals	(126,306)	(319)	(191)	(297)	(127,112)
Loans and borrowings	(3,170,672)	(86,271)	(10,957)	--	(3,267,900)
Net exposure	**24,366,852**	**12,890**	**2,071**	**(297)**	**24,381,517**

31/12/2011	CZK	EUR	USD	Other currencies	Total
Investments in subsidiaries, joint ventures and other financial investments	13,809,979	3,087	--	--	13,813,066
Non-current loans granted	334,652	--	--	--	334,652
Trade and other receivables	153,328	84	--	272	153,684
Current loans granted	9,479,125	26,561	1,905	--	9,507,591
Cash and cash equivalents	1,249,991	98,253	10,408	--	1,358,652
Non-current loans and borrowings	(2,000,000)	--	--	--	(2,000,000)
Trade and other payables and accruals	(102,372)	(869)	(199)	(1,161)	(104,601)
Loans and borrowings	(999,554)	(121,737)	(11,907)	--	(1,133,208)
Net exposure	**23,972,946**	**5,379**	**207**	**(888)**	**23,977,644**

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
CZK/EUR	25.143	24.591	25.140	25.800
CZK/USD	19.583	17.695	19.072	19.940

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuation of exchange rates of CZK/USD and CZK/EUR.

The following table details the Company's sensitivity to percentage increase and decrease in the CZK against the relevant foreign currencies. The following sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates were as follows:

for year 2012	for year 2011
USD +/- 7,92 %	USD +/- 12.93 %
EUR +/- 3,21 %	EUR +/- 5.53 %

The rates present the highest / lowest differences between average and actual FX rate during the appropriate year. The sensitivity analysis was performed on the net exposure of financial assets and liabilities. A positive number below indicates an increase in profit and equity where the CZK appreciates by 7.92% and 3.21% against the relevant currency. For depreciation of the CZK against the relevant currency by the same parameters, there would be an equal and opposite impact on the profit and equity.

	CZK/USD Impact		CZK/EUR Impact	
	2012	2011	2012	2011
Profit or loss / equity	171	25	421	332

Year ended 31 December 2012 (in thousands of CZK)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite. Optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Comapny's exposures to interest rate risk on financial liabilities are detailed in note 21.

Interest rate risk profile

The interest rate profile of the Company's interest bearing financial instrument at 31 December 2012 and 2011 was as follows:

	31/12/2012	31/12/2011
Fixed rate instruments		
Financial assets	2,041,083	2,223,788
Financial liabilities	2,161,694	2,173,256
Variable rate instruments		
Financial assets	11,744,466	11,178,599
Financial liabilities	1,233,318	1,064,553

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date. For floating rate assets and liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 5 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2012 would decrease/increase by CZK 4,609 thousand (2011: decrease/increase by CZK 4,377 thousand). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

24. OPERATING LEASES

The Company as a lessee

Operating lease arrangements

At the balance sheet date, the Company had future minimum lease payments under non-cancellable operating leases for the following periods:

Non-cancellable operating lease commitments

	Minimum lease payments	
	31/12/2012	31/12/2011
Not later than one year	6,207	8,019
Later than one year and not later than five years inclusive	24,827	32,076
Later than five years	5,172	16,038
Total	**36,206**	**56,133**

Payments recognised as an expense were as follows:

	2012	2011
Non-cancellable operating lease	6,207	**7,029**
Cancellable operating lease	5,763	917
Total	**11,970**	**7,946**

The Company leases vehicles and offices under operating leases. The vehicle leases typically run for a two year period. Lease payments are increased annually to reflect market conditions. None of the leases includes contingent rentals.

25. COMMITMENTS AND CONTINGENCIES

Contingent liabilities and commitments related to the sale of shares in KAUČUK, a.s. (currently SYNTHOS Kralupy a.s.)

On 30 January 2007, UNIPETROL, a.s., as seller, and FIRMA CHEMICZNA DWORY S.A., with its registered office at ul. Chemików 1, 32-600 Oświęcim, Poland, KRS No.: 38981 ("Dwory"), as purchaser, executed the Share Purchase Agreement (the "Share Purchase Agreement") on sale of 100% shares of SYNTHOS Kralupy a.s., with its registered office at Kralupy nad Vltavou, O. Wichterleho 810, District Mělník, Postal Code: 278 52, Czech Republic, Id. No: 25053272.

Determination of Liability for the Impacts of the Operation of SYNTHOS Kralupy a.s. on the Environment

The environmental audit of plots of land owned by UNIPETROL, a.s. and used by SYNTHOS Kralupy a.s. was performed for the purpose of determining the liability of contractual parties arising from the existing or future impacts of SYNTHOS Kralupy a.s.´s operation on the environment.

The Share Purchase Agreement provides that liability for the environmental conditions originating prior to the closing of the transaction lies with UNIPETROL, a.s. and liability for the environmental conditions originating after the closing of the transaction lies with Dwory. Liability of the contractual parties for the environmental conditions is limited up to 10 % of the purchase price paid by Dwory for the shares in SYNTHOS Kralupy a.s. and the claim notice period available to Dwory was 5 years from closing of the transaction.

The Company's management, based on the available information and current knowledge of the situation, does not expect any additional expense / payment related to the described issue.

Execution of an Agreement on Pre-emptive Right to Plots of Land Owned by UNIPETROL, a.s. and Used by SYNTHOS Kralupy a.s. for Its Operations

On 10 July 2007, UNIPETROL, a.s. and SYNTHOS Kralupy a.s. executed the agreement pursuant to which UNIPETROL, a.s. undertook to create in favour of SYNTHOS Kralupy a.s. the pre-emptive right and other rights to certain plots of land owned by UNIPETROL, a.s. in an industrial area in Kralupy nad Vltavou which are used by SYNTHOS Kralupy a.s. for its operations.

The share purchase agreement anticipates that the sale of the subject plots of land will be realized after satisfaction of all administrative, operational and legal conditions necessary for a split of parts of industrial area in Kralupy nad Vltavou.

Apart from the foregoing, the sale of shares of SYNTHOS Kralupy a.s. owned by UNIPETROL, a.s. to Dwory was based on the following major principles, among others:

- uninterrupted operation of the present butadiene unit;
- contractual satisfaction of supplies of energies, steam, water and other services within the industrial area in Kralupy nad Vltavou which are at present provided by SYNTHOS Kralupy a.s. to ČESKÁ RAFINÉRSKÁ, a.s.; and
- continuation of all important agreements with the companies of Unipetrol Group and further operation of the energy unit.

The Company's management, based on available information and current knowledge of the situation, does not expect any additional expense / payment related to the described issue.

Contingent liabilities related to the sale of shares in SPOLANA a.s.

The purchase price, in accordance with the share purchase agreement entered into in 2006 between UNIPETROL, a.s., and Zakłady Azotowe ANWIL Spółka Akcyjna (further Anwil), may be subject to price adjustments which would result mainly on the occurrence of any of the following events:

- Environmental guarantees provided by the National Property Fund of the Czech Republic will not be sufficient for compensation of costs for the environmental damage remediation of the Old Amalgam Electrolysis project.
  In this case UNIPETROL, a.s. will be obligated to financially indemnify Anwil up to 40 % of the purchase price provided that all necessary steps will have been taken by Anwil and SPOLANA a.s. without success for obtaining additional funds for this purpose.
- Other potential obstacles in the future operation of SPOLANA a.s. In this case UNIPETROL, a.s. will be obligated to financially indemnify Anwil up to 1-3 % of the purchase price.

The Company's management, based on available information and current knowledge of the situation, does not expect any additional expense / payment related to the described issue.

Purchase of shares of PARAMO, a.s.

In January 2009 UNIPETROL, a.s. effected a squeeze out of PARAMO, a.s. shares within the meaning of Sections 183i et seq. of the Commercial Code and became sole shareholder of PARAMO, a.s.

In accordance with the resolutions of the Extraordinary General Meeting of PARAMO, a.s. of 6 January 2009, all other shares in PARAMO, a.s were transferred to the Company and the Company provided to the other shareholders of PARAMO, a.s. and/or pledges, the monetary consideration of CZK 977 per share of PARAMO, a.s. On 4 February 2009 the registration of the above resolution of the Extraordinary General Meeting was published in the Czech Commercial Register. Pursuant to the Czech Commercial Code, the ownership title to shares of the other shareholders passed to the Company on 4 March 2009 upon expiration of one month from the above publication and UNIPETROL, a.s. became the sole shareholder of PARAMO, a.s.

Year ended 31 December 2012 (in thousands of CZK)

25. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In connection with the squeeze-out, certain minority shareholders of PARAMO, a.s. filed a petition with the Regional Court in Hradec Králové for a review of the adequacy of compensation within the meaning of the Czech Commercial Code. The case is now pending at the Regional Court in Hradec Kralove.

Furthermore some former minority shareholders of PARAMO, a.s. requested the Regional Court in Hradec Králové to declare the invalidity of PARAMO, a.s. general meeting resolution dated 6 January 2009 and the District Court in Prague 4 to review the decision of 28 November 2008 by which the Czech National Bank granted in accordance with Section 183n(1) of the Czech Commercial Code its previous approval with the monetary consideration provided under the above squeeze-out.

Regarding the case for declaration of invalidity of the PARAMO, a.s., the Regional Court in Hradec Kralove dismissed the petition for declaration of invalidity of the PARAMO, a.s. general meeting resolution dated 6 January 2009. Certain minority shareholders filed an extraordinary appeal against this decision and the case is now pending before the Supreme Court of the Czech Republic.

In the case of the proceedings concerning the previous approval of the Czech National Bank, the action was dismissed by the District Court for Prague 4 in favor of the Czech National Bank and UNIPETROL, a.s. The proceedings are pending before the Municipal Court in Prague.

With respect to the above described facts regarding determination of consideration value, Czech National Bank decision and approval of the Extraordinary General Meeting of PARAMO, a.s., UNIPETROL, a.s. considers that the petition for review of reasonableness of consideration is unfounded.

26. PAST ENVIRONMENTAL LIABILITIES

The Company is the recipient of funds provided by the Ministry of Finance (previously the National Property Fund) of the Czech Republic for settling environmental liabilities relating to the historic environmental damage.

An overview of funds provided by the National Property Fund (currently administered by the Ministry of Finance) for the environmental contracts is provided below:

In CZK million	Total amount of funds to be provided	Used funds as at 31/12/2012	Unused funds as at 31/12/2012
UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o.	6,012	3,395	2,617
UNIPETROL, a.s./ premises of SYNTHOS Krapupy a.s.	4,244	48	4,196
Total	**10,256**	**3,443**	**6,813**

In CZK million	Total amount of funds to be provided	Used funds as at 31/12/2011	Unused funds as at 31/12/2011
UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o.	6,012	3,053	2,959
UNIPETROL, a.s./ premises of SYNTHOS Kralupy a.s.	4,244	47	4,197
Total	**10,256**	**3,100**	**7,156**

Year ended 31 December 2012 (in thousands of CZK)

27. RELATED PARTIES

Parent and ultimate controlling party

During 2012 and 2011 a majority of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A. (62.99%).

The following related party balances are included in individual captions of the financial statements.

31/12/2012	PKN Orlen	Parties under control or significant influence of the Company	Entities under control or significant influence of PKN Orlen
Current receivables and loans	--	12,246,220	2
Current payables and loans	286	1,229,648	--
Non-current receivables and loans	--	334,838	--
Expenses	1,580	46,171	--
Revenues	37	126,450	14
Purchases of fixed assets	--	1,074	--
Dividends income	--	195,554	--
Financial income and expense	--	570,547	--

31/12/2011	PKN Orlen	Parties under control or significant influence of the Company	Entities under control or significant influence of PKN Orlen
Current receivables and loans	8	9,568,430	--
Current payables and loans	301	1,073,265	3
Non-current receivables and loans	--	2,382,561	--
Expenses	2,465	64,821	34
Revenues	189	118,184	100
Purchases of fixed assets	--	579	--
Sales of property, plant and equipment	--	222	--
Dividends income	--	725,543	--
Financial income and expense	--	418,696	11,564

Material transactions concluded by the Company with related parties

In year ended 31 December 2012 and in 2011 there were no transactions concluded by the Company with related parties on other than market terms.

Transactions with key management personnel

In year ended 31 December 2012 and in 2011 the Company did not grant to key management personnel and their relatives any advances, loans, guarantees and commitments or other agreements obliging them to render services to the Company and related parties. In year ended 31 December 2012 and in 2011 there were no significant transactions concluded with members of the Board of Directors, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

Transaction with related parties concluded by key management personnel of the Company

In year ended 31 December 2012 and in 2011 members of the key management personnel of the Company submitted statements that they have not concluded any transaction with related parties.

Key management personnel and statutory bodies members compensation

	2012		2011	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration for current year	61,707	544	41,633	--
Paid for previous year	12,217	--	10,412	--
Total	**73,924**	**544**	**52,045**	--

Further detailed information regarding remuneration of key management personnel is included in note 7.

28. SIGNIFICANT POST BALANCE SHEET EVENTS

The change in composition of the board of directors of UNIPETROL, a.s.

On 6 February 2013, the Supervisory Board of UNIPETROL, a.s. resolved to recall Mr. Mariusz Kędra from his office of a member of the Board of Directors of UNIPETROL, a.s. with effect as of 6 February 2013. On 6 February 2013, the Supervisory Board of UNIPETROL, a.s. elected Mr. Mirosław Kastelik to the office of member of the Board of Directors of UNIPETROL, a.s. with effect as of 6 February.
Mr. Mirosław Kastelik replaced Mr. Mariusz Kędra in the position of Chief Financial Officer of UNIPETROL, a.s.

As at the date of authorization of non-consolidated financial statements the composition of the Board of Directors was as follows:

Position	Name
Chairman	Piotr Chełmiński
Vice-chairman	Marek Świtajewski
Vice-chairman	Piotr Wielowieyski
Member	Mirosław Kastelik
Member	Martin Durčák
Member	Artur Paździor

Increase of the share capital in PARAMO, a.s.
The board of directors of UNIPETROL, a.s., acting in capacity of the General Meeting of PARAMO, a.s. decided on its meeting held on 6 February 2013, after receiving a prior consent of the Supervisory Board of UNIPETROL, a.s., about increase of the registered capital of PARAMO, a.s. by the amount of CZK 706,000 thousand.

The Company's management is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2012.

Signature of statutory representatives	4 March 2013
Piotr Chelminski	Miroslaw Kastelik
Chairman of the Board of Directors	Member of the Board of Directors

Unipetrol

UNIPETROL, a.s.

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

AS OF 31 DECEMBER 2012

Translated from the Czech original

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of UNIPETROL, a.s.

We have audited the accompanying consolidated financial statements of UNIPETROL, a.s., which comprise the consolidated statement of financial position as of 31 December 2012, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these consolidated financial statements.

Statutory Body's Responsibility for the Consolidated financial statements

The statutory body of UNIPETROL, a.s. is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of UNIPETROL, a.s. as of 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague
4 March 2013

Karel Růžička
Partner
Licence number 1895

KPMG Česká republika Audit, s.r.o.
Licence number 71

UNIPETROL, a.s.

Consolidated statement of financial position
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
As at 31 December 2012
(in thousands of Czech crowns)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	10	23,326,243	28,893,098
Intangible assets	11	1,978,326	2,508,468
Investment property	12	383,725	395,891
Other non-current assets	13	55,595	80,687
Deferred tax asset	8	307,230	39,685
Total non-current assets		**26,051,119**	**31,917,829**
Current assets			
Inventories	15	9,893,415	11,609,463
Trade and other receivables	16	10,574,597	10,628,175
Other short-term financial assets	17	32,701	388,525
Prepayments and other current assets		130,537	125,059
Cash and cash equivalents	18	3,058,211	2,470,555
Current tax assets		34,188	36,208
Assets held for sale	14	857,225	--
Total current assets		**24,580,874**	**25,257,985**
Total assets		**50,631,993**	**57,175,814**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	18,133,476	18,133,476
Statutory reserves	20	2,584,286	2,554,809
Other reserves	21	41,869	(46,392)
Retained earnings	22	8,775,893	12,219,048
Total equity attributable to equity holders of the Company		**29,535,524**	**32,860,941**
Non-controlling interests		(7,031)	(6,823)
Total equity		**29,528,493**	**32,854,118**
Non-current liabilities			
Loans and borrowings	23	2,261	2,005,374
Deferred tax liability	8	387,982	1,575,527
Provisions	24	372,495	363,391
Other non-current liabilities	25	184,115	102,773
Total non-current liabilities		**946,853**	**4,047,065**
Current liabilities			
Trade and other payables and accruals	26	15,928,626	17,791,695
Loans and borrowings	23	2,836,348	991,505
Provisions	24	508,461	1,173,292
Other short-term financial liabilities	27	148,248	299,872
Current tax liabilities		55,739	18,267
Liabilities connected to assets held for sale	14	679,225	--
Total current liabilities		**20,156,647**	**20,274,631**
Total liabilities		**21,103,500**	**24,321,696**
Total equity and liabilities		**50,631,993**	**57,175,814**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 51.

UNIPETROL, a.s.

Consolidated statement of profit or loss and other comprehensive income
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
For the year ended 31 December 2012
(in thousands of Czech crowns)

	Note	2012	2011
Revenue	3	107,280,986	97,427,586
Cost of sales		(104,111,144)	(95,551,467)
Gross profit		**3,169,842**	**1,876,119**
Other income		859,920	1,059,517
Distribution expenses		(1,944,982)	(1,998,516)
Administrative expenses		(1,249,831)	(1,221,652)
Other expenses		(4,848,598)	(5,085,168)
Result from operating activities	5	**(4,013,649)**	**(5,369,700)**
Finance income		1,886,245	882,571
Finance costs		(2,560,367)	(1,456,881)
Net finance costs	7	**(674,122)**	**(574,310)**
Loss before income tax		**(4,687,771)**	**(5,944,010)**
Income tax credit	8	1,273,885	29,804
Loss for the year		**(3,413,886)**	**(5,914,206)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Change in fair value of investment property and other income		19,530	103,096
Deferred tax		(3,711)	(16,461)
Items that will be reclassified to profit or loss:			
Foreign currency translation differences - foreign operations		(4,764)	(10,103)
Effective portion of changes in fair value of cash flow hedges		95,314	(115,697)
Income tax on other comprehensive income	8	(18,109)	14,604
Other comprehensive income for the year, net of tax		**88,260**	**(24,561)**
Total comprehensive income for the year		**(3,325,626)**	**(5,938,767)**
Loss attributable to:			
Owners of the Company		(3,413,678)	(5,914,206)
Non-controlling interests		(208)	--
Loss for the year		**(3,413,886)**	**(5,914,206)**
Total comprehensive income attributable to:			
Owners of the Company		**(3,325,418)**	**(5,931,944)**
Non-controlling interests		(208)	(6,823)
Total comprehensive income for the year		**(3,325,626)**	**(5,938,767)**
Basic and diluted earnings per share (in CZK)		**(18.83)**	**(32.61)**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 51.

UNIPETROL, a.s.

Consolidated statement of changes in equity
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
For the year ended 31 December 2012
(in thousands of Czech crowns)

	Share capital	Statutory reserves	Translation reserve	Fair value reserve	Hedging reserve	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2011	**18,133,476**	**2,452,698**	**5,223**	**20,748**	**--**	**18,187,563**	**38,799,708**	**--**	**38,799,708**
Total comprehensive income for the year									
Profit or loss	--	92,430	--	--		(6,006,636)	(5,914,206)	--	(5,914,206)
Other comprehensive income	--	9,681	(10,103)	31,455	(93,715)	38,121	(24,561)	(6,823)	(31,384)
Total comprehensive income for the year	**--**	**102,111**	**(10,103)**	**31,455**	**(93,715)**	**(5,968,515)**	**(5,938,767)**	**(6,823)**	**(5,945,590)**
Balance as at 31 December 2011	**18,133,476**	**2,554,809**	**(4,880)**	**52,203**	**(93,715)**	**12,219,048**	**32,860,941**	**(6,823)**	**32,854,118**
Balance as at 1 January 2012	**18,133,476**	**2,554,809**	**(4,880)**	**52,203**	**(93,715)**	**12,219,048**	**32,860,941**	**(6,823)**	**32,854,118**
Total comprehensive income for the year									
Profit or loss	--	29,655	--	--	--	(3,443,333)	(3,413,678)	(208)	(3,413,886)
Other comprehensive income	--	(178)	(4,764)	15,820	77,205	177	88,260	--	88,260
Total comprehensive income for the year	**--**	**29,477**	**(4,764)**	**15,820**	**77,205**	**(3,443,156)**	**(3,325,418)**	**(208)**	**(3,325,626)**
Balance as at 31 December 2012	**18,133,476**	**2,584,286**	**(9,644)**	**68,023**	**(16,510)**	**8,775,893**	**29,535,524**	**(7,031)**	**29,528,493**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 51.

UNIPETROL, a.s.

Consolidated statement of cash flows
prepared in accordance with International Financial Reporting Standards as adopted by the European Union
For the year ended 31 December 2012
(in thousands of Czech crowns)

	Note	2012	2011
Cash flows from operating activities:			
Loss for the year		**(3,413,886)**	**(5,914,206)**
Adjustments for:			
Depreciation of the property, plant and equipment and amortisation of intangible assets	10, 11	2,807,100	3,107,046
Profit or loss from investing activities		(4,443)	14,029
Net foreign exchange losses (gains)		(6,617)	330,022
Interests and dividends, net	7	264,929	192,433
Net (gain) loss from financial derivatives		32,535	(54,061)
Impairment losses (gains) on financial investments, property, plant and equipment and intangible assets		4,615,866	4,758,807
CO2 allowances grant derecognition		(338,521)	(388,063)
Income tax credit	8	(1,273,885)	(29,804)
Changes in:			
- in trade receivables and other current assets		(640,528)	936,887
- in inventories		1,038,627	(1,375,034)
- in trade and other payables and accruals		(580,565)	(675,735)
- in deferred income related to CO2 allowances grant		(742,756)	(1,201,232)
- in provisions		341,367	866,826
Income tax paid		(146,654)	(154,424)
Net cash from operating activities		**1,952,569**	**413,490**
Cash flows from investing activities:			
Proceed from disposals of property, plant and equipment and intangible assets		64,754	222,304
Proceed from disposals of short-term financial assets		102,442	280,537
Proceed from disposals of PARAMO ASFALT s.r.o.		116,100	--
Interest and dividends received		2,141	34,454
Change in loans granted		111,534	505,633
Settlement of financial derivatives		252,033	(194,005)
Acquisition of property, plant and equipment and intangible assets		(1,346,201)	(3,591,821)
Acquisition of short-term financial assets		(102,442)	(280,537)
Cash and cash equivalents in subsidiaries sold		(115,426)	--
Acquisition of additional shareholding in subsidiary		--	(460)
Net cash used in investing activities		**(915,065)**	**(3,023,895)**
Cash flows from financing activities:			
Change in loans and borrowings		(201,426)	567,336
Change in cash pool liabilities		87,525	71,448
Interest paid		(325,070)	(298,949)
Payment of finance lease liabilities		(7,555)	(11,211)
Dividends paid		(340)	(2,025)
Net cash from (used in) financing activities		**(446,866)**	**326,599**
Net change in cash and cash equivalents		**590,638**	**(2,283,805)**
Cash and cash equivalents at the beginning of the year		**2,470,555**	**4,741,831**
Effects of exchange rates changes on the balance of cash held in foreign currencies		**(2,983)**	**12,529**
Cash and cash equivalents at the end of the year		**3,058,211**	**2,470,555**

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 51.

Unipetrol
ORLEN GROUP

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Year ended 31 December 2012 (in thousands of CZK)

1. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

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

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

Principal activities
The Company operates as a holding company covering and administering a group of companies (hereinafter the “Group”). The principal businesses of the Group include oil and petroleum products processing, production of commodity chemicals, semi-finished industrial fertilizers and polymer materials, mineral lubricants, plastic lubricants, paraffins, oils and petroleum jellies. Furthermore, the Group is engaged in the distribution of fuels and operation of gas stations.

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

Ownership structure
The shareholders as at 31 December 2012 are as follows:

POLSKI KONCERN NAFTOWY ORLEN S.A.	63 %
Investment funds and other minority shareholders	37 %

Statutory and supervisory bodies
Members of the statutory and supervisory bodies of UNIPETROL, a.s. as at 31 December 2012 were as follows:

	Position	Name
Board of Directors	Chairman	Piotr Chełmiński
	Vice-chairman	Marek Świtajewski
	Vice-chairman	Piotr Wielowieyski
	Member	Mariusz Kędra
	Member	Martin Durčák
	Member	Artur Paździor
Supervisory Board	Chairman	Dariusz Jacek Krawiec
	Vice-chairman	Ivan Kočárník
	Vice-chairman	Sławomir Robert Jędrzejczyk
	Member	Piotr Robert Kearney
	Member	Zdeněk Černý
	Member	Krystian Pater
	Member	Rafał Sekuła
	Member	Andrzej Jerzy Kozłowski
	Member	Bogdan Dzudzewicz

Changes in the board of directors till 31 December 2012 were as follows:

Position	Name	Change	Date of change
Member	Ivan Ottis	Expiry of mandate	24 June 2012
Member	Piotr Wielowieyski	Elected for new Term of office as a member	28 March 2012
Vice-Chairman	Piotr Wielowieyski	Elected for new Term of office as a vice-chairman	28 March 2012
Member	Marek Świtajewski	Elected for new Term of office as a member	25 June 2012
Vice-Chairman	Marek Świtajewski	Elected for new Term of office as a vice-chairman	12 September 2012
Chairman	Piotr Chelminski	Elected for new Term of office as a chairman	5 December 2012
Member	Artur Pazdzior	Elected for new Term of office as a member	5 December 2012
Member	Martin Durčák	Elected for new Term of office as a member	5 December 2012

Changes in the supervisory board during the year 2012 were as follows:

Position	Name	Change	Date of change
Member	Ivan Kočárník	Elected for new Term of office as a member	25 June 2012
Vice-Chairman	Ivan Kočárník	Elected as Vice-Chairman by the Supervisory Board	25 June 2012
Member	Bogdan Dzudzewicz	Elected for new Term of office as a member	25 June 2012
Member	Andrzej Kozlowski	Elected for new Term of office as a member	25 June 2012

Year ended 31 December 2012 (in thousands of CZK)

1. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP (CONTINUED)

The following table shows subsidiaries and joint-ventures forming the consolidated group of UNIPETROL, a.s., and the Group's interest in the capital of subsidiaries and joint-ventures held either directly by the parent company or indirectly by the consolidated subsidiaries and allocation of subsidiaries into the Operating segments (information as of 31 December 2012).

Name and registered office	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment
Parent company			
UNIPETROL, a.s. Na Pankráci 127, 140 00 Praha 4, Czech Republic			Other
Subsidiaries consolidated by full method			
BENZINA, s.r.o. Na Pankráci 127, 140 00 Praha 4, Czech Republic	100.00 %	--	Retail
PARAMO, a.s. Přerovská 560, 530 06 Pardubice, Czech Republic	100.00 %	--	Refinery
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00 %	--	Refinery, Petrochemical, Other
UNIPETROL SERVICES, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00 %	--	Other
UNIPETROL DOPRAVA s.r.o. Litvínov – Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12 %	99.88 %	Refinery
Chemapol (Schweiz) AG in liquidation Leimenstrasse 21, 4003 Basel, Switzerland	--	100.00 %	Petrochemical
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B , 63225 Langen/Hessen, Germany	0.10 %	99.90 %	Petrochemical
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37 %	Retail
UNIPETROL SLOVENSKO s.r.o. Panónská cesta 7, 850 00 Bratislava, Slovak Republic	13.04%	86.96 %	Refinery
POLYMER INSTITUTE BRNO, s.r.o. Tkalcovská 36/2, 656 49 Brno, Czech republic	1.00%	99.00 %	Petrochemical
Paramo Oil s.r.o. (dormant entity) Přerovská 560, 530 06 Pardubice, Czech Republic	--	100.00 %	Refinery
Výzkumný ústav anorganické chemie, a.s. Revoluční 84/č.p. 1521, Ústí nad Labem, Czech Republic	100.00%	--	Petrochemical
UNIPETROL RAFINÉRIE, s.r.o. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Refinery
HC VERVA Litvínov, a.s. Litvínov , S.K. Neumanna 1598, Czech Republic	--	70.95%	Other
CHEMOPETROL, a.s. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	--	100.00%	Petrochemical
MOGUL SLOVAKIA s.r.o. Hradiště pod Vrátnom, U ihriska 300, Slovak Republic	--	100.00%	Refinery
UNIPETROL AUSTRIA HmbH in Liquidation Vídeň, Apfelgasse 2, Austria	100.00%	--	Petrochemical
Joint-ventures consolidated by proportional method			
ČESKÁ RAFINÉRSKÁ, a.s. Záluží 2, 436 70 Litvínov, Czech Republic	51.22 %	--	Refinery
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech	51.00 %	--	Petrochemical

According to the articles of association of ČESKÁ RAFINÉRSKÁ, a.s. adoption of decisions on all important matters requires 67.5 % or greater majority of all votes.
The ownership interests and allocation of subsidiaries into the operating segments as at 31 December 2011 were the same as it is presented in the table above except for the change described bellow.

Changes in structure of the Group

Paramo Asfalt s.r.o. disposal
On 22 October, 2012, PARAMO, a.s. subsidiary of UNIPETROL a.s. ("PARAMO") and ORLEN Asfalt Sp. z o. o. ("ORLEN Asfalt") executed a purchase agreement, pursuant to which ORLEN Asfalt, as purchaser, acquired from PARAMO, as seller, 100% ownership of Paramo Asfalt s.r.o. The purchase price amounted to CZK 116.1 million. The purchase price was agreed on the basis of a valuation report prepared for PARAMO by court appointed valuation expert.

1. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP (CONTINUED)

PARAMO, a.s. , Mogul Slovakia s.r.o, Paramo Oil s.r.o
As at 31 December 2012 PARAMO, a.s., Mogul Slovakia s.r.o and Paramo Oil s.r.o are presented as disposal group held for sale. Details are included in the note 14.

The companies CHEMAPOL (SCHWEIZ) AG and UNIPETROL AUSTRIA HmbH were put under liquidation due to the restructuring process of UNIPETROL TRADE Group. The process is ongoing.

2. SIGNIFICANT ACCOUNTING POLICIES

A Statement of compliance and accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations approved by the International Accounting Standards Board (IASB) as adopted for use in the European Union.

The consolidated financial statements were authorized for issue by the Board of Directors on 4 March 2013.

IFRSs, amendments and interpretations to IFRSs endorsed by European Union, not yet effective

Early adoption of new standards
As at 31 December 2012 the Group had early adopted amendments to *IAS 1 Presentation of Items of Other Comprehensive Income* before the effective date. The Group presented separately the items of other comprehensive income that may be reclassified to profit or loss in the future when specific conditions are met from those that would never be reclassified to profit or loss; and has changed the title of the “Statement of Comprehensive Income” to “Statement of Profit or Loss and Other Comprehensive Income”.

New standards and interpretations not yet adopted
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group but which the Group has not early adopted. The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2012, in accordance with their effective dates. In 2012, the Group did not take the decision for early adoption on a voluntarily basis of amendments and interpretations to the standards, except for adoption of amendments to *IAS 1 Presentation of Items of Other Comprehensive Income*. Those new standards which may be relevant to the Group are set out below.

- *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1January 2013)

  IFRS 10 replaces IAS 27 Consolidated and separate financial statements, in scope of consolidation and SIC 12 interpretation Special Purpose Entities.
  IFRS 10 provides a new single model to be applied in the control analysis for all investees, including those that currently are Special Purpose Entities in the scope of SIC-12.
  Under the new single control model, an investor controls an investee when: it is exposed or has rights to variable returns from its involvements with the investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns.
  Application of the standard based on European Union decision should be as from the commencement date of its first financial year starting on or after 1 January 2014.

  The Group does not expect the new standard when initially applied to have an impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change the conclusion regarding the Group’s control over its investees.

- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013)

  IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures and SIC-13 Jointly Controlled Entities – Non Monetary Contributions by Venturers.
  IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed in IFRS 10.
  Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:
  - A *joint operation* is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operations will be accounted for on the basis of the Group’s interest in those assets and liabilities.
  - A *joint venture* is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement. Joint ventures will be equity-accounted.
  Application of the standard based on European Union decision should be as from the commencement date of its first financial year starting on or after 1 January 2014.

  The Group does not expect the new standard when initially applied to have an impact on the consolidated financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *IFRS 12 Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013)
  IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.
  Application of the standard based on European Union decision should be as from the commencement date of its first financial year starting on or after 1 January 2014.

  The Group expects that the new standard when initially applied will increase the extent of disclosures in the financial statements.
- *IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013)

  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs.

  The Group does not expect IFRS 13 to have a significant impact on the consolidated financial statements, except for more extensive disclosure in the notes to the financial statements.
- *IAS 12 Deferred tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013)

  The 2010 amendment introduced an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management’s intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

  The Group does not expect the amendment when initially applied to have significant impact on the consolidated financial statements.
- *Amendments to IAS 19 Employee Benefits* (effective for annual periods beginning on or after 1 January 2013)
  The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income.

  The Group does not expect the amendments to have a significant impact on future consolidated financial statements; the Group will present actuarial gain and losses in other comprehensive income instead of profit or loss.

IFRSs, amendments and interpretations waiting for approval of European Union
Those new standards which may be relevant to the Group are set out below.

- *New standard and amendments to IFRS 9 Financial Instruments* (effective for annual periods beginning on or after 1 January 2015)
  The new Standard replaces the guidance in *IAS 39, Financial Instruments: Recognition and Measurement*, regarding classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.
  Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value.
  The 2010 amendments to IFRS 9 replace the guidance in *IAS 39 Financial Instruments: Recognition* and Measurement mainly in relation to liabilities “designated as fair value through profit or loss” in case of changes in fair value, attributable to changes in credit risk of that liability. The standard requires changes in fair value to be presented directly in other comprehensive income. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.
  New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortised cost or fair value.
  Additionally amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments.

  The Group does not expect the standard when initially applied to have an impact on measurement of financial instruments. Based on the standard, a classification of financial assets into respective categories will change.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Transition Guidance* (*Amendments to IFRS 10, IFRS 11 and IFRS 12)* (effective for annual periods beginning on or after 1 January 2013)
  The amendments:
  -define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees;
  -limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged;
  -requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required);
  -will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

  The Group expects that amendments to standards will not have an impact on items presented in future consolidated financial statements.
- *Improvements to IFRSs 2009-2011*(effective for annual periods beginning on or after 1 January 2013)
  The Improvements contain 7 amendments to 5 standards, with consequential amendments to other standards and interpretations. The main changes relate to:
  - repeated application of IFRS 1- a repeated adopter that elects not to apply IFRS 1 has to apply IFRS retrospectively in accordance with IAS 8, as if it had never stopped applying IFRS;
  - clarification that first-time adopter of IFRS choosing to apply borrowing costs exemptions should not restate the borrowing cost component that was capitalized under previous GAAP and should account for borrowing cost incurred on or after the date of transition (or an earlier date, as permitted by IAS 23) in accordance with IAS 23;
  - clarification that only one comparative period, which is the preceding period, is required to a complete set of financial statements; however if additional comparative information is prepared it should be accompanied by related notes and be in accordance with IFRS;
  - clarification that the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or reclassification has a material effect upon the information in that statement of financial position and except for the disclosures required under IAS 8, other notes related to the opening statement of financial position are no longer required.
  -clarification on the classification and accounting of spare parts, stand-by equipment and servicing equipment;
  - removal of inconsistencies between IAS 32 and IAS 12 in respect of distributions to holders of an equity instrument and transaction costs of an equity transaction, by clarification that IAS 12 applies to the accounting for income taxes relating to those transactions;
  - additional disclosure required of a measure of total assets and liabilities for a particular reportable segment for interim financial reporting.

  The Group expects that amendments to standards will not have a significant impact on future consolidated financial statements.

B Basis of preparation

The consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred as the "Group") and the Group's interest in jointly controlled entities.
These consolidated financial statements have been prepared on a going concern basis. As at the date of approval of the statements there is no indication that the Group will not be able to continue as a going concern in the foreseeable future.
The financial statements, except for statement of cash flows, are prepared on the accrual basis of accounting.
The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, financial instruments at fair value through profit or loss and investment property.
Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.
The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
In the matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 8 Income tax, 10 Property, plant and equipment and 11 Intangibles assets in relation to impairment.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

C Functional and presentation currency

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

D Group accounting principles and policies

(1) Foreign currency

(i) Transactions in foreign currency

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items including units of currency held by the Group as well as receivables and liabilities due in defined or definable units of currency are translated using the closing rate, i.e. spot exchange rate as at the end of the reporting period,
- non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in the previous financial statements are recognized as financial income or expense in the period in which they arise in the net amount, except for monetary items hedging currency risk, that are accounted for in accordance with cash flows hedge accounting.

(ii) Financial statements of foreign operations

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Czech crowns, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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

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

All resulting exchange differences are recognized in equity, as foreign exchange differences on revaluation of subsidiaries. These differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

(2) Principles of consolidation

The consolidated financial statements of the Group include data of UNIPETROL, a.s., its subsidiaries and jointly controlled entities (joint ventures) prepared as at the end of the same reporting period as the unconsolidated financial statements of UNIPETROL, a.s. and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The non-controlling interest is presented in equity separately from equity attributable to equity holders of the parent. Net profit attributable to non-controlling interest is presented in the statement of profit or loss and other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Equity accounted investees
Equity accounted investees are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised profits or losses and other comprehensive income of Equity accounted investees on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

(iii) Joint ventures
Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenues and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

(iv) Transactions eliminated on consolidation
Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with Equity accounted investees and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(3) Revenue recognition

(i)Revenue from sales
Revenues from sales are recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Group and can be measured reliably.
Revenues from sale of finished goods, merchandise, and raw materials are recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenues are measured at fair value of the consideration received or receivable decreased by the amount of any discounts, value added tax (VAT), excise tax and fuel charges.
Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognized up to the cost incurred, but not greater than the cost which are expected to be recovered by the Group.
When the Group acts as an agent for its customers and buys and sells goods for a fixed margin without controlling purchase and selling prices, it does not report the revenue and cost from the sale of goods on a gross basis. It reports a net margin in the statement of profit or loss and other comprehensive income.
Revenues are measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale of inventories and services.

(ii) Revenue from licenses, royalties and trade mark
Revenue from licenses, royalties and trade mark are recognized on an accrual basis in accordance with the substance of the relevant agreements. Prepayments, referring to agreements concluded in the current period by the Group are recognized as deferred income and settled in the periods when economic benefits are realized according to the agreements.

(iii) Franchise revenues
Franchise revenues are recognized in accordance with the substance of the relevant agreement, in a way reflecting the reason of charging with franchise fees.

(iv) Rental income
Rental income from investment property is recognized in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income to be received.

(4) Costs recognition
The Group recognizes costs in accordance with accrual basis and prudence concept.

(i) Costs of sales - comprise costs of finished goods sold and costs of services sold, including services of support functions and cost of merchandise and raw materials sold.

(ii) Distribution expenses - include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.

(iii) Administrative expenses - include expenses relating to management and administration of the Group as a whole.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) Operating segments

The operations of the Group are divided into the following segments: Refinery, Retail, Petrochemical and Other.

- The Refinery Segment comprises crude oil processing and wholesale, oil production and sales as well as primary logistics,
- The Retail Segment comprises trade in refinery products and secondary logistics,
- The Petrochemical Segment encompasses production and sales of petrochemicals as well as supporting production,
- Segment Other includes mainly administration and other supporting functions and activities not allocated to any other segment.

The Group determines and presents operating segments based on the information that is internally provided to the Management of the Company. Transactions between segments are arm's length transactions.

Segment revenue is the revenue reported in the consolidated statement of profit or loss and other comprehensive income, earned from sales to external customers or from inter-segment transactions that is directly attributable or reasonably allocable to a segment. Segment expenses include expenses relating to sales to external customers and inter-segment transactions that result from operating activities and are directly attributable to the segment and the relevant portion of the expenses that is reasonably allocable to a segment. Segment expenses do not include: income tax expense, interest, losses on sales of investments or losses on extinguishment of debt, administrative expenses and other expenses arising at the level of the Group as a whole, unless they are directly attributable to the segment and can be allocated to the segment on a reasonable basis. The segment result is determined at the level of profit from operations.

Segment assets (liabilities) are those operating assets (liabilities) that are employed by that segment in operating activity (result from operating activity) and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. In particular financial assets and liabilities and income tax items are not allocated to reportable segments.

The revenues, result, assets and liabilities of a given segment are defined before inter-segment adjustments are made, after adjustments within a given segment.

(6) Other operating income and expenses

Other operating income in particular includes income from liquidation and sale of non-financial non-current assets, surplus of assets, return of court fees, penalties earned, surplus of grants received to revenues over the value of costs, assets received free of charge, reversal of receivable impairment allowances and provisions, compensations earned and revaluation gains, gain on sale of investment property.

Other operating expenses include in particular costs of liquidation and sale of non-financial non-current assets, shortages of assets, court fees, contractual penalties and fines, penalties for non-compliance with environmental protection regulations, impairment allowances (except those that are recognized as financial expenses), compensations paid, write-off of construction in progress which have not produced the desired economic effect, research costs, cost of recovery of receivables and liabilities and revaluation losses, loss on sale of investment property.

(7) Financial income and finance expenses

Financial income includes, in particular, income from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Financial expenses include, in particular, loss on sale of shares and securities and costs associated with such sale, impairment losses relating to financial assets such as shares, securities and interest receivables, foreign exchange losses, interest on bonds and other securities issued, interest on finance lease, commissions on bank loans, borrowings, guarantees, interest costs.

(8) Taxation

Income tax comprises current tax and deferred tax.

Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period.

Current tax liabilities represent the amounts payable at the reporting date. If the amount of the current income tax paid exceeds the amount due the excess is recognized as a receivable.

Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, unrealized tax losses and unrealized tax relieves to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Taxable temporary differences are temporary differences that will result in increasing taxable amounts of future periods when the value of the asset or liability at the end of the reporting period is recovered or settled.
Taxable temporary differences arise when the carrying amount of an asset at the end of reporting period is higher than its tax base or when the carrying amount of a liability is lower than its tax base.
Deductible temporary differences are temporary differences that will result in reducing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base.
Deductible and taxable temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.
Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income.
The deferred tax assets and liabilities are measured at the end of each reporting period using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.
Deferred tax assets and liabilities are not discounted.
Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities in the statement of financial position.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends and is able to settle its current tax assets and liabilities on a net basis.

(9) Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

(10) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.
Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.
The cost of an item of property, plant and equipment includes also estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment and capitalized borrowing costs, i.e. costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions are part of the initial cost.
Depreciation of an item of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value.

Appropriateness of the applied depreciation rates is verified periodically (once a year), and respective adjustments are made to the subsequent periods of depreciation. Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their economic useful life. Depreciation is charged so as to write off the cost or valuation of assets to their residual values, other than land, over their estimated useful lives, using the straight-line method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following standard economic useful lives are used for property, plant and equipment:

Buildings and constructions	10-40 years
Machinery and equipment	4-35 years
Vehicles and other	2-20 years

The cost of significant repairs and regular maintenance programs is recognized as property, plant and equipment and depreciated in accordance with their economic useful lives. The costs of current maintenance of property, plant and equipment are recognized as an expense during the period when they are incurred.

Major spare parts and stand-by equipment are capitalized as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing agreement can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment. In both cases spare parts are depreciated over the shorter of the useful life of the spare part and the remaining life of the related item of property, plant and equipment

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognized in income.

The residual value, estimated useful life and depreciation methods are reassessed annually.

(ii) Leased assets

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease. The property, plant and equipment acquired under finance leases are depreciated over the shorter of lease term or useful life of the asset.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

(iii) Subsequent expenditure

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense as incurred.

<u>(11) Investment property</u>

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Gains and losses resulting from changes in fair value of investment property are presented in the statement of profit or loss and other comprehensive income in the period which they arise.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

<u>(12) Intangible assets</u>

Intangible assets include identifiable non-monetary assets without physical substance.

Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the assets will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets are measured at acquisition or at construction cost less amortization and impairment allowances. Intangible assets with a finite useful life are amortized when it is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is periodically reviewed, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods. Intangible assets with an indefinite useful life are not amortized. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortized shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following standard economic useful lives are used for intangible assets:

Acquired licenses, patents, and similar intangible assets	2-15 years
Acquired computer software	2-10 years
Capitalized development	4 years

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of profit or loss and other comprehensive income as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

(ii) Computer software

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include employee costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of five years.

(iii) Other intangible assets

Expenditure to acquire patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives, except for licenses related to the purchase of production technologies, which are amortized over the estimated useful life of the technologies purchased. Expenditure on internally generated goodwill and brands is recognized in the statement of profit or loss and other comprehensive income as an expense as incurred.

(iv) Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

<u>(13) Government grants</u>

Government grants are recognized in the statement of financial position as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it.

If the grant relates to a given income, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate. The surplus of the received grant over the value of the given cost is presented as other operating income.

If the government grants related to assets, it is presented net with the related asset and is recognized in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges, the treatment regarding Carbon dioxide emission allowances granted is described in Note 2.14.

<u>(14) Carbon dioxide emission allowances</u>

Emissions allowances received by the Group are recognized as intangible assets at the fair value of CO2 emission allowances at the date of their receipt. Purchased emission allowances are recognized at the acquisition price. CO2 emission rights are not amortized but tested for impairment.

CO2 emission allowances granted free of charge and appropriate deferred income are recognized at the fair value of CO2 emission allowances at the date of their receipt in the consolidated statement of financial position.

The Group recognizes provision for estimated CO2 emissions in the reporting period. In the consolidated statement of profit or loss and other comprehensive income the cost of recognized provision is compensated with settlement of deferred income on granted CO2 emission rights. The surplus of grant over the estimated emission in the reporting period is recognized as other operating income.

Granted/purchased CO2 emission allowances are amortized against the book value of provision, as its settlement. Outgoing of allowances is recognized using FIFO method (first in, first out).

<u>(15) Borrowing costs</u>

Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

The Group capitalizes borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, until the time when the assets are substantially ready for their intended use or sale. Qualifying assets are the assets that necessarily take a substantial period of time to get ready for their intended use or sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs which are not connected with qualifying assets are recognized in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

The commencement date for capitalization of the borrowing costs is the date when all of the following conditions are met: expenditures for the asset are incurred, borrowing costs are incurred and activities necessary to prepare the asset for its intended use or sale are undertaken.

(16) Impairment

The carrying amounts of the Group's assets, other than inventories, investment property and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any external or internal indication exists, the asset's recoverable amount is estimated.

For intangible assets that are not yet available for use and intangible assets with indefinite useful lives the recoverable amount is estimated at each balance sheet date.

The recoverable amount of other assets is the greater of their net selling price and value in use.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss and other comprehensive income.

Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (cash generating units).

To the cash generating unit following assets are assigned:

- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated to a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

The impairment loss shall be allocated to the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

At the end of each reporting period an assessment shall be made whether an impairment loss recognized in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income. An impairment loss recognized in respect of goodwill is not reversed in subsequent periods.

(17) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding external financing costs.

As at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any allowances. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.

Expenses and revenues connected with inventories write-offs or establishment and release of allowances are included in cost of sales.

The Group uses commodity derivative contracts to hedge crude oil purchases. Gains or losses on commodity derivative contracts are included in cost of sales.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) Trade and other receivables
Trade and other receivables are recognized initially at the present value of the expected proceeds and are stated in subsequent periods at amortized cost using the effective interest method less any impairment losses.

(19) Cash and cash equivalents
Cash and cash equivalents consist of cash at bank, bank deposits and short-term highly liquid investments with original maturities of three months and less. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(20) Financial instruments

(i) Non-derivative financial instruments
Non-derivative financial instruments are initially recognised at fair value, plus transaction costs, except for instruments at fair value through profit or loss, which are initially measured at fair value. Non-derivative financial instruments are classified into the following categories: financial assets ‘at fair value through profit or loss’, ‘held-to-maturity’, ‘available-for-sale’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument.

Financial assets at fair value through profit or loss
Financial instruments are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss upon initial recognition.

A financial instrument is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument other than a financial instrument held for trading may be designated as at fair value through profit or loss upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both,
- which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described below.

Held-to-maturity
Debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment.

Available-for-sale financial instruments
Equity securities held by the Group that are traded in an active market are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described below. Gains and losses arising from changes in fair value are recognized directly in equity with the exception of impairment losses and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the instrument is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.
Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established.
The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Loans and receivables
Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial instruments

The Group derecognizes a financial instrument when the contractual rights to the cash flows from the asset expire; or it transfers the financial instrument and substantially all the risks and rewards of ownership of the instrument to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred instrument, the Group recognizes its retained interest in the instrument and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial instrument, the Group continues to recognize the financial instrument and also recognizes a collateralized borrowing for the proceeds received.

The Group derecognizes a financial asset from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire, or it transferred the financial asset to another party.

The Group derecognizes a financial liability (or part of financial liability) from its consolidated statement of financial position only when it is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expired.

(ii) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedge risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of profit or loss and other comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are reported in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in equity are transferred to profit or loss in the periods when the hedged item is recognized in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in equity are transferred from equity and included in the initial measurement of the asset or liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any cumulative gain or loss recognized in equity remains in equity until the forecast transaction is recorded in profit or loss. When a forecast transaction is no longer expected to occur; the cumulative gain or loss that was recognized in equity is transferred immediately to profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains and losses presented in the foreign currency translation reserve are recognized in profit or loss on disposal of the foreign operation.

(iii) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial instruments with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial instruments (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is calculated based on quoted prices. Where such prices are not available, the fair value is calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

(21) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured reliably. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognized.

The Group establishes provisions for environmental damage, legal disputes, penalties and estimated expenditures related to the fulfillment of obligations as a result of warranty claims. No provisions are established in respect of environmental damages which occurred prior to establishment of the Company as the Czech government contractually committed to reimburse the Group for clean-up costs.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognized when the land is contaminated.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(22) Accruals

Accruals are liabilities due for goods or services received/provided, but not paid or formally agreed with the seller, together with amounts due to employees. Accruals relate among others to: uninvoiced services, unused holidays, investment liabilities.

Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

(23) Trade and other liabilities

Liabilities, including trade liabilities, are stated at amortized cost using the effective interest method. The Group uses simplified methods of liabilities measurement, including trade liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, particularly if the payment term of liabilities is not long. Liabilities, including trade liabilities, in relation to which simplified methods are used, are measured initially and after initial recognition at the amounts due.

(24) Social security and pension schemes

Contributions are made to the Czech government's health retirement and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of security payments is charged to the statement of profit or loss and other comprehensive income in the same period as the related salary cost. The Group has no pension or post-retirement commitments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(25) Long-term service benefits
The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations.

Retirement benefits and jubilee bonuses
Under the Group's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group creates a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present value of those liabilities is estimated at the end of each reporting period and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering employee rotation. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognized in the profit and loss.

(26) Non-current assets held for sale
Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale.
Non-current assets are classified as held for sale when the following criteria are met:
- A decision on initiation of the sale was adopted by the Group's management;
- The assets are available for an immediate sale in their present condition;
- An active program to locate a buyer has been initiated;
- The sale transaction is highly probable and can be completed within 12 months following the sale decision.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

(27) Discontinued operations
A discontinued operation is a component of the Group's business that represents a separate line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

(28) Share capital
Ordinary shares are classified as share capital.

(29) Hedging reserve
Hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting.

(30) Contingent liabilities and receivables
Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote. Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.
Contingent receivables are not recognized in the balance sheet; however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

Year ended 31 December 2012 (in thousands of CZK)

3. REVENUE

	2012	2011
Gross sales of finished goods	119,729,654	107,183,775
Less: Excise tax	(23,520,866)	(24,415,258)
Sales of services	5,446,058	5,250,929
Net revenue from sales of finished goods and services	**101,654,846**	**88,019,446**
Gross sales of merchandise	4,972,036	9,904,047
Less: Excise tax	(299,141)	(1,293,329)
Sales of materials	953,245	797,422
Net revenue from sales of merchandise and materials	**5,626,140**	**9,408,140**
Total revenue	**107,280,986**	**97,427,586**

4. OPERATING SEGMENTS

Revenues and operating result

Year ended 31/12/2012	Refinery	Retail	Petrochemical	Other	Eliminations	Consolidated
Total external revenues	59,523,797	10,269,864	37,412,983	74,342	--	107,280,986
Inter segment revenues	23,256,233	222,436	1,553,036	538,227	(25,569,932)	--
Total segment revenue	82,780,030	10,492,300	38,966,019	612,569	(25,569,932)	107,280,986
Result from operating activities	**(4,513,067)**	**206,696**	**411,797**	**(119,075)**	**--**	**(4,013,649)**
Net finance costs						(674,122)
Loss before income tax						**(4,687,771)**
Income tax credit						1,273,885
Loss for the year						**(3,413,886)**
Depreciation and amortization	**(873,541)**	**(335,065)**	**(1,511,674)**	**(86,820)**	--	**(2,807,100)**

Year ended 31/12/2011	Refinery	Retail	Petrochemical	Other	Eliminations	Consolidated
Total external revenues	55,377,071	9,845,311	32,027,656	177,548	--	97,427,586
Inter segment revenues	20,414,032	230,761	1,449,313	598,141	(22,692,247)	--
Total segment revenue	75,791,103	10,076,072	33,476,969	775,689	(22,692,247)	97,427,586
Result from operating activities	**(2,922,932)**	**364,567**	**(3,049,829)**	**238,494**	**--**	**(5,369,700)**
Net finance costs						(574,310)
Loss before income tax						**(5,944,010)**
Income tax credit						29,804
Loss for the year						**(5,914,206)**
Depreciation and amortization	**(945,839)**	**(354,875)**	**(1,718,077)**	**(88,255)**	**--**	**(3,107,046)**

Assets and liabilities

31/12/2012	Refinery	Retail	Petrochemical	Other	Eliminations	Consolidated
Segment assets	17,754,897	6,313,143	23,022,035	3,280,103	(1,139,529)	49,230,649
Assets classified as held for sale	857,225					857,225
Unallocated corporate assets						544,119
Total assets						**50,631,993**
Additions to non-current assets	352,888	237,773	698,709	56,025		**1,345,395**
Segment liabilities	10,234,690	1,382,385	6,189,659	296,775	(1,139,529)	16,963,980
Liabilities connected to assets held for sale	679,225					679,225
Unallocated corporate liabilities						3,460,295
Total liabilities						**21,103,500**

31/12/2011	Refinery	Retail	Petrochemical	Other	Eliminations	Consolidated
Segment assets	24,542,413	6,554,371	23,239,544	3,568,372	(1,287,591)	56,617,109
Unallocated corporate assets						558,705
Total assets						**57,175,814**
Additions to non-current assets	799,928	156,591	1,689,672	32,462	**--**	**2,678,653**
Segment liabilities	14,545,312	1,568,021	4,119,031	472,650	(1,287,591)	19,417,423
Unallocated corporate liabilities						4,904,273
Total liabilities						**24,321,696**

Additions to non-current assets comprise additions to property, plant and equipment (note 10), intangible assets excluding CO2 emission allowance (note 11) and investment property (note 12).

Year ended 31 December 2012 (in thousands of CZK)

4. OPERATING SEGMENTS (CONTINUED)

Recognition and reversal of impairment allowances

2012	Refinery	Retail	Petrochemical	Other	Consolidated
Recognition of impairment allowances	(4,826,573)	(80,321)	(425,622)	(6,045)	**(5,338,561)**
Reversal of impairment allowances	150,184	21,860	382,626	14,767	**569,437**

2011	Refinery	Retail	Petrochemical	Other	Consolidated
Recognition of impairment allowances	(1,923,359)	(35,978)	(3,288,840)	(4,473)	**(5,252,650)**
Reversal of impairment allowances	94,293	95,922	50,698	2,142	**243,055**

Impairment allowances of assets by segment include items recognized in the consolidated statement of profit or loss and other comprehensive income i.e.: receivables allowances, inventories allowances, non-current assets impairment allowances.

In 2012 in a refinery segment impairment charge in amount of CZK 4,075,234 thousand was recognised by the Group relating to non-current assets and goodwill of its joint-venture ČESKÁ RAFINÉRSKÁ, a.s. In 2011 an impairment charge of CZK 1,714,535 thousand was recognised in the refinery segment and CZK 2,932,819 thousand in the petrochemical segment relating to non-current assets of subsidiary PARAMO, a.s. and UNIPETROL RPA, s.r.o. as at 31 December 2011. Additionally in 2012 in a refinery segment impairment charge of CZK 315,868 thousand in relation to assets held for sale was recognised.

Other impairment allowances recognitions and reversals were recorded in relation to CO2 allowances and petrol stations, inventory, overdue receivables, uncollectible receivables or receivables in court.

Geographical information

	Revenues		Non-current assets	
	2012	2011	2012	2011
Czech Republic	76,199,764	69,089,924	25,686,353	31,777,107
Germany	9,280,483	9,154,662	1,467	1,591
Poland	1,808,447	1,944,097	--	--
Slovakia	9,349,291	7,569,598	474	849
Other countries	10,643,001	9,669,305	--	17,910
Total	**107,280,986**	**97,427,586**	**25,688,294**	**31,797,457**

With the exception of the Czech Republic no other individual country accounted for more than 10% of consolidated revenues or assets. Revenues are based on the country in which the customer is located. Total non-current assets are based on location of the assets and consist of property, plant and equipment, intangible assets and investment property.

Major customer

Revenues from none of the operating segments' individual customers represented 10% or more of the Group's total revenues.

Revenues from major products and services

The following is an analysis of the Group's external revenues from its major products and services:

External revenues from major products and services	2012	2011
Refinery	**59,523,797**	**55,377,071**
Diesel	30,523,111	28,532,092
Gasoline	13,928,359	12,147,742
JET	1,916,583	1,442,972
LPG	2,266,935	1,930,179
Fuel Oils	1,382,533	1,805,252
Bitumen	2,661,088	2,607,417
Lubricants	1,093,752	1,280,012
Other refinery products	1,862,976	2,060,000
Services	3,888,460	3,571,405
Retail	**10,269,864**	**9,845,311**
Refinery products	10,032,517	9,527,591
Services	237,347	317,720
Petrochemical	**37,412,983**	**32,027,656**
Ethylene	4,525,306	3,872,717
Benzene	4,802,081	3,917,946
Propylene	1,084,510	1,107,270
Urea	1,360,040	1,229,399
Ammonia	1,357,638	998,304
C4 fraction	1,392,923	1,132,485
Butadiene	1,438,229	1,151,620
Polyethylene (HDPE)	8,905,186	7,457,057
Polypropylene	7,145,097	6,402,631
Other petrochemical products	4,154,244	3,570,037
Services	1,247,729	1,188,190
Other	**74,342**	**177,548**
Total	**107,280,986**	**97,427,586**

Year ended 31 December 2012 (in thousands of CZK)

5. OPERATING EXPENSES AND INCOMES

Cost of sales

	2012	2011
Cost of finished goods and services sold	(98,766,908)	(87,613,495)
Cost of merchandise and raw materials sold	(5,344,236)	(7,937,972)
Cost of sales - total	**(104,111,144)**	**(95,551,467)**

Cost by nature

	2012	2011
Materials and energy	(88,078,521)	(77,678,437)
Cost of merchandise and raw materials sold	(5,344,236)	(7,937,972)
External services	(6,419,706)	(6,243,064)
Depreciation and amortization	(2,807,100)	(3,107,046)
Personnel expenses	(2,480,006)	(2,629,829)
Repairs and maintenance	(1,012,887)	(1,099,079)
Insurance	(219,231)	(209,163)
Taxes and charges	(78,734)	(58,949)
Non-cancellable operating lease	(63,767)	(61,659)
Research expenditures	(10,514)	(11,042)
Impairment of long term assets and receivables	(4,380,689)	(4,885,949)
Other	(592,464)	(370,210)
Change in inventories	(666,917)	434,463
Cost of products and services for own use	217	1,133
Total expenses	**(112,154,555)**	**(103,856,803)**
Operating expenses		
Distribution expenses	1,944,982	1,998,516
Administrative expenses	1,249,831	1,221,652
Other operating expenses	4,848,598	5,085,168
Cost of sales	**(104,111,144)**	**(95,551,467)**

Other operating income

	2012	2011
Gain on sale of non-current non-financial assets	32,197	15,124
Grants	67,391	14,357
Reversal of provisions	147,775	179,703
Reversal of receivables impairment allowances	24,164	39,998
Reversal of impairment allowances of property, plant and equipment and intangible assets	31,079	91,187
Penalties and compensations earned	77,768	270,064
CO2 allowances grant derecognition	338,521	388,063
Income from disposals of PARAMO ASFALT s.r.o.	85,731	--
Other	55,294	61,021
Total	**859,920**	**1,059,517**

Other operating expenses

	2012	2011
Loss on sale of non-current non-financial assets	(27,754)	(29,152)
Recognition of provisions	(22,560)	(83,678)
Recognition of receivables impairment allowances	(49,592)	(27,758)
Write down of overdue accounts receivable	(44,991)	(21,839)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(4,331,097)	(4,858,191)
Recognition of impairment allowances of assets held for sale	(315,848)	--
Addition to provisions for consumption of CO2 allowances	--	(14,757)
Donations	(8,608)	(6,791)
Other	(48,148)	(43,002)
Total	**(4,848,598)**	**(5,085,168)**

Year ended 31 December 2012 (in thousands of CZK)

6. PERSONNEL EXPENSES

2012	Employees	Key Management	Audit Committee	Board of directors	Supervisory board	Total
Personnel expenses						
Wages and salaries	1,599,502	193,518	960	2,949	5,640	**1,802,569**
Social and health insurance	533,258	39,865	326	388	1,918	**575,755**
Social expense	89,357	15,682	--	--	--	**105,039**
Change of employee benefits provision	(3,273)	(84)	--	--	--	**(3,357)**
Total	**2,218,844**	**248,981**	**1,286**	**3,337**	**7,558**	**2,480,006**
Number of employees average per year, FTE*	3,626	79	--	--	--	**3,705**
Number of employees as at balance sheet day**	3,646	78	--	--	--	**3,724**

2011	Employees	Key Management	Audit Committee	Board of directors	Supervisory board	Total
Personnel expenses						
Wages and salaries	1,697,470	199,105	960	4,448	6,375	**1,908,358**
Social and health insurance	572,634	41,727	86	187	701	**615,335**
Social expense	96,307	11,446	--	--	--	**107,753**
Change of employee benefits provision	(1,617)	--	--	--	--	**(1,617)**
Total	**2,364,794**	**252,278**	**1,046**	**4,635**	**7,076**	**2,629,829**
Number of employees average per year, FTE*	3,833	66	--	--	--	**3,899**
Number of employees as at balance sheet day**	3,831	76	--	--	--	**3,907**

* FTE – full time equivalent
** In case of companies consolidated under proportionate method relevant percentage is used; number of employees comprises only active employees

7. FINANCE INCOME AND FINANCE COSTS

	2012	2011
Presented in Profit or loss		
Finance income		
Interest income from held to maturity investments	16,909	17,044
Interest income from loans and receivables	34,524	56,593
Gain arising on derivatives designated at fair value through Profit or loss	1,833,503	807,887
Other finance income	1,309	1,047
Total finance income	**1,886,245**	**882,571**
Finance costs		
Interest expense on financial liabilities measured at amortized costs	(317,027)	(266,694)
Less: amounts capitalised on qualifying assets	665	624
Net foreign exchange losses	(220,091)	(330,023)
Loss arising on derivatives designated at fair value through Profit or loss	(1,866,039)	(753,825)
Other finance expenses	(157,875)	(106,963)
Total finance costs	**(2,560,367)**	**(1,456,881)**
Net finance costs recognized in Profit or loss	**(674,122)**	**(574,310)**
Presented in Other comprehensive income		
Effective portion of charges in fair value of cash flow hedges	95,314	(115,697)
Net finance cost presented in Other comprehensive income	**(578,808)**	**(690,007)**

Year ended 31 December 2012 (in thousands of CZK)

8. INCOME TAX

	2012	2011
Current tax	(203,337)	(131,843)
Deferred tax	1,477,222	161,647
Income tax recognized in Profit or loss	**1,273,885**	**29,804**
Tax recognized in Other comprehensive income	(18,109)	14,604
Income tax - total	**1,255,776**	**44,408**

Tax recognized directly in Other comprehensive income

	2012	2011
Tax on effective portion of changes in fair value of cash flow hedges	(18,109)	21,982
Tax on net change in fair value of investment property	--	(7,378)
Tax recognized in Other comprehensive income	**(18,109)**	**14,604**

Domestic income tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2012 (2011: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using tax rate approved for years 2012 and forward i.e. 19%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of effective tax rate

		2012		2011
Profit / (loss) for the year		(3,413,886)		(5,914,206)
Total income tax credit (expense)		1,273,885		29,804
Profit / (loss) excluding income tax		(4,687,771)		(5,944,010)
Income tax using domestic income tax rate	19.0 %	890,677	19.0 %	1,129,362
Effect of tax rates in foreign jurisdictions	0.3 %	12,783	(0.1) %	(1,784)
Non-deductible expenses	(1.5) %	(69,228)	(0.9) %	(49,300)
Tax exempt income	0.5 %	25,143	0.8 %	45,280
Tax relief	--	--	0.1 %	3,223
Recognition of previously unrecognized deferred tax related to tax losses	12.2%	569,721	0.2 %	12,984
Change in not recognized deferred tax assets	(3.1) %	(146,805)	(18.8) %	(1,113,450)
Under (over) provided in prior periods	(0.2) %	(8,406)	0.1 %	1,985
Other differences	--	--	0.1 %	1,504
Total income tax credit (expense)	**27.2 %**	**1,273,885**	**0.5 %**	**29,804**

Deferred tax assets and liabilities

Deferred income taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred income taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19% in 2012 and onward).

The movement for the year in the Group's net deferred tax position was follows:

	2012	2011
Balance at beginning of the year	**(1,535,842)**	**(1,710,493)**
Deferred tax recognized in the Statement of profit or loss and other comprehensive income	1,477,222	161,647
Change in Group structure	(5,195)	(1,605)
Tax charged to Other comprehensive income	(18,109)	14,604
FX difference	1,172	5
Balance as at end of the year	**(80,752)**	**(1,535,842)**

Year ended 31 December 2012 (in thousands of CZK)

8. INCOME TAX (CONTINUED)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) recognized by the Group during the year is as follows:

Deferred tax assets and liabilities	01/01/2012	Recognized in Profit or loss	Recognized in Other comprehensive income	Change	FX differences	31/12/2012
Deferred tax assets						
Property, plant and equipment	483	769,284	--	--	--	769,767
Provisions	142,236	(7,763)	--	--	--	134,474
Unused tax losses carried forward	344,253	567,175	--	--	--	911,428
10% investment relief	19,104	--	--	--	--	19,104
Financial instruments valuation	21,982	--	(18,109)	--	--	3,872
Other	236,802	(24,478)	--	--	--	212,324
Total deferred tax assets	**764,860**	**1,304,218**	**(18,109)**	**--**	**--**	**2,050,969**
Deferred tax liabilities				--		
Property, plant and equipment	(1,901,093)	185,723	--	(5,195)	1,172	(1,719,393)
Inventory	(279,174)	(15,198)	--	--	--	(294,373)
Provisions	(37,232)	1,672	--	--	--	(35,559)
Finance lease	(80,016)	2,856	--	--	--	(77,160)
Derivative instruments	--	--		--	--	--
Other	(3,186)	(2,050)	--	--	--	(5,236)
Total deferred tax liabilities	**(2,300,701)**	**173,003**	**--**	**(5,195)**	**1,172**	**(2,131,721)**
Net deferred tax liabilities	**(1,535,842)**	**1,477,222**	**(18,109)**	**(5,195)**	**1,172**	**(80,752)**

Deferred income tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

Deferred income tax assets are recognized for tax loss and deductible temporary differences carried forward to the extent that realization of the related tax benefit through the future taxable profit is probable based on financial projections for years 2013 - 2017.
In the calculation of deferred tax assets as at 31 December 2012 the Group has not recognized unused tax loses in amount of CZK 2,288,707 thousand due to the unpredictability of future taxable income (CZK 1,113,450 thousand at 31 December 2011). These unrecognised tax losses will expire till end of 2017.

9. EARNINGS PER SHARE

Basic earnings per share

	2012	2011
Profit / (loss) for the period attributable to equity holders (in CZK '000)	(3,413,886)	(5,914,206)
Weighted average number of shares	181,334,764	181,334,764
Earnings per share (in CZK)	**(18.83)**	**(32.61)**

Diluted earnings per share
Diluted earnings per share are the same as basic earnings per share.

Year ended 31 December 2012 (in thousands of CZK)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Cost						
Balance at 01/01/2011	**1,265,317**	**24,053,308**	**38,642,084**	**3,063,539**	**1,300,271**	**68,324,519**
Additions	--	19,432	389,978	125,708	2,060,268	2,595,386
Disposals	(6,184)	(16,540)	(973,898)	(335,140)	(107)	(1,331,869)
Reclassifications	(111,777)	81,622	1,600,946	170,489	(2,116,458)	(375,178)
Change in Group structure	11,829	48,605	189,471	7,116	--	257,021
Other	--	(29)	(46,238)	--	(1,533)	(47,800)
FX differences	--	227	10	286	--	523
Balance at 31/12/2011	**1,159,185**	**24,186,625**	**39,802,353**	**3,031,998**	**1,242,441**	**69,422,602**
Additions	--	18,461	95,470	93,098	1,062,159	1,269,188
Disposals	(236)	(54,891)	(235,220)	(209,623)	(229)	(500,199)
Reclassifications	(976)	170,217	1,149,798	99,100	(1,430,055)	(11,916)
Change in Group structure	1,664	15,812	45,701	1,291	2,550	67,018
Transfer to assets held for sale	(343,834)	(1,649,689)	(3,120,452)	(78,415)	(13,303)	(5,205,693)
Other	--		(30,652)	7	(2,786)	(33,431)
FX differences	1,656	17,039	5,307	(241)	--	23,761
Balance at 31/12/2012	**817,459**	**22,703,574**	**37,712,305**	**2,937,215**	**860,777**	**65,031,330**
Depreciation						
Balance at 01/01/2011	**--**	**8,803,908**	**23,431,298**	**1,922,965**	**--**	**34,158,171**
Charge for the year	--	605,799	2,026,762	267,438	-	2,899,999
Disposals	--	(2,595)	(961,239)	(319,439)	--	(1,283,273)
Reclassifications	--	(138,739)	--	--	--	(138,739)
Change in Group structure	--	32,898	165,816	4,902	--	203,616
Other	--	1,320	5,309	--	--	6,629
FX differences	--	--	10	204	--	214
Balance at 31/12/2011	**--**	**9,302,591**	**24,667,956**	**1,876,070**	**--**	**35,846,617**
Charge for the year	--	530,999	1,833,885	273,207	--	2,638,091
Disposals	--	(21,955)	(189,058)	(204,926)	--	(415,939)
Reclassifications	--	(707)	(11,103)	11,810	--	--
Change in Group structure	--	9,225	38,704	1,102	--	49,031
Transfer to assets held for sale	--	(800,373)	(2,562,382)	(69,908)	--	(3,432,663)
Other	--	1,027	4,373	--	--	5,400
FX differences	--	8,274	5,289	(183)	--	13,380
Balance at 31/12/2012	**--**	**9,029,081**	**23,787,664**	**1,887,172**	**--**	**34,703,917**
Impairment						
Balance at 01/01/2011	**38,624**	**147,776**	**48,716**	**636**	**21,586**	**257,338**
Impairment losses	346,693	1,845,218	2,030,861	69,474	176,107	4,468,353
Reversal of impairment losses	(35,224)	(51,085)	(4,614)	(264)	--	(91,187)
Balance at 31/12/2011	**350,093**	**1,941,909**	**2,074,963**	**69,846**	**197,693**	**4,634,504**
Impairment losses	--	1,809,350	2,305,072	4,077	(45,362)	4,073,137
Reversal of impairment losses	--	(16,986)	(23,270)	(1,163)	(484)	(41,903)
Transfer to assets held for sale	(342,177)	(832,751)	(551,682)	(7,400)	(5,615)	(1,739,625)
Balance at 31/12/2012	**7,916**	**2,901,522**	**3,805,083**	**65,360**	**146,232**	**6,926,113**
Grants						
Balance at 01/01/2011	**--**	**--**	**--**	**--**	**--**	**--**
Increases		28,550	26,466	--	--	55,016
Decreases/ Settlement	--	(1,650)	(4,983)	--	--	(6,633)
Balance at 31/12/2011	**--**	**26,900**	**21,483**	**--**	**--**	**48,383**
Increases	--	--	--	--	32,103	32,103
Decreases/ Settlement	--	(1,027)	(4,403)	--	--	(5,430)
Balance at 31/12/2012	**--**	**25,873**	**17,080**	**--**	**32,103**	**75,056**
Carrying amount at 01/01/2011	**1,226,693**	**15,101,624**	**15,162,070**	**1,139,938**	**1,278,685**	**33,909,010**
Carrying amount at 31/12/2011	**809,092**	**12,915,225**	**13,037,951**	**1,086,082**	**1,044,748**	**28,893,098**
Carrying amount at 31/12/2012	**809,543**	**10,747,098**	**10,102,478**	**984,682**	**682,442**	**23,326,243**

According to IAS 23 the Group capitalizes those borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in the year ended 31 December 2012 amounted to CZK 665 thousand (31 December 2011: CZK 624 thousand).

Year ended 31 December 2012 (in thousands of CZK)

10. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Impairment allowances disclosed in the property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeded their recoverable amount. Recognition and reversal of impairment allowances for property, plant and equipment are recognized in other operating activities. In 2012 an impairment charge of CZK 3,975,622 thousand was recognized in relation to property, plant and equipment of the refinery segment - ČESKÁ RAFINÉRSKÁ, a.s. In 2011 the major part of the impairment recognized by the Group related to property, plant and equipment of the refinery segment - PARAMO, a.s. (CZK 1,702,876 thousand) and the petrochemical segment - UNIPETROL RPA s.r.o. (CZK 2,728,505 thousand).

The Group reviews economic useful lives of property, plant and equipment and introduces adjustments to depreciation charge prospectively according to its accounting policy. Should the depreciation policy from the previous year be applied, the depreciation expense for 2012 would be higher by CZK 130,275 thousand.

The cost of all fully depreciated property, plant and equipment still in use as at 31 December 2012 amounted to CZK 11,389,619 thousand (31 December 2011: CZK 12,000,846 thousand).

The carrying amount of idle property, plant and equipment amounted to CZK 8,551 thousand as at 31 December 2012 (CZK 9,407 thousand as at 31 December 2011).

As at 31 December 2012 and 31 December 2011 the carrying amount of assets acquired under finance lease amounted to CZK 315,640 thousand and CZK 371,350 thousand, respectively. A detailed division of non-current assets by class is disclosed in table below.

	Net carrying amount of leased assets	
	31/12/2012	31/12/2011
Property, plant and equipment	**315,640**	**371,350**
Vehicles	110,034	128,765
Machinery and equipment	205,606	242,585

The Group has government grants obtained from the German Ministry for Environmental Protection and Safety of Reactors for CZK 42,952 thousand as at 31 December 2012 in order to execute a pilot environmental project targeted at limiting cross-border pollution, in connection with the reconstruction of the T 700 power station and its desulphurization (31 December 2011: CZK 48,383 thousand).

The Group obtained a support grant of the European Regional Development Fund (ERDF) and the Czech national budget for the new research and education centre UniCRE construction for CZK 592,437 thousand. The resources provided will be used mainly for restoration of research laboratories, conference and education areas and the purchase of modern equipment and laboratory equipment. In 2012 the grant of CZK 32,103 thousand was used.

Impairment of non-current assets

As at 31 December 2012 in accordance with International Accounting Standard 36 “Impairment of assets” tests were carried out for Cash Generating Units (CGUs) for whcih impairment indicators were identified. In the UNIPETROL group CGUs were established at the level of reportable segments.

In UNIPETROL group indications triggering impairment testing were of both an internal and external character. Operating profits of CGUs for the year 2012 were below forecasted level. The deteriorating external environment on the refinery market and worsening macro economic projections constituted additional indicators.

The recoverable amounts of CGUs were estimated based on their value in use. The period of analysis was established on the basis of remaining useful life of the essential assets for the particular CGU.

The analysis was performed based on financial projections for the years 2013-2017 adjusted to exclude the impact of capital expenditures enhancing the assets’ performance.
The anticipated fixed annual growth rate of cash flows after 2017 was assumed at the level of the long term inflation rate for Czech Republic at 2.50% (the growth rate used in 2011 was 2.28%).

For determining the value in use as at 31 December 2012, forecasted cash flows were discounted using the discount rates after taxation reflecting the risk levels specific for particular sectors to which the CGU belongs.

Based on the results of an impairment analysis as at 31 December 2012 the Group recognized an impairment allowance of CZK 4,075,234 thousand in relation to non-current assets of the refinery CGU.

The estimated useful live of the refinery CGU was assumed to be 25 years and the discount rate used was 8.03% (the discount rate used in 2011 was 9.88%).

Impairment charges of CZK 51,595 thousand were allocated to goodwill assigned to the refinery CGU, CZK 3,975,622 thousand was allocated to plant, property and equipment, and CZK 48,017 thousand to intangible assets and these were recorded in other operating costs.

The Group’s future financial performance is based on a number of factors and assumptions in respect of macroeconomic development, such as foreign exchange rates, commodity prices, interest rates, partially outside the Group’s control. The change of these factors and assumptions might influence the Group’s financial position, including the results of the impairment tests of non-current assets, and consequently might lead to changes in the financial position and performance of the Group.

10. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

The existence of impairment indicators led to an impairment analysis on UNIPETROL, group assets' as at 31 December 2011. Based on the results of the analysis, impairments were recognized in 2011 in relation to non-current assets of the PARAMO, a.s. (due to ceasing refinery production in PARAMO, a.s.) and the petrochemical CGU for CZK 1,714,535 thousand and CZK 2,932,819 thousand, respectively.

Impact of impairment charge on consolidated statement of financial position as at 31 December 2012

Assets of Unipetrol group (in thousands of CZK)	**Carrying amount before impairment**	**Impairment loss recognized**	**Carrying amount after impairment**
Property, plant, equipment	**27,301,865**	**(3,975,622)**	**23,326,243**
Land	809,543	--	809,543
Buildings and constructions	12,317,452	(1,570,354)	10,747,098
Machinery and equipment	12,431,665	(2,329,187)	10,102,478
Vehicles and other	988,683	(4,002)	984,682
Construction in progress	754,523	(72,080)	682,442
Intangible assets	**2,026,343**	**(48,017)**	**1,978,326**
Software	165,822	(27,169)	138,653
Licenses, patents and trade marks	860,699	(11,268)	849,431
Assets under development	74,389	(8,021)	66,369
CO2 emission allowances	814,047	--	814,047
Other intangible assets	111,385	(1,559)	109,826
Goodwill	**51,595**	**(51,595)**	**--**
Total	**29,379,803**	**(4,075,234)**	**25,304,569**

The total impairment, increases of the impairment and reversals of impairment are presented in the movement tables in Note 10 and Note 11.

Year ended 31 December 2012 (in thousands of CZK)

11. INTANGIBLE ASSETS

	Software	Licenses, patents and trade marks	Goodwill	Assets under development	CO2 emission allowance	Other intangible assets	Total
Cost							
Balance at 01/01/2011	**931,404**	**2,050,274**	**51,595**	**97,278**	**213,839**	**500,363**	**3,844,753**
Additions	296	--	--	82,971	948,423	-	1,031,690
Disposals	(492)	--	--	--	(174,069)	(537)	(175,098)
Reclassifications	32,161	27,569	--	(82,668)	--	23,834	896
Change in Group structure	7,409	--	--	--	--	--	7,409
Other	--	--	--	(87)	336,475	--	336,388
FX differences	31	--	--	2	--	--	33
Balance at 31/12/2011	**970,809**	**2,077,843**	**51,595**	**97,496**	**1,324,668**	**523,660**	**5,046,071**
Additions	299	--	--	75,908	--	--	76,207
Disposals	(4,427)	(2,141)	--	(484)	(9,075)	(79,547)	(95,674)
Reclassifications	41,461	(10,030)	--	(89,194)	--	62,073	4,310
Change in Group structure	2,400	15,310	--	--	--	551	18,261
Transfer to assets held for sale	(56,871)	(18,579)	--	--	(73,537)	(10,384)	(159,371)
Other	--	--	--	(3,947)	(134,712)	--	(138,659)
FX differences	334	--	--	--	--	--	334
Balance at 31/12/2012	**954,005**	**2,062,403**	**51,595**	**79,779**	**1,107,344**	**496,353**	**4,751,479**
Amortization							
Balance at 01/01/2011	**739,405**	**862,931**	**--**	**--**	**--**	**333,469**	1,935,805
Charge for the year	49,955	91,138	--	--	--	65,954	207,047
Disposals	(492)	--	--	--	--	(537)	(1,029)
Change in Group structure	5,923	--	--	--	--	--	5,923
FX differences	19	--	--	--	--	--	19
Balance at 31/12/2011	**794,810**	**954,069**	**--**	**--**	**--**	**398,886**	**2,147,765**
Charge for the year	47,652	80,124	--	--	--	41,233	169,009
Disposals	(4,427)	(2,142)	--	--	--	(79,547)	(86,116)
Reclassifications	--	(14,894)	--	--	--	14,894	--
Change in Group structure	2,251	15,310	--	--	--	477	18,038
Transfer to assets held for sale	(55,680)	(8,037)	--	--	--	(10,384)	(74,101)
FX differences	344	--	--	--	--	--	344
Balance at 31/12/2012	**784,950**	**1,024,430**	**--**	**--**	**--**	**365,559**	**2,174,939**
Impairment							
Balance at 01/01/2011	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Impairment losses	2,646	187,461	--	10,271	173,865	15,595	389,838
Balance at 31/12/2011	**2,646**	**187,461**	**--**	**10,271**	**173,865**	**15,595**	**389,838**
Impairment losses	28,872	11,623	51,595	7,877	157,840	5,373	263,180
Reversal of impairment	--	--	--	(4,737)	(9,252)	--	(13,989)
Transfer to assets held for sale	(1,117)	(10,542)	--	--	(29,156)	--	(40,815)
Balance at 31/12/2012	**30,401**	**188,542**	**51,595**	**13,411**	**293,297**	**20,968**	**598,214**
Carrying amount at 01/01/2011	**191,999**	**1,187,343**	**51,595**	**97,278**	**213,839**	**166,894**	**1,908,948**
Carrying amount at 31/12/2011	**173,353**	**936,313**	**51,595**	**87,225**	**1,150,803**	**109,179**	**2,508,468**
Carrying amount at 31/12/2012	**138,654**	**849,431**	**--**	**66,368**	**814,047**	**109,826**	**1,978,326**

Recognition and reversal of impairment allowances for intangible assets are recognized in other operating activities.

In 2012 the major part of the impairment recognized by the Group related to intangible assets of the refinery CGU - ČESKÁ RAFINÉRSKÁ, a.s. (CZK 48,017 thousand).
Licences, patents and trade marks include licenses related to production of plastics (high-density polyethylene - HDPE and polypropylene), which account for CZK 763,165 thousand of carrying amount as of 31 December 2012 (31 December 2011: CZK 825,397 thousand). Other intangible assets include development costs with a carrying amount of CZK 105,874 thousand as of 31 December 2012 (31 December 2011: CZK 99,749 thousand).

The Group reviews economic useful lives of intangible assets and introduces an adjustment to amortization charge prospectively according to its accounting policy. Should the amortization rates from the previous year be applied, amortization expense for 2012 would be higher by CZK 2,466 thousand.

The costs of all fully amortized intangible assets still in use as at 31 December 2012 amounted to CZK 1,638,344 thousand and as at 31 December 2011 amounted to CZK 1,563,887 thousand.

The carrying amount of intangible assets with indefinite useful life apart from CO2 allowances as at 31 December 2012 and as at 31 December 2011 amounted to CZK 11,835 thousand and CZK 14,030 thousand, respectively.

Year ended 31 December 2012 (in thousands of CZK)

11. INTANGIBLE ASSETS (CONTINUED)

Goodwill

The goodwill of CZK 51,595 thousand resulted from the acquisition of a 0.221 % share in the registered capital of ČESKÁ RAFINÉRSKÁ, a.s. during the year ended 31 December 2007.
As at 31 December 2012 in connection with an impairment charge recognized in relation to non-current assets of the refinery CGU - ČESKÁ RAFINÉRSKÁ, a.s. the carrying amount of goodwill was decreased to zero (31 December 2011: CZK 51,595 thousand).

CO2 emission rights

In 2008 the Group obtained allowances for carbon dioxide emissions according to the Czech National Allocation Scheme for the years 2008-2012. The total number of the emission allowances allocated to the Group for the period 2008-2012 was 18,819,992 tons.

On 21 February 2012 the Group received CO2 allowances of 3,775,436 tons relating to emissions in 2012. On that day the market value of one CO2 allowance was EUR 8.98.

On 28 February 2011 the Group received CO2 allowances of 3,775,436 tons relating to emissions in 2011. On that day the market value of one CO2 allowance was EUR 14.86.

	2012		2011	
	value	In tons	value	In tons
Emission allowances at 1 January	**1,150,803**	**3,679,891**	**213,839**	**656,071**
Emission allowances granted for the year	844,704	3,775,436	1,366,108	3,775,436
Settled emission allowances for previous periods	(979,415)	(2,714,395)	(1,029,633)	(3,091,097)
Emission allowances acquired in current year	--	--	948,423	2,820,593
Sales of emissions allowances in current year	(9,075)	(40,559)	(174,069)	(481,112)
Transfer to assets held for sale (net)	(44,381)	(279,145)	--	--
Impairment to CO2 allowances	(148,588)	--	(173,865)	--
Estimated emission allowances at 31 December	**814,048**	**4,421,228**	**1,150,803**	**3,679,891**
Estimated annual consumption	495,934	2,472,204	977,965	2,709,500

As at 31 December 2012 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 6.43.

The emission allowances acquired and sold by the Group are included in the statement of consolidated cash flows respectively under investing activities in Acquisition of property, plant and equipment and intangible assets and Proceeds from disposals of property, plant and equipment and intangible assets respectively.

12. INVESTMENT PROPERTY

Investment property at 31 December 2012 comprised the land and buildings owned by the Group and leased to third parties. The changes recorded during the year 2012 are presented in the following table:

	2012	2011
Investment property at beginning of the year	**395,891**	**162,190**
Reclassification from property, plant, equipment	1,810	235,543
Changes in fair value	19,852	(1,842)
Purchase	5,796	--
Transfer to assets held for sale	(39,624)	--
Total balance at end of the year	**383,725**	**395,891**

Rental income amounted to CZK 47,132 thousand in 2012 (2011: CZK 50,764 thousand). Operating costs related to the investment property in reporting period amounted to CZK 7,532 thousand in 2012 (2011: CZK 10,360 thousand).

Depending on the characteristics of the investment property, its fair value was estimated based on comparison or revenue approach. The comparison approach was applied assuming, that the value of assessed property was equal to the market price of a similar property. In the revenue approach the calculation was based on the discounted cash flow method. 10 year period forecasts were applied in the analysis. The discount rate used reflects the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property.
Forecasts of discounted cash flows relating to the property consider arrangements included in all rent agreements as well as external data, e.g. current market rent charges for similar property, in the same location, technical conditions, standard and designed for similar purposes.

Year ended 31 December 2012 (in thousands of CZK)

13. OTHER NON-CURRENT ASSETS

	31/12/2012	31/12/2011
Financial assets		
Long term loan to ČESKÁ RAFINÉRSKÁ, a.s.	39,478	54,763
Loans granted to operators of fuel stations	12,316	17,577
Equity investments	522	522
Total financial assets	**52,316**	**72,862**
Non-financial assets		
Prepayments	3,279	7,825
Total non - financial assets	**3,279**	**7,825**
Total other non-current assets	**55,595**	**80,687**

The Group has provided a loan to ČESKÁ RAFINÉRSKÁ, a.s. for reconstruction of the production unit. Part of this loan was eliminated as an intergroup transaction. The loan is due in 2016 and bears interest at 1M PRIBOR increased by mark up. The loan as at 31 December 2012 amounted to CZK 39,478 thousand (31 December 2011: CZK 54,763 thousand). The short term part of the loan of CZK 15,279 thousand is presented under current receivables. The management considers that the carrying amount of receivables approximates their fair value.
The Group had equity investments of CZK 522 thousand as at 31 December 2012 (31 December 2011: CZK 522 thousand) which represent ownership interests in companies that do not have a quoted market price and whose fair value cannot be reliably measured and therefore are carried at acquisition cost less any impairment losses.

14. DISPOSAL GROUP HELD FOR SALE

Following the intention of UNIPETROL, a.s.'s management to sell 100% shares in PARAMO, a.s. and PARAMO, a.s.'s 100% shareholding in MOGUL SLOVAKIA s.r.o and 100% shareholding in Paramo Oil s.r.o, the Group presented as at 31 December 2012 a disposal group held for sale comprising assets and liabilities of PARAMO, a.s and its subsidiary MOGUL SLOVAKIA s.r.o

Efforts to sell the disposal group have commenced and completion of the sale is expected in 2013. An impairment charge of CZK 315,848 thousand was established to assets held for sale and the carrying amount of the disposal group was decreased to its best estimated fair value available to UNIPETROL, a.s. management and estimated expenses to be incurred to complete the sale.

The impairment charge is included in "other expenses" in the statement of profit or loss and other comprehensive income.

Cumulative income or expense included in other comprehensive income

There are no cumulative expenses or income included in other comprehensive income related to the disposal group.

The disposal group held for sale is presented in the refinery segment.

As at 31 December 2012, the disposal group comprised the following assets and liabilities:

Assets of disposal group held for sale	31/12/2012
Property, plant and equipment	33,405
Investment property	39,624
Intangible assets	44,455
Other investments	230
Non-current receivables	490
Deferred tax assets	1,518
Inventories	675,407
Trade receivables	360,403
Prepayments and other current assets	1,266
Cash and cash equivalents	16,275
Impairment of assets held for sale	(315,848)
Assets of disposal group held for sale	**857,225**

Liabilities of disposal group held for sale	31/12/2012
Provisions	17,668
Deferred tax liability	118
Trade payables and accruals	661,097
Deferred income	342
Liabilities of disposal group held for sale	**679,225**

Year ended 31 December 2012 (in thousands of CZK)

15. INVENTORIES

	31/12/2012	31/12/2011
Raw materials	3,474,657	4,076,913
Work in progress	1,372,480	1,642,812
Finished goods	3,421,488	4,065,846
Merchandise	438,269	442,970
Spare parts	1,186,521	1,380,922
Net inventories	**9,893,415**	**11,609,463**
Net realizable value allowance	457,943	573,680
Gross inventories	**10,351,358**	**12,183,143**

Movement in the net realizable value allowance

	31/12/2012	31/12/2011
Balance at beginning of the year	**573,680**	**347,590**
Increases	659,364	366,702
Utilization	(212,763)	(32,150)
Release	(514,195)	(111,870)
Change in Group structure	--	3,408
Transfer to assets held for sale	(48,143)	
Balance at end of the year	**457,943**	**573,680**

Changes in the net realizable value allowances for inventories amount to CZK 145,169 thousand and are included in cost of sales (CZK 254,832 thousand in 2011) presented in note 5.

16. TRADE AND OTHER RECEIVABLES

	31/12/2012	31/12/2011
Financial assets		
Trade receivable	10,224,514	10,040,987
Other	123,287	349,969
Total financial assets	**10,347,801**	**10,390,956**
Non-financial assets		
Excise tax receivable	193,093	211,852
Taxation, duty, and social security receivable	33,703	25,367
Total non-financial assets	**226,796**	**237,219**
Net trade and other receivables	**10,574,597**	**10,628,175**
Impairment losses	440,490	860,787
Gross trade and other receivables	**11,015,087**	**11,488,962**

Trade receivables result primarily from sales of finished goods and sales of merchandise. The management considers that the carrying amount of trade receivables approximates their fair value. The average credit period on sales of goods is 31 days. No interest is charged on the trade receivables for the first 5 days after the due date. Thereafter, interest is based on terms agreed in the selling contracts.

The Group exposure to credit and currency risk related to trade and other receivables is disclosed in note 28 and detailed information about receivables from related parties is presented in note 32.

Year ended 31 December 2012 (in thousands of CZK)

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the impairment loss allowance

	31/12/2012	31/12/2011
Balance at beginning of the year	**860,787**	**925,095**
Increases	49,592	27,758
Utilization	(242,952)	(99,898)
Release	(24,164)	(39,998)
Change in Group structure	--	48,915
Transfer to assets held for sale	(207,601)	--
F/X differences	4,828	(1,085)
Balance at end of the year	**440,490**	**860,787**

The Group sets impairment charges based on analysis of customers' creditworthiness and ageing of receivables. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management considers that there is no further credit risk allowance required in excess of the allowance for impairment charges.

Increases and reversals of impairment allowances in respect of principal amount of trade and other receivables are included in other operating expense or income and in respect of interest for delayed payments in financial expense or income.

17. OTHER SHORT-TERM FINANCIAL ASSETS

	31/12/2012	31/12/2011
Loans granted	8,337	33,289
Derivatives not designed as hedge accounting		
commodity swaps	--	57,906
currency swaps	--	19,929
currency forwards	5,626	156,403
Cash flow hedge instruments		
currency forwards	18,738	120,998
Total	**32,701**	**388,525**

Loans

The Group provided short-term loans to related entities and to operators of fuel stations. The carrying amount of the loans amounted CZK 8,337 thousand as at 31 December 2012 (31 December 2011: CZK 33,289 thousand). The interest rates are variable and are based on appropriate inter-bank rates and the fair value of the loans approximated its carrying amount as at 31 December 2012. Information regarding cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 28.

18. CASH AND CASH EQUIVALENTS

	31/12/2012	31/12/2011
Cash in hand and at bank	3,058,211	1,994,087
Short-term bank deposits	--	476,468
Total cash and cash equivalents	**3,058,211**	**2,470,555**

Short-term bank deposits comprise deposits with maturity of three months or less and obligatory deposits relating to the bank loans. The carrying amount of these assets approximates their fair value.

19. SHARE CAPITAL

The issued capital of the parent company as at 31 December 2012 amounted to CZK 18,133,476 thousand (2011: CZK 18,133,476 thousand). This represents 181,334,764 (2011: 181,334,764) bearer ordinary shares, each with a nominal value of CZK 100. All issued shares have been fully paid and bear equal voting rights. The Company's shares are listed on the Prague stock exchange.

20. STATUTORY RESERVES

In accordance with the Czech Commercial Code, joint stock companies are required to establish a reserve fund for possible future losses and other events. Contributions must be a minimum of 20% of the profit for the period in the first year in which profits are generated and 5% of profit each year thereafter until the fund reaches at least 20% of the issued capital. The balance of the Statutory reserve fund as at 31 December 2012 amounted to CZK 2,584,286 thousand (31 December 2011: CZK 2,554,809 thousand).

Year ended 31 December 2012 (in thousands of CZK)

21. OTHER RESERVES

Hedging reserve

The amount of the hedging reserve of CZK (16,510) thousand as at 31 December 2012 resulted from the valuation of derivatives meeting the requirements of cash flow hedge accounting (31 December 2011: CZK (93,715) thousand).

Fair value reserve

The fair value reserve relates to the changes in the fair value of the investment property, netted off by deferred tax. The balance of this reserve as at 31 December 2012 amounted to CZK 68,023 thousand (31 December 2011: CZK 52,203 thousand).

Translation reserve

The translation reserve is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into functional and presentation currency of the Group. The balance of this reserve as at 31 December 2012 amounted to CZK (9,644) thousand (31 December 2011: CZK (4,880) thousand).

22. RETAINED EARNINGS AND DIVIDENDS

Dividends

In accordance with appropriate Czech law, dividends can be paid from the unconsolidated profit of the parent company. The Ordinary General Meeting of UNIPETROL, a.s. held on 5 June 2012 decided on the appropriation of the loss for the year 2011 amounting to CZK 229,925 thousand. In accordance with Article 26 (1) of the Company's Articles of Association the loss was settled with retained earnings.
The decision regarding appropriation of the 2012 profit will be made on the annual general meeting of shareholders, which will be held in May / June 2013.

23. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest – bearing loans and borrowings, which are measured at amortized cost.

	31/12/2012	31/12/2011
Non-current loans and borrowings		
Unsecured bonds issued	--	2,000,000
Finance lease liability	2,261	5,374
Total non-current loans and borrowings	**2,261**	**2,005,374**
Current loans and borrowings		
Current portion of unsecured bonds issued	2,034,582	68,655
Unsecured bank loans	621,354	825,455
Liabilities from cash pool	177,249	88,600
Current portion of finance lease	3,163	8,795
Total current loans and borrowings	**2,836,348**	**991,505**

Unsecured bonds issued

In 1998 the Company issued 2,000 bonds at a total nominal value of CZK 2,000,000 thousand. The nominal value of bonds matures in 2013 at their nominal value of CZK 2,000,000 thousand. The interest rate is 0 % p.a. for the first two years and 12.53 % p.a. in subsequent years. The effective interest rate is 9.82 %. Interest is payable on an annual basis. Interest expense is accrued using the effective interest rate method. The aggregate carrying amount of bonds issued is CZK 2,034,582 thousand (31 December 2011: CZK 2,068,655 thousand). Using the actual market interest rate, based on the analysis of the current market conditions, the fair value of the aggregate liability arising from the bonds is estimated at CZK 2,213,255 thousand as at 31 December 2012 (31 December 2011: CZK 2,358,684 thousand). Accrued interest and nominal value, which will be repaid within 12 months from 31 December 2012, is presented within current loans and borrowings.

Secured bank loans

In 2011 the Group repaid the bank loan secured over property, plant and equipment.

Year ended 31 December 2012 (in thousands of CZK)

23. LOANS AND BORROWINGS (CONTINUED)

Analyses of bank loans

	USD	EUR	CZK	Other currencies	Total
Balance as at 1 January 2011	**36,327**	**31,366**	**31,072**	**--**	**98,765**
Loans drawn	1,647	250,535	6,644,423	--	**6,896,605**
Repayment	(36,327)	(281,176)	(5,852,855)	--	**(6,170,358)**
Changes in accrued interest	8	63	1,029	--	**1,100**
FX differences	--	(657)	--	--	**(657)**
Balance as at 31 December 2011	**1,655**	**131**	**823,669**	**--**	**825,455**
Loans drawn	462	19,459	595,884	11,970	**627,775**
Repayment	(1,647)	(223)	(822,616)	(4,718)	**(829,204)**
Changes in accrued interest	(1)	(129)	(230)	(5)	**(365)**
FX differences	--	(2,289)	--	(22)	**(2,311)**
Balance as at 31 December 2012	**469**	**16,949**	**596,707**	**7,225**	**621,354**

Short-term bank loans are subject to variable interests and their carrying amounts approximate fair values. Average effective interest rate as at 31 December 2012 was 1.17% (31 December 2011: 1.35%).

Finance lease liabilities

	Future minimum lease payments		Present value of minimum lease payments	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Less than one year	3,408	9,419	3,163	8,795
Between one and five years	2,409	5,825	2,261	5,374

The difference between total value of future minimum lease payments and their present value results from discounting of lease payments by the interest rate implicit in the agreement.

All leases are on a fixed repayment basis and no arrangements for contingent rental payments exist. The fair value of the Group's lease obligations approximates their carrying amount. All lease obligations are denominated in Czech crowns. The net carrying amount of leased assets as at 31 December 2012 and 31 December 2011 is disclosed in note 10.

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 28 and are presented jointly with other financial instruments.

24. PROVISIONS

Long – term provision	Provisions for environmental damages and land restoration	Provisions for legal disputes	Employee benefits provision	Provision on CO2 allowances	Other provisions	Total
Balance at 31/12/2011	**319,050**	**8,883**	**28,432**	**--**	**7,026**	**363,391**
Recognition	3,500	--	3,180	--	--	**6,680**
Reclassification	--	206	--	--	--	**206**
Discounting	11,241	--	--	--	--	**11,241**
Utilization of provision	(368)	--	--	--	--	**(368)**
Release of provision	(455)	(754)	(6,537)	--	--	**(7,746)**
Transfer to assets held for sale	--	--	(909)	--	--	**(909)**
F/X differences	--	--	--	--	--	**--**
Balance at 31/12/2012	**332,968**	**8,335**	**24,166**	**--**	**7,026**	**372,495**

Short – term provision	Provisions for environmental damages and land restoration	Provisions for legal disputes	Employee benefits provision	Provision on CO2 allowances	Other provisions	Total
Balance at 31/12/2011	**--**	**136,173**	**--**	**977,965**	**59,154**	**1,173,292**
Recognition	--	1,317	--	496,584	17,743	**515,644**
Reclassification	--	(206)	--	--	--	**(206)**
Discounting	--	--	--	--	--	**--**
Utilization of provision	--	--	--	(978,548)	(38,688)	**(1,017,236)**
Release of provision	--	(131,121)	--	(67)	(15,378)	**(146,566)**
Transfer to assets held for sale	--	--	--	(16,760)	--	**(16,760)**
F/X differences	--	--	--	--	293	**293**
Balance at 31/12/2012	**--**	**6,163**	**--**	**479,174**	**23,124**	**508,461**

The provision for land restoration is created as a result of the legal obligation to restore the fly-ash dump after it is discontinued, which is expected to happen after 2043. The provision amounted to CZK 320,944 thousand as at 31 December 2012 (31 December 2011: CZK 310,071 thousand). Under provisions for environmental damages there is a provision for compensation of damage to Lesy Česká republika in amount CZK 10,500 thousand included as at 31 December 2012 (31 December 2011: CZK 7,455 thousand).

Year ended 31 December 2012 (in thousands of CZK)

24 PROVISION (CONTINUED)

The provision for legal disputes is created for expected future outflows arising from legal disputes with third parties where the Group is the defendant. As at 31 December 2011 under provisions for legal disputes the Group had provision for a penalty imposed by the Antimonopoly Office for a breach of the Economic Competition Protection Act in the amount of CZK 131,021 thousand, out of which CZK 98,000 thousand was the nominal amount and CZK 33,021 thousand accrued interests. This provision was released in 2012. As at 31 December 2012 the Group presented the legal provision related to dispute with Aversen Enterprises Limited in amount of CZK 6,000 thousand (31 December 2011: CZK 6,000 thousand).

Provisions for other liabilities of the Group amounted to CZK 30,150 thousand as at 31 December 2012, out of which CZK 5,493 thousand related to provision for dismantling costs connected with liquidation of unused assets (31 December 2011: CZK 12,916 thousand). In 2012 the Group created provision for liquidation of the urea production unit in amount of CZK 11,878 thousand.

A provision connected with shutdown of the heating plant T200 created in 2011 in amount of CZK 18,000 thousand was partially utilized during 2012 and the remaining part released. The provision created for severance payments in amount of CZK 22,977 thousand in 2011, was fully utilized in 2012 and additional provision in amount of CZK 3,431 thousand was created.

A provision for CO2 emissions is created for estimated CO2 emissions in the reporting period.

Provision for jubilee bonuses and retirement benefits

The companies of the Group realize the program of paying out retirement benefits and jubilee bonuses in line with remuneration policies in force. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid as one-time payments at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service. The base for the calculation of provision for an employee is expected benefit which the Group is obliged to pay in accordance with internal regulation.

The present value of these obligations is estimated at the end of each reporting year and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation.

Employment benefit provisions for retirement and anniversary benefits received by employees were created using discount rate 2.86% p.a. in 2012 (2011: 3.74%), assumptions used were based on Collective agreement.

Should the prior year's assumptions be used, the provision for the jubilee bonuses and post-employment benefits would be lower by CZK 1,824 thousand.

Employee benefit obligations

	Jubilee payments provision	Retirement provision
Balance as at 1 January 2012	**2,935**	**25,497**
Actuarial gains	(2,203)	(1,154)
Transfer to assets held for sale	--	(909)
Balance as at 31 December 2012	**732**	**23,434**

	Jubilee payments provision	Retirement provision
Balance as at 1 January 2011	**2,226**	**27,823**
The costs of current employment	740	153
Actuarial gains	(31)	(2,479)
Other	--	--
Balance as at 31 December 2011	**2,935**	**25,497**

Change in employee benefits obligation recognized in the Statement of profit or loss and other comprehensive income

	2012	2011
The costs of current employment	--	(893)
Actuarial gains	3,357	2,510
Total	**3,357**	**1,617**
Cost of sales	506	1,210
Distribution expenses	(34)	117
Administrative expenses	2,885	290
Total	**3,357**	**1,617**

Year ended 31 December 2012 (in thousands of CZK)

25. OTHER NON-CURRENT LIABILITIES

	31/12/2012	31/12/2011
Financial liabilities		
Liabilities from purchase of assets	1,283	1,548
Other liabilities	8,125	11,270
Total financial liabilities	**9,408**	**12,818**
Non-financial liabilities		
Cash advance from business partners	174,707	89,955
Total non-financial liabilities	**174,707**	**89,955**
Total	**184,115**	**102,773**

26. TRADE AND OTHER PAYBLES AND ACCRUALS

	31/12/2012	31/12/2011
Financial liabilities		
Trade payables	11,168,761	11,976,311
Liabilities due to acquisition of property, plant and equipment	308,811	428,462
Dividends liabilities	35,140	27,897
Other financial liabilities	35,325	38,741
Total financial liabilities	**11,548,037**	**12,471,411**
Non-financial liabilities		
Excise tax liabilities	3,059,201	3,778,984
Value added tax liability	757,587	788,962
Other taxation, duty and social security liabilities	87,065	97,052
Wages and salaries liabilities	364,042	413,488
Prepayments	15,734	241,786
Deferred income	96,684	12
Other non-financial liabilities	276	--
Total non-financial liabilities	**4,380,589**	**5,320,284**
Total	**15,928,626**	**17,791,695**

The management considers that the carrying amount of trade and other payables and accruals approximate their fair value.

27. OTHER SHORT TERM FINANCIAL LIABILITIES

	31/12/2012	31/12/2011
Cash flow hedge instruments		
currency forwards	39,118	236,692
Derivatives not designed for hedge accounting		
commodity swaps	45,000	--
currency forwards	64,130	63,180
Total	**148,248**	**299,872**

Year ended 31 December 2012 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS

Accounting classification and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

31/12/2012	Note	Designated at fair value	Loans and receivables	Available for sale	Hedging financial instruments	Total carrying amount	Fair value
Other non-current assets	13	--	51,794	522	--	52,316	52,316
Trade and other receivables	16	--	10,347,801	--	--	10,347,801	10,347,801
Other short - term financial assets	17	5,626	8,337	--	18,739	32,702	32,702
Cash and cash equivalents	18	--	3,058,211	--	--	3,058,211	3,058,211
Total of financial assets		**5,626**	**13,466,143**	**522**	**18,739**	**13,491,030**	

31/12/2012	Note	Designated at fair value	Valued at amortized cost	Hedging financial instruments	Total carrying amount	Fair value
Loans and borrowings	23	--	2,838,608	--	2,838,608	2,999,843
Other non-current liabilities	25	--	9,408	--	9,408	9,408
Trade and other payables and accruals	26	--	11,548,037	--	11,548,037	11,548,037
Other short-term financial liabilities	27	109,130	--	39,118	148,248	148,248
Total of financial liabilities		**109,130**	**14,396,053**	**39,118**	**14,544,301**	

31/12/2011	Note	Designated at fair value	Loans and receivables	Available for sale	Hedging financial instruments	Total carrying amount	Fair value
Other non-current assets	13	--	72,340	522	--	72,862	72,862
Trade and other receivables	16	--	10,390,956	--	--	10,390,956	10,390,956
Other short - term financial assets	17	234,238	33,289	--	120,998	388,525	388,525
Cash and cash equivalents	18	--	2,470,555	--	--	2,470,555	2,470,555
Total of financial assets		**234,238**	**12,967,140**	**522**	**120,998**	**13,322,898**	

31/12/2011	Note	Designated at fair value	Valued at amortized cost	Hedging financial instruments	Total carrying amount	Fair value
Loans and borrowings	23	--	2,996,879	--	2,908,279	3,286,907
Other non-current liabilities	25	--	12,817	--	12,817	12,817
Trade and other payables and accruals	26	--	12,471,411	--	12,471,411	12,471,411
Other short-term financial liabilities	27	63,180	--	236,692	299,872	299,872
Total of financial liabilities		**63,180**	**15,481,107**	**236,692**	**15,780,979**	

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2012 and 31 December 2011 the Group held unquoted shares in entities amounting to CZK 522 thousand, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments. Above mentioned shares were recognized as financial assets available for sale and measured at acquisition cost less impairment allowances. As at 31 December 2012 there are no binding decisions relating to the means and dates of disposal of those assets.

Fair value hierarchy

The derivative financial and hedge instruments held by the Group are carried at fair value under other short-term financial assets and other short-term financial liabilities respectively. The fair value of these financial instruments was determined based on market observable data, excluding quoted prices. Financial instruments carried at fair value by the Group belong to Level 2 as defined by IFRS.

The fair value of financial instruments, other than derivative instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instrument. The fair value of derivative instruments is calculated based on quoted prices. Where such prices are not available, the fair value is calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives.

Year ended 31 December 2012 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

Gains/(Losses) due to financial instruments recognized in financial income and costs by category

	2012 Net gain / (loss)	2011 Net gain / (loss)
Financial assets and liabilities at fair value through profit or loss	(32,535)	54,062
Loans and receivables	(296,120)	46,843
Financial assets available for sale	--	(4,964)
Financial assets measured at amortized cost	(291,785)	(659,867)
Liabilities excluded from MSR 39	(664)	(1,155)
Other	(53,018)	(9,230)
Total	**(674,122)**	**(574,311)**

Loans and receivables

The management considers that the carrying amount of loans and receivables approximates their fair value.

Financial liabilities valued at amortized cost

The management considers that the carrying amount of financial liabilities valued at amortized cost approximates their fair value.

Financial assets designated at fair value

Transactions with derivative financial instruments are subject to risk management procedures. It is the Group policy to mitigate this risk by entering into various hedging arrangements. The Group analyses the risk arising from discrepancies in the pricing formulas in purchases of crude oil and sales of products and reduces it by entering into commodity swaps.

The Group is exposed to commodity price risk resulting from the adverse changes in raw material, mainly crude oil prices. Management addresses these procurement risks by means of a commodity and supplier risk management.

The Group monitors the emission allowances granted to the Group under the National Allocation Plan and CO_2 emissions planned. The Group might enter into transactions on emission allowances market in order to cover shortages or utilize the excess of obtained emission allowances over the required amount.

Financial instruments used for hedging

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/CZK for sale and USD/CZK for purchases and sale). Foreign exchange forwards are used as hedging instruments.
The Group has derivative financial instruments, which serve as a hedging instrument pursuant to the Group's risk management strategy. Changes in the fair value of derivatives that do not meet the hedge accounting criteria are included in derivatives held for trading and their fair value changes are reported in the Statement of profit or loss and other comprehensive income.

The fair value of derivative instruments are designated as hedging instruments according to the cash flow hedge accounting planned realization date and the planned date of the influence on the result of the hedged cash flow as well as the net fair value which will be recognized in the profit or loss at the realization date:

Planned realization date of hedged cash flows	31/12/2012	31/12/2011
Currency operating exposure		
2012	--	(115,695)
2013	(20,380)	--
Total	**(20,380)**	**(115,695)**

In 2012 as a result of settlement of hedge instruments the amount of CZK 143,453 thousand (2011: CZK 94,630 thousand) was recognized as foreign exchange losses.

Capital structure management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents (note 18) and equity attributable to equity holders of the parent, comprising shared capital and retained earnings as disclosed in notes 19 and 22 respectively.

The net debt to equity ratio at the year end was as follows:

	31/12/2012	31/12/2011
Debt (i)	2,838,608	2,996,878
Cash and cash equivalents	(3,058,211)	(2,470,555)
Net debt	**(219,603)**	**526,323**
Equity (ii)	29,528,493	32,854,118
Net debt to equity ratio	**(0.74)**	**1.60**

(i) Debt is defined as long- and short-term borrowings
(ii) Equity included all capital and reserves of the Group

Year ended 31 December 2012 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

Risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the risks outlined below relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other market price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using natural hedging and derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on currency risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess funds. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Statement of financial position are net of impairment losses, estimated by the Group's management based on prior experience and their assessment of the credit status of its customers.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.
Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management. Before accepting any new customer, the Group uses own or external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. As at 31 December 2012 none of the customers represented more than 5 % of the total balance of consolidated trade receivables.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and, where appropriate, credit guarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Based on the analysis of loans and receivables the counterparties were divided into two groups:
- I group – counterparties with good or very good history of cooperation in the current year,
- II group – other counterparties

Non-past due loans and receivables	31/12/2012	31/12/2011
Group I	12,456,017	12,275,667
Group II	--	8,920
Total non-past due loans and trade receivables	**12,456,017**	**12,284,587**

Aging of loans and receivables at 31 December 2012:

Past due, non impaired	31/12/2012	31/12/2011
Up to 1 month	895,179	629,978
1-3 months	19,586	14,324
3-6 months	286	6,386
6-12 months	2,582	11,435
Above 12 months	92,494	20,430
Past due, non impaired loans and receivables	**1,010,126**	**682,553**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is presented under table Accounting classification and fair values.

Year ended 31 December 2012 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was as follows:

	31/12/2012		31/12/2011	
	Secured	Unsecured	Secured	Unsecured
Czech Republic	3,137,697	7,541,936	3,538,172	6,439,422
European Union	1,314,425	1,348,161	1,490,946	1,379,203
Other	90,787	33,138	51,149	68,248
Total	**4,542,908**	**8,923,235**	**5,080,267**	**7,886,873**

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate liquid funds, borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at 31 December 2012 and 31 December 2011 the maximum available credit facilities relating to bank loans amounted to CZK 10,935,000 thousand and CZK 9,235,000 thousand respectively, of which as at 31 December 2012 and 31 December 2011 CZK 10,313,649 thousand and CZK 8,409,545 thousand respectively remained unused.

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Contractual maturity of non-derivative financial liabilities

	Carrying amount	Less then 6 months	6 months - 1 year	1-5 years	Contractual cash flows
31/12/2012					
Loans and borrowings	2,838,608	801,765	2,034,582	2,261	2,838,608
Other non-current liabilities	9,408	--	--	9,408	9,408
Trade and other payables and accruals	11,548,037	11,548,037	--	--	11,548,037
Total	**14,396,053**	**12,349,802**	**2,034,582**	**11,669**	**14,396,053**
31/12/2011					
Loans and borrowings	2,996,879	922,850	68,655	2,005,374	2,996,879
Other non-current liabilities	12,817	--	--	12,817	12,817
Trade and other payables and accruals	12,471,411	12,471,411	--	--	12,471,411
Total	**15,481,107**	**13,394,261**	**68,655**	**2,018,191**	**15,481,107**

Liquidity analysis of derivative financial instruments

The following tables indicate the periods in which the cash flows associated with derivatives are expected to occur.

	Carrying amount	Expected cash flows	Less then 6 months	6 months - 1 year
31/12/2012				
Cash flow hedge instruments - currency forwards	39,119	39,119	9,881	29,238
Commodity swaps	45,000	45,000	--	45,000
Currency forwards	64,130	64,130	--	64,130
Total	**148,249**	**148,249**	**9,881**	**138,368**
31/12/2011				
Cash flow hedge instruments - currency forwards	236,693	236,693	181,667	55,026
Commodity swaps	52,375	52,375	52,375	--
Currency forwards	10,805	10,805	10,805	--
Total	**299,873**	**299,873**	**244,847**	**55,026**

Year ended 31 December 2012 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

The Group's activities are exposed primarily to the risks of changes in foreign currency exchange rates, commodity prices and interest rates. The Group enters into financial derivative contracts to manage its exposure to interest rate and currency risk.

Currency risk management

The currency risk arises most significantly from the exposure of trade payables and receivables denominated in foreign currencies, and the foreign currency denominated loans and borrowings. Foreign exchange risk regarding trade payables and receivables is mostly covered by natural hedging of trade payables and receivables denominated in the same currencies. Hedging instruments (forwards, currency swaps) are also used, to cover significant foreign exchange risk exposure of trade payables and receivables not covered by natural hedging.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

31/12/2012	CZK	EUR	USD	Other currencies	Total
Other non-current assets	52,316	--	--	--	52,316
Trade and other receivables	6,049,690	4,138,378	159,732	1	10,347,801
Other non derivative short - term financial assets	7,488	848	--	--	8,337
Cash and cash equivalents	2,756,192	260,851	12,404	28,764	3,058,211
Trade and other payables and accruals	(4,556,414)	(900,323)	(6,085,913)	(5,387)	(11,548,037)
Loans and borrowings	(2,812,255)	(16,998)	(2,130)	(7,226)	(2,836,608)
Other non-current liabilities	(9,408)	--	--	--	(9,408)
Gross exposure	**1,487,610**	**3,482,756**	**(5,915,907)**	**16,151**	**(929,389)**
Derivatives (settlement between 1 January and 16 December 2013)		(9,253,848)	5,941,349		
Net exposure		**(5,771,092)**	**25,442**		

31/12/2011	CZK	EUR	USD	Other currencies	Total
Other non-current assets	72,862	--	--	--	72,862
Trade and other receivables	6,549,962	3,664,880	175,201	913	10,390,956
Loans granted	6,869	26,420	--	--	33,289
Cash and cash equivalents	2,232,361	213,349	16,443	8,402	2,470,555
Trade and other payables and accruals	(4,053,623)	(826,277)	(7,587,612)	(3,899)	(12,471,411)
Non-current loans and borrowings	(2,995,008)	(192)	(1,678)	--	(2,996,878)
Other non-current liabilities	(12,817)	--	--	--	(12,817)
Gross exposure	**1,800,606**	**3,078,179**	**(7,397,646)**	**5,416**	**(2,513,444)**
Derivatives		(7,066,468)	5,800,745		
Net exposure		**(3,988,289)**	**(1,596,901)**		

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	**2011**	**2012**	**2011**
CZK/EUR	24.143	24.586	25.800	25.800
CZK/USD	19.583	17.688	19.072	19.940

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuation of exchange rates of CZK/USD and CZK/EUR.

The following table details the Group's sensitivity to percentage increase and decrease in the CZK against the relevant foreign currencies. The following sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates were as follows:

For year 2012	for year 2011
USD +/- 7.92 %	USD +/- 12.93 %
EUR +/- 3.21 %	EUR +/- 5.53 %

Year ended 31 December 2012 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

The rates present the highest / lowest differences between average and actual FX rate during the appropriate year. The sensitivity analysis was performed on the net exposure of financial assets and liabilities. A positive number below indicates an increase in profit and equity where the CZK appreciates by 7.92% and 3.21% against the relevant currency. For depreciation of the CZK against the relevant currency by the same parameters, there would be an equal and opposite impact on the profit and equity.

	CZK/USD Impact		CZK/EUR Impact	
	2012	2011	2012	2011
Profit or loss / equity	44,364	5,551	150,566	47,974
Other comprehensive income	2	15,394	185	12,979

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite. Optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Group's exposures to interest rate risk on financial liabilities are detailed in note 24.

Interest rate risk profile

The interest rate profile of the Group's interest bearing financial instrument at 31 December 2012 was as follows:

	31/12/2012	31/12/2011
Variable rate instruments		
Financial assets	8,337	33,289
Financial liabilities	(626,778)	(839,624)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate assets and liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would decrease/increase by CZK 3,092 thousand (2011: decrease/increase by CZK 4,032 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current period mainly due to repayments of loans. Detailed information is included in note 23.

Market price risks

The Group is exposed to commodity price risk resulting from the adverse changes in raw material, mainly crude oil prices. Management addresses these risks by means of a commodity, supplier and client risk management. The Group analyses the exposure and enters to a minor extent into derivative commodity instruments to minimize the risk associated with the purchase of crude oil.

Sensitivity analysis for risk of changes in crude oil prices

The influence of financial derivatives valuation due to changes in crude oil prices for the year 2012:
- if the price was higher/lower by 5 USD/BBL – net financial cost for the year 2012 would decrease/increase by CZK 126,972 thousand.

The variations of oil prices described above were calculated based on historical volatility of crude oil prices for 2012 and available analysts' forecasts. The sensitivity analysis was performed on the basis of instruments held as at 31 December 2012. The influence of crude oil prices variations on fair value was examined at a constant level of currency rates. The volume of outstanding hedging instruments for crude oil deliveries as at 31 December 2012 was 1,332 kbbls. As at 31 December 2011 the Group had financial instruments hedging the risk of changes in commodity prices with a volume of 1,765 kbbls.

Emission allowances risk

The Group monitors the emission allowances granted to the Group under the National Allocation Plan and CO_2 emissions planned. The Group might enter into transactions on emission allowances market in order to cover for shortages or utilize the excess of obtained emission allowances over the required amount.

Year ended 31 December 2012 (in thousands of CZK)

29. OPERATING LEASES

The Group as lessee

Leasing arrangements

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases for the following periods:

Non-cancellable operating lease commitments

	Minimum lease payments	
	31/12/2012	31/12/2011
Not later than one year	50,403	44,411
Later than one year and not later than five years inclusive	192,744	168,113
Later than five years	160,922	219,232
Total	**404,069**	**431,756**

The Group leases vehicles and offices under operating leases. The vehicle leases typically run for a two year period. Lease payments are increased annually to reflect market conditions. None of the leases includes contingent rentals.

Payments recognized as an expense were as follows:

	2012	2011
Non-cancellable operating lease	63,767	61,659
Cancellable operating lease	89,651	110,668
Total	**153,418**	**172,327**

30. COMMITMENTS AND CONTINGENCIES

Contingent liabilities and commitments related to the sale of shares in KAUČUK, a.s. (currently SYNTHOS Kralupy a.s.)

On 30 January 2007, UNIPETROL, a.s., as seller, and FIRMA CHEMICZNA DWORY S.A., with its registered office at ul. Chemików 1, 32-600 Oświęcim, Poland, KRS No.: 38981 (“Dwory”), as purchaser, executed the Share Purchase Agreement (the “Share Purchase Agreement”) on sale of 100% shares of SYNTHOS Kralupy a.s., with its registered office at Kralupy nad Vltavou, O. Wichterleho 810, District Mělník, Postal Code: 278 52, Czech Republic, Id. No: 25053272.

Determination of Liability for the Impacts of the Operation of SYNTHOS Kralupy a.s. on the Environment

The environmental audit of plots of land owned by UNIPETROL, a.s. and used by SYNTHOS Kralupy a.s. was performed for the purpose of determining the liability of contractual parties arising from the existing or future impacts of SYNTHOS Kralupy a.s.´s operation on the environment.

The Share Purchase Agreement provides that liability for the environmental conditions originating prior to the closing of the transaction lies with UNIPETROL, a.s. and liability for the environmental conditions originating after the closing of the transaction lies with Dwory. Liability of the contractual parties for the environmental conditions is limited up to 10 % of the purchase price paid by Dwory for the shares in SYNTHOS Kralupy a.s. and the claim notice period available to Dwory was 5 years from closing of the transaction.

The Company's management, based on available information and current knowledge of the situation, does not expect any additional expense / payment related to the described issue.

Execution of an Agreement on Pre-emptive Right to Plots of Land Owned by UNIPETROL, a.s. and Used by SYNTHOS Kralupy a.s. for Its Operations

On 10 July 2007, UNIPETROL, a.s. and SYNTHOS Kralupy a.s. executed the agreement pursuant to which UNIPETROL, a.s. undertook to create in favour of SYNTHOS Kralupy a.s. the pre-emptive right and other rights to certain plots of land owned by UNIPETROL, a.s. in an industrial area in Kralupy nad Vltavou which are used by SYNTHOS Kralupy a.s. for its operations.

The share purchase agreement anticipates that the sale of the subject plots of land will be realized after satisfaction of all administrative, operational and legal conditions necessary for a split of parts of industrial area in Kralupy nad Vltavou.

Apart from the foregoing, the sale of shares of SYNTHOS Kralupy a.s. owned by UNIPETROL, a.s. to Dwory was based on the following major principles, among others:

- uninterrupted operation of the present butadiene unit;
- contractual satisfaction of supplies of energies, steam, water and other services within the industrial area in Kralupy nad Vltavou which are at present provided by SYNTHOS Kralupy a.s. to ČESKÁ RAFINÉRSKÁ, a.s.; and
- continuation of all important agreements with the companies of Unipetrol Group and further operation of the energy unit.

The Company's management, based on available information and current knowledge of the situation, does not expect any additional expense / payment related to the described issue.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingent liabilities related to the sale of shares in SPOLANA a.s.

The purchase price, in accordance with the share purchase agreement entered into in 2006 between UNIPETROL, a.s., and Zakłady Azotowe ANWIL Spółka Akcyjna (further Anwil), may be subject to price adjustments which would result mainly on the occurrence of any of the following events:

- Environmental guarantees provided by the National Property Fund of the Czech Republic will not be sufficient for compensation of costs for the environmental damage remediation of the Old Amalgam Electrolysis project.
  In this case UNIPETROL, a.s. will be obligated to financially indemnify Anwil up to 40 % of the purchase price provided that all necessary steps will have been taken by Anwil and SPOLANA a.s. without success for obtaining additional funds for this purpose.
- Other potential obstacles in the future operation of SPOLANA a.s. In this case UNIPETROL, a.s. will be obligated to financially indemnify Anwil up to 1-3 % of the purchase price.

The Company's management, based on available information and current knowledge of the situation, does not expect any additional expense / payment related to the described issue.

Purchase of shares of PARAMO, a.s.

In January 2009 UNIPETROL, a.s. effected a squeeze out of PARAMO, a.s. shares within the meaning of Sections 183i et seq. of the Commercial Code and became sole shareholder of PARAMO, a.s.

In accordance with the resolutions of the Extraordinary General Meeting of PARAMO, a.s. of 6 January 2009, all other shares in PARAMO, a.s were transferred to the Company and the Company provided to the other shareholders of PARAMO, a.s. and/or pledges, the monetary consideration of CZK 977 per share of PARAMO, a.s. On 4 February 2009 the registration of the above resolution of the Extraordinary General Meeting was published in the Czech Commercial Register. Pursuant to the Czech Commercial Code, the ownership title to shares of the other shareholders passed to the Company on 4 March 2009 upon expiration of one month from the above publication and UNIPETROL, a.s. became the sole shareholder of PARAMO, a.s.

In connection with the squeeze-out, certain minority shareholders of PARAMO, a.s. filed a petition with the Regional Court in Hradec Králové for a review of the adequacy of compensation within the meaning of the Czech Commercial Code. The case is now pending at the Regional Court in Hradec Kralové.

Furthermore some former minority shareholders of PARAMO, a.s. requested the Regional Court in Hradec Králové to declare the invalidity of PARAMO, a.s. general meeting resolution dated 6 January 2009 and the District Court in Prague 4 to review the decision of 28 November 2008 by which the Czech National Bank granted in accordance with Section 183n(1) of the Czech Commercial Code its previous approval with the monetary consideration provided under the above squeeze-out. Regarding the case for declaration of invalidity of the PARAMO, a.s., the Regional Court in Hradec Kralove dismissed the petition for declaration of invalidity of the PARAMO, a.s. general meeting resolution dated 6 January 2009. Certain minority shareholders filed an extraordinary appeal against this decision and the case is now pending before the Supreme Court of the Czech Republic.

In the case of the proceedings concerning the previous approval of the Czech National Bank, the action was dismissed by the District Court for Prague 4 in favor of the Czech National Bank and UNIPETROL, a.s. The proceedings are pending before the Municipal Court in Prague.

With respect to the above described facts regarding determination of the consideration value, the Czech National Bank decision and approval of the Extraordinary General Meeting of PARAMO, a.s., UNIPETROL, a.s. considers that the petition for review of reasonableness of consideration is unfounded.

Claims regarding reward for employees' intellectual work

In the year 2001 the court case commenced regarding the reward for the employees' intellectual work between UNIPETROL RPA, s.r.o. and its two employees. Employees demanded reward of approx. CZK 1.8 million. UNIPETROL RPA, s.r.o. as defendant did not agree and offered the reward amounting to approx. CZK 1.4 million, based on experts' valuations. In 2005 Employees plaintiffs filed the next petition to the court to extend the action to an amount of approx. CZK 82 million. The first instance hearing was held on 18 October 2011. The proceedings are still pending. During the year 2012 there was no development in the case.

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

On 23 May 2012 UNIPETROL RPA, s.r.o., having its registered office at Záluží 1, 436 70, Litvínov, Business ID no.: 27597075,, the subsidiary of UNIPETROL, a.s., received a petition from the District Court Ostrava, file no. 30 C 66/2010.

Claimant – I.P. - 95, s.r.o., having its registered office at Těšínská 202/225, 716 00 Ostrava-Radvanice, Business ID no.: 64085694 is claiming compensation of damages totalling CZK 1,789 million. I.P. – 95, s.r.o. claims that it incurred damages as a result of an unjustified insolvency filing against I.P. – 95, s.r.o. made by UNIPETROL RPA, s.r.o. on 24 November 2009. I.P. – 95, s.r.o. assigned part of the receivable in question of CZK 1,742 million, to NESTARMO TRADING LIMITED, having its registered office at Diagorou 4, Fermia Building, 6th floor, office no. 601, 1097 Nicosia, Cyprus, Company ID no.: HE 246733; following the assignment, I.P. – 95, s.r.o. filed a motion regarding NESTARMO TRADING LIMITED joining the proceedings as a claimant. UNIPETROL RPA, s.r.o. is one of eight respondents against whom the petition was filed.

Year ended 31 December 2012 (in thousands of CZK)

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

UNIPETROL RPA, s.r.o. does not recognize the alleged claim and considers the claim as unjustified and unfounded. UNIPETROL RPA, s.r.o. is taking all legal actions to defend itself against this claim. The case is pending at the Regional Court in Ostrava.

Claims for compensation of damages filed by SDP Logistics sklady a.s against UNIPETROL RPA, s.r.o.

On 9 July 2012 UNIPETROL RPA, s.r.o. received a petition filed by SDP Logistics sklady a.s. for compensation of damages.

UNIPETROL RPA, s.r.o. concluded on 21March 2010 with SDP Logistics sklady a.s. ("SDP") a contract relating to storage ("Contract") for a definite period of time - until 31 July 2011. SDP claims that UNIPETROL RPA, s.r.o. failed to remove all stored products before the contract termination date.

SDP claims CZK 25 million as a contractual penalty payable by SDP as a result of not making the storage space available for a new client. SDP additionally claims CZK 120 million as loss of profit caused by not being able to provide the contracted storage capacity to a new SDP client after 1 August 2011. Furthermore SDP has blocked the goods of UNIPETROL RPA, s.r.o. (stored in the warehouse) until the said damages are covered by UNIPETROL RPA, s.r.o.

UNIPETROL RPA, s.r.o. does not recognize the alleged claim and considers the claim as unjustified and unfounded.

Transportation contracts

The transportation of crude oil supplies through pipelines for the UNIPETROL Group companies is provided by MERO ČR, a.s. and Transpetrol, a.s. As at 31 December 2012 ČESKÁ RAFINÉRSKA, a.s. had concluded a contract for transportation with MERO ČR, a.s. covering the first half of 2013. Since PARAMO, a.s. does not intend to process crude oil in 2013 forward, PARAMO, a.s. did not agree any extension of the contract with MERO ČR, a.s. for 2013 onwards. Negotiations of contract conditions for 2012 and 2013 with Transpetrol, a.s. were ongoing. Transportation of crude oil was provided by Transpetrol, a.s. in 2012 on a regular basis with no disruptions; transportation was based on provisional conditions of the 2011 contract and a provisional invoicing tariff. The Group management does not expect any significant impact on the business activities caused by non-existence of long-term contracts with MERO ČR, a.s. and Transpetrol, a.s. The effect on consolidated financial statements is currently not measurable.

Guarantees

Based on the Group's request the bank guarantees relating to the security of customs debt and excise tax at customs offices were issued. The total balance of guarantees related to excise tax amounted to CZK 1,845,301 thousand as at 31 December 2012 (31 December 2011: CZK 1,413,838 thousand).

Capital Commitments

As at 31 December 2012 the Group had capital commitments for the acquisition of property, plant and equipment of CZK 336,501 thousand (as at 31 December 2011: CZK 228,435 thousand).

31. PAST ENVIRONMENTAL LIABILITIES

The Group is the recipient of funds provided by the National Property Fund of the Czech Republic for settling environmental liabilities relating to historic environmental damage.

An overview of funds provided by the National Property Fund (currently administered by the Ministry of Finance) for the environmental contracts is provided below:

In CZK million	Total amount of funds to be provided	Used funds as at 31/12/2012	Unused funds as at 31/12/2012
UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o.	6,012	3,395	2,617
UNIPETROL, a.s./ premises of SYNTHOS Kralupy, a.s.	4,244	48	4,196
BENZINA, s.r.o.	1,349	430*	919
PARAMO, a.s./ premises in Pardubice	1,241	387	854
PARAMO, a.s./ premises in Kolín	1,907	1,651	256
Total	**14,753**	**5,911**	**8,842**

In CZK million	Total amount of funds to be provided	Used funds as at 31/12/2011	Unused funds as at 31/12/2011
UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o.	6,012	3,053	2,959
UNIPETROL, a.s./ premises of SYNTHOS Kralupy, a.s.	4,244	47	4,197
BENZINA, s.r.o.	1,349	401*	948
PARAMO, a.s./ premises in Pardubice	1,241	357	884
PARAMO, a.s./ premises in Kolín	1,907	1,620	287
Total	**14,753**	**5,478**	**9,275**

** Without the costs of the already completed rehabilitation of the petrol stations network of the former KPetrol 1995-1999 of CZK 40 million and clean-up costs spent before 1997 in amount of approximately of CZK 500 million.*

Year ended 31 December 2012 (in thousands of CZK)

32. RELATED PARTIES

Parent and ultimate controlling party

During 2012 and 2011 a majority (62.99%) of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A.

Transactions and balances with related parties:

2012	PKN Orlen	Jointly-controlled entities	Entities under control or significant influence of PKN Orlen
Long term receivables	--	39,486	--
Trade and other receivables	69	310,801	273,717
Short term financial assets	--	--	848
Trade and other payables including loans	5,853,280	369,414	222,951
Purchases	60,942,489	3,472,628	2,546,193
Revenues	252,540	2,385,297	2,399,323
Sales of financial assets	--	--	116,100
Purchases of property, plant and equipment	3,807	--	1,037
Financial income and expense	(19,489)	3,711	103,647
Dividends received	--	68,680	--

2011	PKN Orlen	Jointly-controlled entities	Entities under control or significant influence of PKN Orlen
Long term receivables	--	54,770	--
Trade and other receivables	315	286,736	133,848
Short term financial assets	--	--	--
Trade and other payables including loans	7,411,054	234,648	158,740
Purchases	54,878,810	3,069,470	1,889,797
Revenues	156,248	2,110,921	1,872,233
Purchases of property, plant and equipment	--	--	3,980
Financial income and expense	(3,940)	5,149	11,564
Dividends received	--	349,791	--

Material transactions concluded by the Group Companies with related parties

In year ended 31 December 2012 and in 2011 there were no transactions concluded by the Group with related parties on other than market terms.

Transactions with key management personnel

In year ended 31 December 2012 and in 2011 the Group companies did not grant to key management personnel and their relatives any advances, loans, guarantees and commitments or other agreements obliging them to render services to Group companies and related parties. In year ended 31 December 2012 and in 2011 there were no significant transactions concluded with members of the Board of Directors, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

Transaction with related parties concluded by key management personnel of the Group companies

In year ended 31 December 2012 and in 2011 members of the key management personnel of the Parent Company and the Group companies submitted statements that they have not concluded any transaction with related parties.

Key management personnel and statutory bodies members compensation

	2012		2011	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration for current year	250,835	10,327	261,128	3,907
Paid for previous year	45,365	--	52,855	161
Total	**296,200**	**10,327**	**313,983**	**4,068**

Further detailed information regarding remuneration of key management personnel is included in note 6.

Year ended 31 December 2012 (in thousands of CZK)

33. INTEREST IN A JOINT VENTURES

The Group has a 51.221% interest in a joint venture ČESKÁ RAFINÉRSKÁ, a.s. which is involved in the refining of crude oil and the production and distribution of petroleum based products. The following amounts represent the Group's 51.221% share of the assets and liabilities and sales and results of the joint venture (after effects of the impairment charges recognized at the Group level as outlined in Note 10) and are included in the consolidated Statement of financial position and Statement of profit or loss and other comprehensive income:

	2012	2011
Non-current assets	4,032,768	8,371,960
Current assets	4,439,944	3,996,130
Non-current liabilities	(1,080,611)	(557,051)
Current liabilities	(2,925,444)	(3,075,353)
Net assets	**4,466,657**	**8,735,686**
Revenues	**4,974,279**	**4,636,080**
Profit (loss) before tax	(3,815,663)	150,243
Income tax	(794,334)	(27,880)
Profit (loss) for the year	**(3,097,174)**	**122,363**

The Group has a 51% interest in a joint venture Butadien Kralupy a.s. The company, which is a producer of butadiene, commenced operations in 2010.

The following amounts represent the Group's 51% share of the assets and liabilities and sales and results of the joint venture and are included in the consolidated Statement of financial position and Statement of profit or loss and other comprehensive income:

	2012	2011
Non-current assets	572,226	611,953
Current assets	653,368	452,273
Non-current liabilities	(334,652)	(382,459)
Current liabilities	(420,931)	(365,414)
Net assets	**470,011**	**316,353**
Revenues	**3,289,997**	**2,494,185**
Profit before tax	191,845	105,413
Income tax	(38,187)	25,260
Profit for the year	**153,658**	**130,673**

34. SIGNIFICANT POST BALANCE SHEET EVENTS

Change in composition of Board of Directors of UNIPETROL, a.s.

On 6 February 2013, the Supervisory Board of UNIPETROL, a.s. resolved to recall Mr. Mariusz Kędra from his office of a member of the Board of Directors of UNIPETROL, a.s. with effect as of 6 February 2013. On 6 February 2013, the Supervisory Board of UNIPETROL, a.s. elected Mr. Mirosław Kastelik to the office of member of the Board of Directors of UNIPETROL, a.s. with effect as of 6 February.
Mr. Mirosław Kastelik replaced Mr. Mariusz Kędra in the position of Chief Financial Officer of UNIPETROL, a.s..
As at the date of authorization of consolidated financial statements the composition of the Board of Directors was as follows:

Position	Name
Chairman	Piotr Chełmiński
Vice-chairman	Marek Świtajewski
Vice-chairman	Piotr Wielowieyski
Member	Mirosław Kastelik
Member	Martin Durčák
Member	Artur Paździor

The Group's management is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2012.

Signature of statutory representatives	4 March 2013
Piotr Chelminski	Miroslaw Kastelik
Chairman of the Board of Directors	Member of the Board of Directors